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In this number :
The present upswing and the Outlook for Employment and Unemployment

THE PRESENT UPSWING AND THE OUTLOOK FOR EMPLOYMENT AND UNEMPLOYMENT

Macroeconomic prospects and their link with structural policies dealing with competitiveness and the working of the labour market

Summary

The economy of the Community is now recovering faster than expected one year ago and the growth process seems to be soundly based on exports and investments, in a low–inflation context. The recovery of employment shows however some lags with respect to real GDP, resulting in a very high increase in the apparent productivity of labour (real GDP per employed person). This phenomenon is quite usual in recoveries and can be linked to the use of labour hoarding, partial unemployment, a return to a normal degree of use of capacity and other practises at firms' level that preclude employment to fall as much as output during recessions, hence giving to the apparent productivity per employee a strong cyclical pattern. Nevertheless, this evolution has revived in some circles the fears of a "jobless" growth process and it seems relevant to take stock of the situation and to review not only the linkages between growth and the fall of unemployment but also the ways the heterogeneous structure of unemployment itself acts on the policy mix needed to solve the unemployment problem, along the lines of action proposed in the Commission's White Paper on Growth, Competitivity and Employment.

Introduction

In December 1993, the European Council endorsed an economic and social strategy aimed at ridding the Community of the scourge of unemployment, on the basis of the Commission's White Paper on Growth, Competitiveness and Employment.

When, on the request of the European Council, the Commission presented its White Paper, the Community was going through a deep recession, losing in two years 4.4 million jobs, i.e. nearly one half of the 9.3 million jobs created in the second half of the 1980s.

Unemployment in the Community has now peaked in mid–1994 at around 11% and shows signs of decrease. The current economic recovery is thus in progress, but permanent effort will be needed in order to create at least 15 million new jobs in the next 6 years and reach the White Paper target of cutting unemployment by one half between now and the year 2000.

1. Economic situation and Employment prospects at the end of 1994

According to the latest indicators[1], the recovery is now well under way in the Community and GDP growth is expected to reach 2.6 % in 1994 and 2.9 % next year. This growth process contains downside risks in a prolonged weakness of the dollar and/or a further rise in long term interest rates but the endogenous growth forces of the Community (high productivity increases, strengthening of competitiveness and high and increasing profitability of investment) seem however to be strong enough to sustain the recovery.

On this basis, one can expect that the so–called **cyclical part** of unemployment, resulting from the fall in final demand below capacity during the recession, will be absorbed by the return to full use of the existing capacity during the first stages of the recovery. This is undoubtedly a step in the right direction but since that part of unemployment is currently estimated to represent only around 2 percent of the labour force, it will be far from enough to reach the unemployment target of the White Paper.

The remaining part of unemployment, i.e. about 9 % of the labour force, can only be absorbed by the creation of new physical working posts. This requires a strong expansion of physical productive capacity, in an investment–supported, long–lasting, growth process. The capacity–constrained part of unemployment is also called **"classical"**[2] unemployment. However, classical unemployment is itself overlapped by the inadequacy of a part of the labour force to take up some of the new jobs that will become available through the growth process. That component, which may be called **"structural"** unemployment stricto sensu, in fact already existed during the (quasi) full employment years of the 1960s, when it was usually called "frictional" unemployment.

The size of the overlap between classical and pure structural unemployment is difficult to assess but, according to recent estimates[3], it could amount to at least 4 % of the labour force. In fact, at the Community level, long term unemployment (which represent about 45% of the unemployed, i.e. 5% of the active population) can also be used as an useful proxy figure.

The frontier between pure classical and pure structural unemployment is uncertain. Besides, tensions on the labour market may appear even before this frontier is reached and the question of the existence of a **NAIRU** (Non Accelerating Inflation Rate of Unemployment) and of its relevance may arise. In other words, is the achievement of the White Paper employment target likely to be constrained by the appearance of a NAIRU limit, under the form of an inflationary acceleration of wage growth, appearing before unemployment had been sufficiently reduced ? The concept of NAIRU is undoubtedly attractive from a theoretical point of view but its empirical estimation is so fragile and unstable that the concept is unusable operationally[4]. Furthermore, the NAIRU is not a universal constant but a structural, endogenous parameter of the economic system. As a consequence, *it can, in principle, be decreased by the structural reforms of the labour market proposed in the White Paper.* Indeed some of these structural changes were already at work during the 1980s and enabled a substantial reduction of the unemployment rate in 1985–90 without generating wage inflation, the acceleration of price inflation after 1988 coming from producers' prices when the effective demand outstripped the available capacity.

Thus, if sufficient job–creating investment can be generated by the growth process, the 9 % (or so) of total classical unemployment could be reduced to about 6% by those who are quickly "employable" with limited training requirements. The stuctural part, however, can only be absorbed with the help of structural policies, retraining, active labour market policies, ... and the creation of adequate working posts without which these policies would not be able to reach their full return and would be a source of disillusion for the beneficiaries of all these efforts if, as before, they are unable to find a job.

As stated in the White Paper, a reduction of unemployment by one half between now and 2000 thus requires more than a mere cyclical upswing. The latter must be converted into

1 "The Community Economic Outlook : 1994–96", European Economy, Supplement A n° 11/12 – Nov./Dec. 1994.

2 Malinvaud, E. : "The Theory of Unemployment reconsidered", Basil Blackwell, Oxford, 1978.

3 "The Composition of Unemployment from an Economic Perspective", Analytical study to be published in European Economy n° 59, 1995.

4 Empirical studies on both sides of the Atlantic have shown that large variation in the NAIRU may be caused by apparently small differences in sample length, retained explanatory variables and analytical formulation. Furthermore, the confidence interval around these estimates is so large that it generally contains the whole historical range of unemployment rates observed in the last 15 to 20 years (see box 2 of the analytical study to be published in European Economy n° 59, 1995).

a strong and durable growth process, lead by job–creating investments and supported by structural policies aiming at insuring an adequate answer from the labour market in terms of qualifications and manpower availability, in order to avoid unwarranted tensions on the labour market, and increasing the labour content of growth

With respect to the durable medium term growth process, the present recovery seems to go in the right direction : it appears soundly based on exports and investments as recommended in the "Growth" part of the White Paper and can therefore contribute to building the basis for a sustained strong growth of 3 to 3½% in the medium term (table 1). Contrarily to what was the case 18 months ago, such growth trends are now present in the main stream of medium term projections proposed by the major international organisations (Commission[5], IMF, OECD) and have thus become more and more credible.

Assuming that labour productivity trends (in terms of real GDP per employed person) are maintained at their 1974–94 average of 2% per year[6], trend rates of GDP growth between 3 and 3½% per year after 1995 would involve employment growth rate of 1 to 1½% per year with corresponding *yearly fall in unemployment of about ½ to 1 percentage point.* This is under the assumption that the labour supply will grow to 2000 at about 0.5% per year, of which about one half coming from increase in activity rates and the other half from demographic growth. Unemployment in 2000 would then represent about 7 percent of the active population (table 1).

TABLE 1 : **Growth, productivity and employment, 1960–2000**
(EC, average annual rate of growth, in %, except when otherwise noted)

	1961–1973	1974–1985	1986–1990	1991–1995	1996–2000
Growth (real GDP)	4.8	2.0	3.3	1.5	3.4
Labour productivity (Real GDP per employee)	4.4	2.0	2.0	2.1	2.1
Employment	0.3	0.0	1.3	–0.5	1.3
Population of working age (15–64 years)	0.6	0.8	0.5	0.3	0.3
Active population	0.3	0.7	0.7	0.0	0.6
Unemployment rate[1] (end of period)	2.6	10.8	8.4	10.4	7.0

[1] as a percent of civilian active population (maximum reached in 1994 at 10.9%).
Source : Commission services, Economic Forecast 1994–96 and Medium-term projection 1997–2000.

However, such a growth trend of 3 to 3½% to 2000 cannot be obtained by decree and is a medium term process that implies, as developed in Chapter B–1 of the White Paper, stringent requirements for market behaviour and public policies in order to be sustainable, non inflationary and respectful of the environment. To reach the unemployment target of the White Paper, it will thus be necessary:

- *to strengthen the competitiveness and improve the endogenous growth forces of the Community;*
- *to restore the macro–economic conditions of a strong growth path, and*
- *to use labour market policies in order to avoid undue tensions on the labour market as labour demand picks up and to make growth more employment–creating.*

GRAPH 1 : **European Community short and medium–term outlook**

Source : Commission services.

[5] Medium term projections are regularly produced by the Commission services, as an extension of the twice–yearly short term economic forecasts. Figures given, for illustrative purposes in the tables and graphs are thus coming from the Autumn 1994 Economic Forecast 1994–96 (cf. footnote 1) and from the December 1994 Medium–term Projection 1994–2000.

[6] Given the normal pro–cyclical variations in real GDP per employed person, a high apparent productivity growth during the initial phases of a recovery should not be a cause for concern : in the most recent short–term forecast, in spite of a strong increase in 1994 (3.2%), the average of the productivity trend over the cycle i.e. in 1991–96 is back to its historical trend at 2.1% per year.

2. Competitiveness, productivity and employment

As regards the competitiveness and the functioning of the markets for goods and services, there is now a large and growing support for all structural measures aimed at increasing the endogenous growth forces of the Community. Thus, chapters B–2 to B–6 of the White Paper include seven fields of action: (i) helping European firms to adapt to the new globalised and interdependent competitive situation; (ii) exploiting the advantages associated with the gradual shift to a knowledge based economy implying improvements in human capital via education and retraining; (iii) reducing the time lag between the pace of change in supply and the corresponding adjustments in demand; (iv) full exploitation of the Internal market; (v) further opening up of international trade; (vi) promotion of new technologies, of technological research and development and of trans–european networks, and (vii) other elements *promoting the competitiveness, the dynamism and, ultimately the global productivity* of the sectors concerned and, through them, the endogenous growth forces of the whole economy.

Four priorities have emerged as particularly important for the improvement of industrial competitiveness and employment, i.e. the promotion of intangible investment, the development of industrial co–operation, ensuring fair competition and the modernisation of the role of public authorities.

When they are not hampered by macro–economic obstacles to growth, these forces will generate employment within the dynamics of sectoral shifts and relative price flexibility. Indeed, since the Industrial Revolution, the growth of employment was achieved through fundamental technological changes by transfers of manpower first from agriculture to industry and afterwards from agriculture and industry to services.

This process works via the transfer of productivity gains to the rest of the economy from those sectors exposed to national and international competition and which have to register a high productivity growth in order to remain competitive. These sectors will thus be, at most, slow employment creators when growth is strong and they will shed labour when activity slows down. Therefore, in relative terms, their share in total employment will decrease but, at the same time, because of their high productivity gains and of the pressure of competition, the relative prices of their goods will also fall. This fall insures a redistribution of the productivity gains towards sectors where the growth of productivity (as conventionally measured) is low and relative prices are increasing, e.g. in the market and non–market service sectors. This redistribution process enables the sectors with low productivity growth to create new jobs, to maintain similar wages for similar qualifications and to be included in the overall growth of the standard of living.

That mechanism has worked very well during the 1950s and 60s, as well as in 1985–90 (table 2) and could thus be revived provided that three conditions are met :

- **relative prices** must continue to change in the right direction without artificial rigidities. In principle, the full working of the internal market and the final achievement of a true economic and monetary union with a single currency together with the pressure of international competition in a more open World economy will help to insure that the required flexibility of markets is maintained throughout the Community;
- the **sectoral changes** need to be economically accepted and to be socially acceptable. This will be helped by the introduction of the more active labour market policies quoted in the White Paper in the fields of reforms and strengthening of education systems, vocational training and retraining and partnership with the private sector, together with the social dialogue at Community and national levels, i.e. by the same measures that will help make the labour market more flexible without undue social costs;
- the **macro–economic rate of growth** must be strong enough in order to maintain an positive balance between job creation and job destruction across sectors. Furthermore, active labour market policies helping to smooth these adjustment processes have an unavoidable budgetary cost which can only be fully rewarded if those persons engaged in these programs are indeed able to find jobs afterwards. The overall macroeconomic growth must thus be sufficiently strong and labour creating.

TABLE 2 : **Employment, productivity and relative prices in agriculture, industry and services** (EC5, in percent per year)[1]

Indicator	Period	Total	Agriculture	Industry	Market Services	Non–Market Services
Value added	1961–73	4.9	1.8	5.5	5.6	3.7
	1974–85	2.1	1.7	1.0	3.2	2.3
	1986–90	3.1	1.7	2.4	4.0	1.4
Employment	1961–73	0.3	–4.6	0.5	1.6	2.2
	1974–85	0.2	–2.9	–1.4	1.7	2.0
	1986–90	1.0	–3.1	0.3	2.4	1.0
Productivity	1961–73	4.6	6.5	5.0	4.0	1.5
	1974–85	1.9	4.7	2.4	1.5	0.3
	1986–90	2.1	4.9	2.1	1.6	0.4
Relative price	1961–73	–	–0.4	–1.0	0.7	3.4
	1974–85	–	–2.5	–0.4	0.5	3.5
	1986–90	–	–2.0	–0.4	0.4	2.9

[1] Comparable data over the whole period are only available for Belgium Germany, France, Italy and the Netherlands.
Source : EUROSTAT and Commission services.

These sectoral shifts are indeed the very process by which employment is created in a market economy in the course of modernisation, insuring that the desired productivity increases result not in job destruction but in wealth creation. Simultaneously, the process provides the expansion of public and private receipts needed for making the unavoidable adjustment processes as socially painless as possible.

Within this context may also take place either via the market or via market compatible policies the implementation of new employment opportunities and activities linked to the emergence of the service society and to the new model of development presented in Ch. B–10 of the White Paper.

3. Macro–economic condition of growth

However, the growth forces so released must not be inhibited by macro–economic obstacles to growth, such as *(i) an unbalanced policy mix and (ii) an insufficient growth of productive capacity.*

As regards the first obstacle, the most recent evolution is encouraging since the basic contradiction between the objective of stability of the monetary authorities on the one hand, and the budgetary and pay evolution on the other hand. is now being largely solved:

- The most recent development of wage settlements shows a return to a nominal wage growth compatible with the inflation targets of the monetary authorities (table 3), a move that appears credible in the light of past evolution. Wage behaviour contributed quite strongly to the fall in inflation achieved during the expansion phase of the last cycle, i.e. between 1982 and 1988. In fact, at the EC average level, wage evolution only became incompatible with the monetary targets in 1990 and resulted essentially from the inflationary slippage in producers' prices, the latter being due to the overheating of the economy in 1988–89 that was partly induced by macro–economic policies[7].

TABLE 3 : **Wages, prices and unit labour costs, 1960–2000**
(EC, average annual rate of growth, in percent)

	1961–1973	1974–1985	1986–1990	1991–1995	1996–2000
Nominal wage per employee	9.9	12.5	6.0	5.0	4.0
Real wage per employee[1]	4.5	1.6	1.2	1.2	1.4
GDP deflator	5.2	10.7	4.8	3.8	2.6
Private consumption price	4.7	10.8	4.1	4.0	2.6
Nominal unit labour costs	5.2	10.3	4.0	2.9	1.9
Real unit labour cost	0.1	–0.4	–0.8	–0.9	–0.7
Capital profitability index[2]	100.0	71.1	84.8	90.7	101.6

1 deflated by the GDP deflator.
2 net operating surplus per unit of net capital stock, index 1961–73=100.
Source : Commission services, Economic Forecast 1994–96 and Medium–term projection 1997–2000.

- On the budgetary side (table 4), the 1994 budgetary positions are still marked by the consequences of the recession but the intentions of Member countries, as expressed notably in their new convergence programs and in their acceptance of the Broad Economic Policy Guidelines, all point towards a strong budgetary consolidation when growth will pick up in 1995–96. There is also a large consensus that budget consolidation is needed not only for meeting the Maastricht convergence criteria and, thus, the much needed debt sustainability requirement but also as the best approach for avoiding a new bout of overheating when growth in 1996–97 will have absorbed the available slack in capacity. The pursuance of budget consolidation will not only enhance the credibility of the policy stance. It will also (i) reduce the risk of inflationary pressures arising from overheating and consequent increases in short and long term interest rate levels and (ii) open the way for the desired crowding in of investment and increase in capacity.

TABLE 4 : **Budget deficits and gross public debt. 1960–2000**
(as a % of nominal GDP)

	1961–1973	1974–1985	1986–1990	1991–1995	1996–2000
Net Lending, General government (period average)[1]	–1.0	–4.0	–3.9	–5.2	–2.2
Net Lending, General government (end of period)	–1.0	–4.8	–4.1	–4.7	–0.8
Gross debt, General government (end of period)[2]	32.5	55.3	61.2	72.9	66.4

1 Maximum reached in 1993 at –6.0%.
2 non–harmonised figures for 1973 and 1985.
Source : Commission services, Economic Forecast 1994–96 and Medium–term projection 1997–2000.

There is now a consensus that this new policy mix is the only one able to support a strong and sustained growth in the medium term. It is thus not surprising that it is the exact opposite of the policy mix followed at the end of the 1980s.

With respect to the second obstacle, the present recovery is also a good starting point. A recession always generates spare productive capacities that could support, for a short time, a cyclical recovery of output above the medium term potential rate. However, the 1988–89 experience has also shown that spare capacities may be quickly exhausted when the recovery goes together with structural changes and accelerated replacement of old capital goods and that a strong growth cannot be supported for long if capacity does not follow suit. It is therefore necessary, as described in chapter B–1 of the White Paper, that the increase of the growth potential of the Community towards the 3 to 3½ % comes mostly through a strong expansion of capacity–expanding, job–creating investment.

In fact, such a process was already at work during the second half of the 1980s (table 5) when investment grew at a rate twice larger than GDP. It now appears to be re–launched since the latest forecasts project a growth of investment in equipment in the 7% per year range for 1995–96. However, these efforts must be maintained in the

7 See Annual Economic Report for 1994, European Economy n° 56, 1995, pp. 16–17

TABLE 5 : **Composition of real GDP – 1960–2000**
(EC, average annual rate of growth, at 1985 prices)

	1961–1973	1974–1985	1986–1990	1991–1995	1996–2000
Private consumption	5.0	2.2	3.7	1.4	2.9
Total fixed investment	5.7	–0.1	5.8	0.4	6.9
Exports of goods & services	8.0	4.1	5.2	5.0	6.5
Imports of goods & services	8.9	2.5	7.5	3.5	6.5
Real GDP	4.8	2.0	3.3	1.5	3.4

Source : Commission services, Economic Forecast 1994–96 and Medium–term projection 1997–2000.

longer run and, for that purpose, essentially three conditions will have to be met:

(i) a climate of confidence and a satisfactory growth of final demand should be maintained. This should be insured by the recovery, but risk of overheating in 1996–97 should be taken care of by an adequate policy mix;

(ii) the profitability of fixed capital (table 3) should still be improved, with, as main contributor, a positive but moderate growth of real wages with respect to productivity, in order to compensate for the expected relatively high level of real long term interest rate that is likely to persist for some time, given the considerable needs for fixed capital formation in practically all developed and less developed economies in the foreseeable future, and

(iii) the consolidation of public deficits in the medium term should go beyond the Maastricht criteria (i.e. to an average Community budget deficit between 0 an 1% of GDP in 2000) in order to generate the increase in national saving needed for the sound financing of investment. Indeed, the historical evolution of saving in the Community shows that private saving by households and corporations is remarkably stable around 21% of GDP. This apparent stability is associated with a compensatory evolution of household and corporate savings according to the phase of the business cycle. In phases of expansion, household saving rates tend to decrease whereas corporate savings increase and vice–versa during phases of recession. The major contribution to the increase in national saving needed to finance a strong expansion of fixed capital formation and to increase the share of investment in GDP will thus have to come for a parallel return to positive public savings, i.e. from the budget consolidation efforts (table 6).

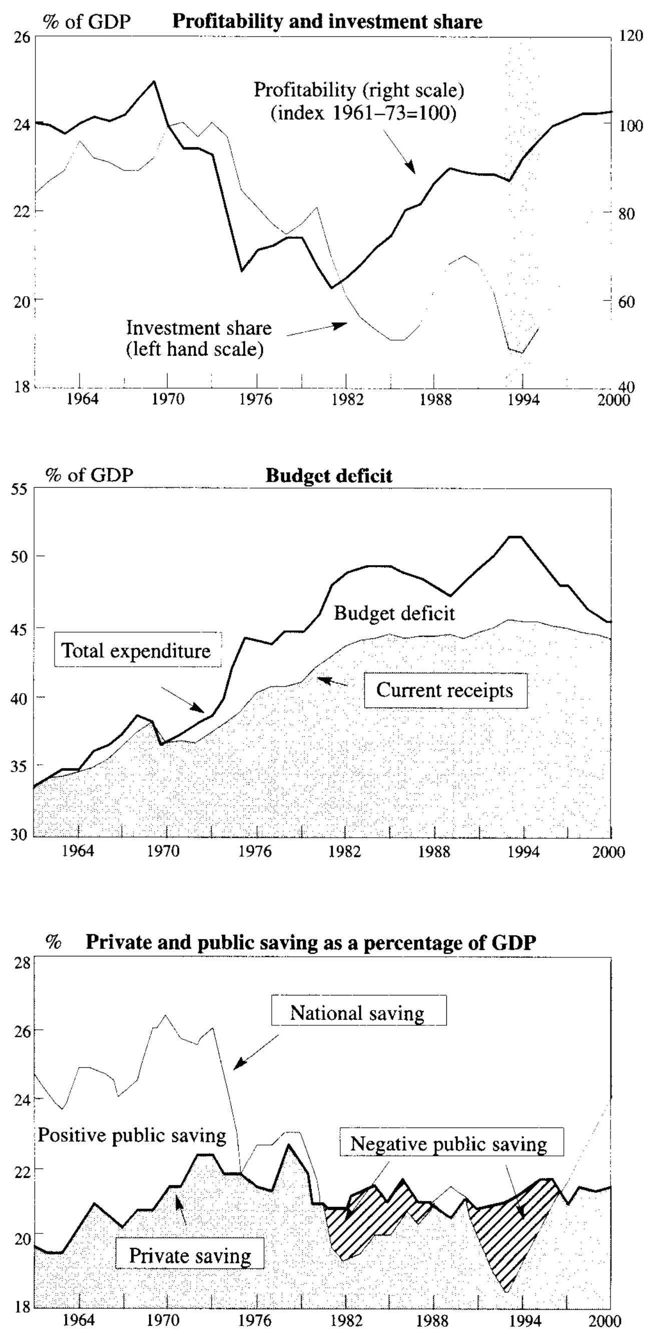
TABLE 6 : **Investment–saving balances. 1960–2000**
(EC, as a percent of nominal GDP)

	1961–1973	1974–1985	1986–1990	1991–1995	1996–2000
A. period average					
1. Private saving	22.0	21.4	21.1	21.0	21.3
2. Public saving	3.8	0.1	–0.3	–1.6	1.1
3. National saving (= 1+2 = 4+5)	25.8	21.5	20.8	19.4	22.4
4. Gross capital formation	25.4	21.7	20.5	19.7	21.8
5. Current balance	0.4	–0.2	0.3	–0.3	0.6
B. at end of period					
1. Private saving	22.3	20.9	21.2	21.6	21.5
2. Public saving	3.7	–0.9	–0.3	–1.4	2.5
3. National saving (= 1+2 = 4+5)	26.0	20.0	20.9	20.2	24.0
4. Gross capital formation	25.7	19.4	21.4	19.7	23.3
5. Current balance	0.3	0.6	–0.5	0.5	0.7

Source : Commission services, Economic Forecast 1994–96 and Medium–term projection 1997–2000.

There is now a broad consensus on all these points, as reflected in the Broad Economic Policy Guidelines[8], and it should be strengthened by the social dialogue at National and Community levels, wherever possible.

GRAPH 2 : **European Community short and medium–term outlook**



Source: Commission services

[8] European Economy n°55, pp. 1–26 and n° 58, pp 1–20.

4. Labour market and employment policies

Structural labour market policies have an important role to play in this growth process since they should :

- **strengthen the growth potential of the economy and the employability of individuals** by improving education and training, by a better integration of young workers in the labour market and by any other investment in human capital, as described in Chapter B–7 of the White Paper. Beside their economic impact, these measures also have important social implications in the fight against exclusion, most notably for the young ;
- **ease the absorption of cyclical unemployment** during the recovery, by improving the information about vacancies, making available "fast" retraining facilities, etc.
- **enable a smooth reduction of the pure classical unemployment** by reducing tensions on the labour market in the growth process, notably by improving, via a consensus approach, the overall flexibility of the labour market, including more wage differentiation by region, qualifications and sectors, and by making more efficient the use of public funds via more active actions and less passive support;
- **tackle the structural unemployment problem and increase the labour content of growth** mostly by acting on the reorganisation of working hours, not by generalised and compulsory reductions but by pragmatic agreement between social partners, by the promotion of voluntary part time work, by the reorganisation of the production process, etc., and by aiming at enlarging downward the wage–cost spread, not by actual decline in real net wage levels for the lower paid, as in the United States ("working poor" problem) but by reduction in the indirect cost of labour and tax wedges, especially for low skilled, low pay activities via reforms of the tax structure, such as the replacement of social security contributions on low wages by eco–taxes.

The European Councils of Brussels, Corfu and Essen have dealt with all these matters and fixed priorities in their Conclusions, as well as a regular surveillance programme for the application of labour market policies

Thus, **these much needed labour market policies are the complement of macro–economic policies and of policies designed for the strengthening of competitiveness**, in order to insure that employment needs will indeed be met without creating undue friction and tensions that could put into jeopardy the required wage evolution and that net employment creation is high enough for reaching the White Paper target of cutting unemployment by one half from now to 2000[9].

5. Conclusions

The structure of unemployment is heterogeneous (cyclical, classical, structural) and implies the use of a broad policy mix, both at the macro– and at the micro–economic levels in order to reach significant and lasting results on the unemployment front.

As a consequence, the achievement of the White Paper targets in the field of unemployment requires not only that the cyclical recovery is confirmed but that it is consolidated in the years to come into a strong and sustainable growth path in order to reduce significantly both the cyclical and classical parts of unemployment. At the same time, labour market and structural policies should help to lower the NAIRU and to attack simultaneously the main source of social problems, i.e. the purely structural part of unemployment, in the knowledge that the expansion of capacity generated by the growth process itself will enable these labour market policies to reach their full return.

19 January 1995

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9 A high growth scenario containing all these elements is presented in European Economy n°55, 1993, Section V – Technical annex – Scenarios to 2000 – Scenario 4, p. 29

1994	Issues discussed in Supplement A
1.	Financial Situation of Industrial Enterprises – Costs, Profitability and Financing
2.	Mergers and Acquisitions
3.	Private capital flows to CEECs and NIS
4.	State aid control in the context of other community policies
5.	Economic Forecasts for 1994–1995
6.	The Ecu Markets
7.	Trade liberalisation with Central and Eastern Europe
8./9.	Economic situation and economic reform in Central and Eastern Europe
10.	Reports on the borrowing and lending activities of the Community in 1993
11./12.	Economic Forecasts for 1994–1996

Principal economic policy measures – November 1994

Community (EUR–12)
None.

Belgium (B)
None.

Denmark (DK)
21.11 The government reaches a compromise agreement with the opposition on next year's budget. The agreement cuts the deficit by an extra DKR 4–5 billion. Fiscal tightening equivalent to 0.3% of GDP will be maintained. Spending and taxation will be gradually reduced.

Germany (D)
None.

Greece (GR)
18.11 The Bank of Greece lowers the rediscount rate and the Lombard rate by 100 basis points to 20.50% and 24% respectively.

Spain (E)
4.11 The Spanish Parliament approves the Urban Property Rent Law (Ley de Arrendamientos Urbanos). As from January 1995, new contracts will last for at least five years and will be indexed in line with the CPI. Moreover, the adjustment of previously frozen rent contracts to market conditions will be carried out gradually over a period of up to ten years.

France (F)
23.11 The revised 1994 Finance Law is adopted by the government. The central government deficit remains unchanged at FF 301 billion (4.1% of GDP). Additional spending (around FF 36 billion), mainly used to support consumption and employment, will be financed by an increase in receipts (FF 30.4 billion) resulting in part from stronger than expected economic growth and by the freezing of previously adopted outlays (FF 5.3 billion).

Ireland (IRL)
None.

Italy (I)
None.

Luxembourg (L)
18.11 The government approves an investment plan for the next five years. The plan provides for expenditure of LFR 65 billion. Priority will be given to the building of schools and old people's homes. In addition, the introduction of the ecotax next year will enable the government to carry out major investment projects in the environmental field.

Netherlands (NL)
None.

Portugal (P)
21.11 The government increases the retirement and invalidity pensions paid under the social security system. These increases, which will come into force in December and will also affect the end–of–year grant, average out at just over 4.5%.

United Kingdom (UK)
29.11 The Chancellor of the Exchequer, Mr Kenneth Clarke, presents the annual budget; a significant further reduction in the PSBR is forecast, with the prospect that the 3% Maastricht criterion will be met in the next financial year. The Treasury's 1995 forecast for GDP growth is 3¼%; underlying inflation is expected to rise to 2½%.

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