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SOCIAL DIMENSION OF THE INTERNAL MARKET

Commission Working Paper

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FOREWORD

Completion of the internal market by 1992 will mean setting up of a joint economic area without frontiers occupied by 320 million persons and sustained by increased cooperation between the Member States of the European Community. It will provide the Community with the means to achieve greater economic growth and the instruments to master its future.

Through greater efficiency of the machinery of production and a strengthening of the Community's scientific and technological bases, the internal market will make it possible to develop growth potential and thus to improve working conditions, employment prospects and, in short, the standard of living of Europeans in general.

The social dimension of the internal market is a fundamental component of this project, for it is not only a matter of strengthening economic growth and stepping up the external competitiveness of European undertakings, but also of using more efficiently and more completely all the resources available and of achieving a fair shareout of the advantages deriving from the single market.

The single market would be pointless if the standard of living and of social protection attained by the average European were called into question. Indeed, its justification in economic and political terms is to be found in increased social progress and in the advantages which it offers to all citizens of the Community, as the European Council held in Hanover in June 1988 pointed out.

The social dimension of the internal market must therefore help to maximize the gains derived from the single market, by helping to make full use of the available human resources and by preparing for the changes which will come about.

It is not in opposition to nor must it slow down the completion of the internal market.

On the contrary, it is essential if we are to obtain the support of the majority of Europeans for the single market, this major step forward in the building of Europe.

INTRODUCTION

1. The European Community is currently engaged in an ambitious programme to strengthen its basic objectives directed towards achieving a genuine internal market by eliminating the physical, technical and fiscal barriers which still get in the way of free trade and hamper the full exercise of competition on a European scale.

At the same time, the Community has adopted the necessary decisions to reinforce science and technology in Europe with a view to enabling European technology to attain the level of the other developed regions of the world.

The results to be expected of a process of this kind are more solid economic structures, based on more efficient and competitive industry, with increased technological capacity and a better trained workforce at their disposal.

It is only in this way that it will be possible to give a sustained impetus to economic growth and reduce unemployment, the principal economic and social problem facing European countries at present.

2. Achieving these aims means preventing any polarization or accentuation of differences within an economic area which already exhibits widely varying levels of development. On the contrary : it is essential that the benefits of a

stronger Community be generalized and that the result should ultimately be an increase in the economic and social cohesion between all the Member States.

Then again, the very process of consolidating the internal market may entail costs which, while likely to be very limited in time and space, may be considerable. It is essential to take account of these costs and alleviate them for reasons of equity and also to ensure the success of the process of strengthening the Community.

3. All of this requires the active participation of both the national authorities and the Community institutions.

First and foremost, it is essential to set in motion a macroeconomic policy more likely to stimulate production and employment based on cooperation, given that increased economic growth will hasten and accentuate all the favourable dynamic effects which the consolidation of the internal market will bring.

Cooperation, for its part, is particularly necessary at a time when, with the internal market, Member States will be increasingly interdependent.

4. It is also essential to implement an active social policy in view of its fundamental role both in achieving the internal market and in achieving economic and social cohesion.
5. With respect to the creation of the internal market, social policy must, above all, contribute to the setting up of a

"single labour market" by doing away with the barriers which still restrict the effective exercise of two basic freedoms: the freedom of movement of persons and freedom of establishment. It should likewise take on the positive task of facilitating and promoting those other forms of occupational mobility which can help to increase the Community's scientific and technological capacity and develop more efficient and competitive undertakings on a European scale.

Another task of the social policy linked to the completion of the internal market is to cushion the impact of the whole process so as to avoid excessive costs as far as possible and, where this is not possible, to help set up appropriate compensating mechanisms.

Finally, the increase in the Community's general prosperity in the interests of all its citizens, which the European Council held in Hanover in June 1988 underlined as one of the aims of completing the internal market, requires that an active social policy see to it that the economic measures to be taken do not affect the standards of social protection attained in the Member States. It is within this framework that we must fit thoughts about and proposals on social security systems and ways of financing social costs at Community level.

6. With regard to the strengthening of that economic and social cohesion which must fundamentally be sought by means of policies aimed at cushioning the impact of the internal market and based upon the structural Funds, social policy must play a

role of prime importance, essentially through those instruments which are specifically its own, i.e. structural intervention, action in the field of education and vocational training, and legislation relating to working conditions and industrial relations.

7. Furthermore, the economic and social situation requires that social policy should not confine itself to the aims set out above. Assessment¹ of the overall effects relating to the internal market and economic and social cohesion on overall employment levels shows that these will be positive and will entail a significant reduction in unemployment. The economic and social advantages of completing the internal market could include 4.5% growth and the creation of close to 2 million jobs. However, if economic policies aimed at cushioning the impact of the single market are put into effect making the best use of the room for manoeuvre provided by that market, the Community could achieve 7% growth and 5 million new jobs.

Nevertheless, unemployment will continue to be high for a number of years and must remain one of social policy's first priorities. It will be essential, on the one hand, to maintain the job creation programmes and alleviate the situation of the groups most hard hit by unemployment and, on the other hand, to step up all the measures aimed at solving the remaining problems of exclusion and poverty.

8. In this context, social policy must be able to count on the drive and collaboration of both sides of industry. They not only have a direct knowledge of the most pressing problems

1 "1992 Le Défi: Nouvelles données économiques de l'Europe sans frontières". Flammarion 1988. (The Challenge of 1992: new economic data on a Europe without frontiers).

but may also be able to make important contributions in devising and implementing corrective measures. Secondly, the problems to be dealt with concern society as a whole and both sides of industry must assume their share of responsibility for solving them.

9. In sum, social policy is today faced with new problems and new challenges of a magnitude and nature very different from the problems it has been confronted with so far. To help resolve them there are important resources which must be managed with maximum efficiency. A few priority objectives must be carefully selected and the general principles on which any action is based must be clearly defined. On this basis, it will be possible to devise correctly each specific programme with the necessary flexibility to adapt to the changing circumstances of every situation and every moment.

The new problems and challenges referred to above must be judged in the light of the completion of the internal market by 1992. This was the approach of the European Council held in Hanover on 27 and 28 June 1988, at which the Heads of State and Government stressed the importance of the internal market social support programme as an instrument which should enable all Community citizens to profit from the advantages which completion of the internal market will entail. The Hanover European Council (see Annex 1) thus confirmed the Commission's approach and gave a clear and precise impetus to the strengthening of the social dimension of the single market.

PART I : PRIORITIES AND INITIAL ACTION

1. Social policy priorities

10. Any social policy programme must be based on an analysis of the principal problems affecting society at any time. At present, there is no doubt that the most important problem facing society in Europe is unemployment. Over the last ten years, the unemployment rate in the Community has remained almost constant at around 11 % of the labour force, which amounts to more than 16 million Europeans who would like to work but cannot do so because there are not enough jobs.
11. It is possible, moreover, that the unemployment rate does not reflect the real scale of unused human resources.

Many situations statistically classified as employment may conceal, above all in rural areas, a significant under-utilization of available labour capacity. And many people classed as economically inactive are in fact available and would like to work but do not look for a job because they feel there is no point in doing so in the present state of the economy.

12. The situation is extremely serious. It implies, in the first place, an enormous economic waste in the failure to utilize considerable resources which, applied to production, would make it possible to increase the standard of living and well-being of the people to a significant degree.

In addition, it brings with it numerous frustrations, the loss of knowledge and skills and a deterioration in attitudes to work, all of which can have far-reaching adverse effects.

In the same way, it is the main reason for social exclusion and marginalization and the most important factor explaining the worsening income distribution and appearance of new forms of poverty.

In many cases, ultimately, certain forms of violence and criminal behaviour, together with the development of other pathological social behaviour, are clearly linked to the increase in unemployment.

13. Unemployment in the Community is not only very high but also very unequally distributed.

The unemployment rate for those under 25 years is over 22 %, much more than double rate for other workers, from which we may conclude that a very high proportion of young people encounter very serious problems in satisfying their aspirations and integrating into society.

Unemployment also has a very lasting effect on certain individuals if we consider that approximately 50 % of unemployed workers have been unemployed for more than one year and that 30 % have been unemployed for more than two years.

These data reveal the existence of a very important social divide which separates those who are in work, whose situation may be relatively stable and safe, from those who have been unemployed for very long periods.

Lastly, unemployment is very unevenly distributed throughout the countries and regions of the Community. According to the most recent estimates, more than half the unemployed workers live in the 42 regions whose unemployment rate exceeds 12 %. Regional unemployment rates range from 3 % to over 30 %.

14. In view of this situation any social policy, whether Community or national, should be aimed as a priority at helping to solve the serious problem of unemployment and minimize its unequal distribution. In addition, any employment measures which could entail a risk of further deterioration in the overall employment levels or unemployment distribution should be carefully examined.

2. A new strategy for growth

15. If we take account of the conclusions reached by the experts headed by Mr Cecchini (see point 7 above), a major lesson to be learned, i.e. that the European Community is probably the most promising source of growth and employment in the years to come. However, the advantages which may be derived from the completion of the internal market will be all the greater if the Member States grasp the need to cooperate more and to work together for a lasting return to sustained

growth. This economic strategy is that already put forward by the Commission in 1985 as a "Cooperative Growth Strategy for more Employment".²

16. What is needed today is to adapt this strategy to the prevailing economic situation, which is characterized by a return to expansion with favourable effects on employment. However, it is also a matter of optimizing the opportunities it offers by making full use of the growth potential and the room for manoeuvre which will be provided by the completion of the internal market.
17. Completion of the internal market will make it possible to reduce the constraints burdening macroeconomic policies: budget savings will be made and the Community's external position will improve. At the same time, inflationary pressures will be reduced. Macroeconomic policies will thus have more room to manoeuvre in their endeavours to improve conditions of supply and demand while significantly facilitating application of the Community cooperative growth strategy for more employment, which is based on cooperation between the Community, the Member States and the two sides of industry.
18. Implementation of an updated Community cooperative growth strategy for more employment is proving essential in the light of the current economic situation in which European economies cannot hope for positive stimuli from outside,

² Council Resolution of 22.12.1986.

which means that the Community's economic growth will have to derive essentially from its own internal resources, apart from the fact that the Community will have to make greater efforts to stimulate the growth of other less developed regions and, in particular, contribute to the search for solutions to the problem of debt by making available to the countries in question an external context more favourable to economic growth.

19. A greater effort than in the past as regards coordination of economic policies at Community level is justified by its role as an instrument which should go hand in hand with the synergetic effects of the completion of the internal market and of supporting policies based on the structural Funds, which should help to strengthen economic and social cohesion.
20. In this way the social impact of the restructuring operations, which will be the inevitable counterpart of the gains in productivity and growth potential, can be reduced and it will be easier to overcome the inertia and the resistance which may stand in the way of completing the single market.
21. It should not be forgotten that sensitivity to and perceptions of the unemployment problem vary from Member State to Member State, for not all Member States are equally hard hit by it. It is therefore necessary to find an overall approach to plans to deal with unemployment, as well as the conviction that these plans will achieve distinct and obvious advantages for each and every Member State. The task of analysis and of diffusing information which devolves upon the Commission is thus of primary importance.

3. The Community's social policy and the "Internal market"

22. As part of the programme to complete the Internal market, social policy must put into effect a wide-ranging package of distinctive measures.

In the first place, it must complete the process which ensures that freedom of movement and establishment becomes a reality. Although the Community has achieved much over the last thirty years in terms of the actual implementation of such freedoms, there are still considerable restrictions on their exercise in reality. Such restrictions must be eliminated by revising the basic legislation on the free movement of workers and the right of establishment, incorporating, in particular, all the decisions delivered by the Court of Justice of the European Communities in recent years.

23. Secondly, current population migrations and those expected in the future have very different characteristics and pose different problems from the population movements which characterized the sixties and early seventies. It is therefore also necessary to amend the basic legislation on freedom of movement, or to adopt such new measures as may be considered necessary to deal with the particular problems posed by this new type of migration.

24. The contribution of social policy to the exercise of freedom of movement should not be limited to removing obstacles to the actual exercise of such freedom. More active measures should also be adopted to encourage, in particular, the mobility of technical and qualified staff as a vital element in the policy of scientific and technological development which is another essential pillar of the Community's "new frontier".
25. Once the Council has adopted a common position on the draft Directive on a general system for the recognition of higher-education diplomas⁽¹⁾, work should be speeded up on the mutual recognition of professional qualifications as an instrument for creating "occupational labour markets" at Community level.
26. This policy of actively creating "mobility areas" in the Community should help to ensure that these new movements of professional persons and highly qualified staff are balanced in the sense that the places both of origin and of destination are distributed as evenly as possible throughout the Community. If this is not done, there is a risk that a highly polarized process will set up strong resistance and thus call into question the actual opening-up of such markets, or that some areas or countries will be excessively drained of qualified personnel, thus reducing the indigenous

(1) Council Directive on a general system for the recognition of higher-education diplomas awarded on completion of professional education and training of at least three years' duration (ETS 41, EDUC 42).

