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PROBLEM OF UNEMPLOYMENT - POINTS FOR EXAMINATION

(Communication from the Commission)

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PROBLEMS OF UNEMPLOYMENT - POINTS FOR EXAMINATION

Commission
Working Paper

Introduction

1. The employment situation has been a source of concern since the first energy price shock of 1973. The position has worsened recently with unemployment rising 30 % over the past year.
2. There are no quick or easy solutions. Fundamental imbalances need correcting over a medium-term horizon and the scope for short term budgetary action by Governments to combat unemployment is limited. An extensive and imaginative mobilisation of efforts over a wide range of policy fronts is called for. This paper identifies ways in which current policies should be supported in order to strengthen the fight against unemployment.

Consequences of unemployment

3. High and rewarding employment is a fundamental objective of economic and social policy; employment is both a source of income and a way of defining the individual's place in society. Economic circumstances have reduced the Member States' capacity to fulfil social and employment needs and given rise to social conflicts and inflationary pressures. Rising unemployment and pressure on living standards have hardened resistance to change, at a time when change is essential for the restoration of economic health and a return to better employment.
4. Hardship brought by reduced growth and increased unemployment has been unevenly spread. It has been alleviated for many, but not all, by the high degree of social protection given by unemployment and social security benefits. Social protection is essential, but its cost has to be met directly or indirectly by those with jobs, thereby reducing their incomes.
5. Relations between Social Partners and Governments have often been affected hampering the development of corrective policies. Tensions have developed within the labour market, and spread to wider economic and political relationships within the Community, and between the Community and other trade partners, raising fears of protection and economic nationalism.

6. The high growth periods of the 1950's and 1960's were marked by considerable social progress. Not only did real incomes rise rapidly, but there was also progress in terms of greater participation at work, lower hours of work and increased equality of opportunity for women, especially over employment. The pressures which led to these wider social changes will continue, and will need to be reflected in the development of social and employment policies over the coming years.

Positive economic adjustment and employment problems

7. The problems of employment and unemployment must be seen in relation to economic developments and to the policies which have been adopted, or envisaged, in order to ensure the positive adjustment of our economies. These are important determinants of a real and lasting improvement in employment.

8. The last ten years have been marked by the need for major structural adjustment, resulting in part from the two oil price shocks of 1973 and 1979 and the emergence of the newly industrialised countries. Externally monetary instability, the problem of recycling the oil producers' surpluses and balance of payments disequilibriums have resulted in a reduction of the growth of world trade.

9. Internally the consequences of the new energy situation and the size of the external constraints have not been sufficiently taken into account, and failure to contain costs sufficiently has slowed down necessary structural economic adjustment. Efforts made to reduce energy dependence have been uneven and have not always been accompanied by a sufficient limitation of incomes compared with available resources.

10. The continuing increase in taxation in order to finance the growth of current public expenditure has contributed to the financial disequilibrium of companies and has adversely affected investment, both public and private. The effect of all this on inflation and productivity - the increase in which has slowed down - and consequently on competitiveness, has slowed down structural change, thereby inhibiting a return to better employment.

11. The European and other non-oil producing countries are now undergoing the new re-adjustment process due to the second oil price shock with the massive transfer of resources that it demands. The scope for global policy actions in the Community is very limited mainly because the high budgetary deficits after the first oil shock could not be reduced during the modest recovery period 1976-79, and because present inflation rates and inflationary expectations in most countries are still excessive. The limited policy contributions of governments could be widened if progress in countering inflation becomes more evident and if the structural policy efforts make more rapid progress.

The overall strategy

12. A lasting recovery in employment will take time to achieve and will require stability and permanence in the development of policies. The strategy for adjustment, whose effects will be felt during the coming years, will need in particular to :

- follow policies which contribute to structural adaptation and the growth of productive potential, taking account of their effects on demand
- encourage mobility of labour and capital in the light of necessary structural changes
- tackle inflation, reducing the gap between aspirations and possibilities, notably over incomes : the permanence of economic policy objectives is essential in this respect, the regularity and predictability of which should stabilise anticipations and allow market forces to operate
- maintain the openness of the Community to the rest of the World
- re-inforce the cohesion of the Community and move towards greater convergence between Member States and regions.

13. The success of this strategy implies a dialogue between all the partners, who must show their willingness to face up to their responsibilities in areas where they have authority.

Orientations for social policy and for employment

14. In order that this strategy can have its maximum effect on employment in the Community, the Commission considers it necessary to give particular attention to the following social policy orientations :

- maintain social cohesion and promote social solidarity
- reduce certain constraints on employment growth
- identify and develop areas of employment growth and encourage innovation
- increase flexibility, mobility and the sense of initiative among the working population
- promote a more coherent analysis of the impact of public expenditure on employment.

Maintain and develop social cohesion and solidarity

15. Social cohesion and solidarity must be strengthened if there is to be any serious possibility of overcoming obstacles to the implementation of economic and social policies appropriate for resolving the present crisis.

It is necessary to share the cost of low growth and re-adjustments in the most equitable way possible.

16. The right of the unemployed to appropriate unemployment and social security payment protection must be maintained. At the same time, the Member States should monitor their social protection policies in order to avoid abuse and tackle the problem of black work with a view to bringing it into the framework of the normal economy. Equally, the sharing of social resources needs to be done in a way which is both equitable between different categories of recipients, and realistic in relation to levels of income from employment. The Commission considers that a concerted approach at Community level of actions developed in these fields, would increase their efficiency.

17. Solidarity implies that the Social Partners approach wage negotiations with a concern to reconcile a wage structure adequate for production incentives with the interests of low income groups and those worst affected by the present difficulties. The Commission intends to discuss this question with the two sides of industry at Community level.

18. As regards the re-organisation of working time, the Commission considers, on the basis of the work that it is done over the past three years, that progress is possible on a decentralised basis taking into account different national and sectoral possibilities. The impact of such reductions on employment will depend on the repercussions on unit production cost and on the degree of utilisation of the equipment. The Commission is following up its work and will invite the two sides of industry to re-start discussions on the annual volume of working time.

Reduce certain financial constraints on the growth of employment

19. Certain specific problems need to be examined. In particular, there is the question of the forms of consultation about and implementation of policies on incomes, and the question of relative labour and capital cost. Particular attention needs to be given to the respective growth of net pay and employers' social security payment. The dissuasive effects on employment of different manners of financing social security on the basis of pay (with or without ceilings) should be examined in a medium-term perspective in liaison with the various parties concerned.

Identify and develop areas of employment growth and encourage innovation

20. Economic activity is not stagnating because of saturation of demand. The cause is rather the difficulty of re-directing capital, human resources and productive potential towards latent demand, both inside and outside the Community. There are significant opportunities in energy-saving and new forms of energy, as well as in information technology and certain services. The Commission has drawn attention to these in its different initiatives.

21. The exploitation of these opportunities will depend not only on costs but also on innovative capacity and enterprise. The Commission has already begun an examination of the general problem of innovation. It will equally have to seek ways to support and stimulate the spread of these qualities throughout the social fabric. There is considerable potential in the development of small scale job-creation, mainly in small and medium-sized firms, but also in co-operatives and an array of initiatives at the local level, and the conditions for the success of such actions should be examined and encouraged.

Promote flexibility, mobility and a sense of initiative in the active population

22. The requirement for flexibility and mobility is not confined to the labour market. It requires an overall approach paying particular attention to the development of new technologies. The following aspects of this approach need to be particularly underlined.

23. Education and training have a primary role, favouring the development of personal initiative and independence as a complement to the provision of specific professional qualifications, while developing more flexible structures, particularly in response to local needs. Community actions will continue to promote such innovations taking into account the needs of adults as well as of the young.

24. Mobility must be encouraged, while taking into account the real obstacles to it. These often arise from outside the labour market, with their origin, for example, in constraints on the transfer of acquired rights in companies, or in certain aspects of housing policy. They also arise from people's understandable attachment to their region or original industry.

25. As far as changes within companies are concerned, the Commission is seeking to ensure an improvement or development of consultation procedures regarding problems posed by redundancies and introduction of new technologies.

26. The Commission also considers it important to develop a forward looking approach to manpower both within the firms and at the level of local labour markets so as to mobilise resources and capacities in good time to bring about changes with a maximum of mutual understanding and a

minimum of friction. In this context, the Commission will examine with the partners concerned how best to enlarge the traditional role of the employment services - from the rapid matching of the supply and demand for jobs to a more dynamic approach enabling employment changes to be foreseen and prepared, on the basis of closer co-operation with firms and with unions.

27. Traditional patterns of work organisation and working time are changing. There is a growing interest, for instance, in part-time work, temporary work, gradual retirement and different forms of parental and educational leave. It is important to ensure greater flexibility in working time for all employees, and not just for those on the fringes of the labour market. This means that action should be taken to remove discriminations against such forms of work, and to avoid abuse. Existing work at Community level will be pursued by the Commission.

Public expenditure and employment

28. Measures taken in the Member States to contain the rise in unemployment have often led to the sacrifice of other expenditures, including those designed to encourage the development of employment in the medium-term. It is appropriate to better analyse the impact of public expenditure on employment in order that Governments can evaluate alternative strategies - for example to allocate expenditure for the development of training or the creation of jobs rather than to simply pay unemployment benefit. At the same time, it would be appropriate to develop the evaluation of the indirect impact on employment of taxes and Government transfers, notably with regard to regional and industrial policies.

Conclusions

29. In this Communication, the Commission has sought to present the main themes and orientations to propose to the Member States in order to complete the actions to be undertaken within the overall Community strategy in order to respond to the problems of unemployment and employment.

30. The Communication takes account of the limits which result from the need to control costs. Financial commitments must be kept within strict budgetary limits, often by re-directing public resources.

31. Many of these actions are moreover less costly in financial terms than in terms of inertia to be overcome. It is often a question of better use of existing resources by a change of methods or attitudes by the public authorities, companies, or workers. It is awareness of the alternative cost of prolonged unemployment on social cohesion and on economic dynamism in the Community, and a recognition of the new economic problems, that will generate commitment to new attitudes towards this end.

32. The orientations should be developed in relation to other Community programmes, and in particular the work to be carried out by the Commission in response to the mandate given by the European Council in Maastricht concerning the fight against unemployment.

33. The Commission has given preliminary indications as to the manner in which action could be taken on the basis of these orientations. The Commission draws attention to the global character of and the interrelationship between the various suggestions and proposals made.

34. The various considerations made about employment policy should be progressively developed and assessed, as far as is possible, in order to define the nature and the extent of the improvement in the employment situation which could be achieved by the implementation of the various initiatives proposed.

35. With this in view, the Commission hopes that detailed discussions can take place at the Council and the Standing Employment Committee in order to :

- enable Member States to take account of these orientations within the context of current policy development at national level ;
 - receive comments on the issues raised which the Commission can take into account in preparing further communications or proposals.
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