



COMMISSION
OF THE
EUROPEAN COMMUNITIES

Directorate-General for
Social Affairs

OUTLOOK FOR EMPLOYMENT IN THE EUROPEAN
COMMUNITY TO 1980

(A Report on the first phase of the Work of a Group
of Independent Experts)

Brussels, July 1976

FOREWORD BY THE COMMISSION

At the beginning of 1975, the Commission decided to call together a group of independent experts to identify the main trends affecting employment in the medium-term and the likely prospects, to determine the areas requiring priority action, and, if necessary, to draw up specific guidelines or recommendations.

The attached report is the result of the first phase of the group's work. The conditions under which it was prepared need to be defined.

Right from the start, the study was commissioned with two objectives in mind:

It aimed, on one hand, to obtain on the basis of current thought in the Member States, a reference framework and a basic approach on which Community action on employment would have to be based. The need for such a reference framework in order to place employment policy within overall Community development was strongly felt, particularly once work had started on Economic and Monetary Union and Community regional policy.

On the other hand, its aim was to explore the horizon beyond the recession which began at end 1973 in order to provide answers to questions raised within the Commission, and elsewhere in the Community, as to whether the economic revival alone would absorb the growing underemployment.

The guideline terms of reference (annexed to this document) gave the group considerable freedom in the choice of its main lines of work.

Such an approach was essential because of the large variety of factors affecting employment trends, the lack of any previous Community experience in this field, and indeed the competence and standing of the experts.

The economic situation quickly led the group to commence work in a particular direction. The gravity of the recession and increasing anxieties concerning medium-term prospects led the group to centre their work on two main problems: inflation and employment on the one hand, and growth and employment on the other. Thus the direction the group gave its initial terms of reference fully corresponded with current needs.

As in any report of this kind, the analyses and proposals presented by the group do not commit the Commission nor necessarily reflect its views. They form a basis for discussion for use in the development of future work.

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CHAPTER I

INTRODUCTION

1. Work on this report began in June 1975. At that time the deterioration which had been apparent for several months in the employment situation was thought by most experts and practically everyone involved in political decisions to be a temporary phenomenon which would be overcome more or less automatically when economic recovery got under way again.
2. Most members of the group were however convinced that the evident employment difficulties had a more fundamental character, and that member countries would have considerable difficulty in regaining the employment levels which they had enjoyed until the early 1970s, unless substantial changes were made in economic and social policies. As they worked on their report, the members of the group reached the view that a more serious threat was emerging; the danger of seeing Community countries turn towards an economic equilibrium of under-employment⁽¹⁾. Such an outcome - if realised - would mean a radical change in the climate to which the member countries have been accustomed since the end of the war.
3. Two dangers, in particular, exist which constitute the starting point of this report.
4. The first is the possibility that social tension and the pressure of large segments of public opinion will lead public authorities to try to redress the employment situation by ad hoc measures introduced in response to the most immediate problems. The absence of an overall view could lead to measures which are not particularly effective, or whose result would be largely negative for the economy and for general well-being.

All that is necessary to substantiate the grounds for this concern is to consider the consequences of the measures traditionally applied to defend or restore the level of employment.

⁽¹⁾ See footnote on p. 7 for definition of this term for the purposes of this report.

- the excessive or indiscriminating expansion of aggregate demand could prove incompatible with macro-economic equilibrium;

- the artificial protection of employment by legal measures threatens to make more rigid productive structures at the very time when their adaptation is essential;

- finally commercial protectionism or currency devaluations can threaten the international equilibrium, the commitments made by the Community and indeed its very existence, without securing significant benefits.

5. The second danger lies in becoming resigned to a high level of under-employment, regarding it as inevitable if the economic and political objectives of price stability are to be obtained and considering it tolerable because of the available measures of income maintenance for the unemployed.

Such an attitude would entail substantial loss of growth of output which would be difficult to reconcile with the scale of as yet unsatisfied needs both within (and even more so) outside the Community. Moreover, the exclusion of a large number of persons who are willing to work from productive activity would conflict with the social and political objectives of the Community and its Member States. Productive work is not only a source of income; it is also, and more fundamentally, one of the most important aspects of personal activity. If the policy was to become limited to guaranteeing a satisfactory level of income to persons excluded from the labour market, serious negative consequences would ensue, not only in terms of economic and financial costs, but also from the point of view of social development and of individual behaviour.

6. The group therefore believed that the central issue in employment policy for the coming years will be the search for ways to avoid having to stabilize the economies of the Community countries at a low employment level.

This analysis prompted the group to transmit the first conclusions - interim and unfinished though they are - of its work to the Commission in order to communicate quickly those points of view, analyses and arguments, which appear to it to be particularly important.

7. In this first report it has not been possible to deal with some important or urgent matters in as thorough a way as the group would have liked and it has not always been possible to quote supporting statistics or analyses. This is due to the widespread scarcity of documentation available on a comparative basis at a Community or international level and to the limited resources available to the group.

8. In other respects the often sensitive questions dealt with in this report call for particular attention in the formulation of arguments and suggestions. Although, it was possible overall to get general agreement on the text presented here, this agreement does not necessarily imply that every member of the group would regard as his own all the propositions in the text. All the group thought that it was more important to agree the report as quickly as possible than to prolong the discussion in order to polish the presentation of some arguments on difficult points.

9. The report is structured in keeping with the overriding need for urgency in the exposition, the discussion and the implementation of alternative solutions in order to stave off the present tendency towards achieving economic stabilisation at reduced employment levels.

10. Aware of the political and social importance of the right of the individual to work, but also of the danger of "malthusian" solutions the group began from the assumption that full employment for all those wishing to work will remain an objective of economic policy. This objective can be achieved on a lasting basis provided a too narrowly macroeconomic view is avoided, but its achievement demands that new ways be found to supplement the existing approaches. The group considers that the search for these new methods must begin immediately and has drawn up the present report with this in mind.

11. Chapter II endeavours to present a general view of the main problems arising from the present and forecast employment situation. A recapitulation of events up to 1974 shows that some major imbalances were already beginning to become apparent before the recent crisis. Similarly, certain major trends, particularly concerning population, are identified which are likely to influence the future outlook. The chapter concludes with a brief review of the main problems in the short and medium term.

12. On the basis of this brief assessment, the group directed its attention towards two complementary approaches. The first approach leads to the creation of conditions for a non-inflationary expansion of employment. With this in mind Chapter III reviews certain types of activity which might help to create these conditions. This chapter concentrates on the need for an alliance between economic policy and employment policy: it begins with an analysis of the employment-inflation dilemma and outlines a possible policy which both promotes employment and price stability.

13. The second approach deals with certain aspects of imbalance caused by the nature of the growth which has occurred so far. It is doubtful whether the direct measures to deal with the volume and structure of employment examined in Chapter III will be sufficient to re-establish a satisfactory balance of employment in the medium term. Chapter IV takes into account certain types of imbalance in employment caused by the growth process. These imbalances call for structural measures aimed at influencing factors outside the labour market.

14. The conclusions reached in Chapter V are provisional. They merely indicate the main direction on which, in the view of the group, emphasis should be placed; they also try to throw light on these possible approaches by developing certain points without in any way claiming to exhaust the subject.

NB. Discussions in various groups about this report after the authors' finalization of its text have revealed a propensity among readers to regard an increased application of employment premiums as the main and central recommendation of its authors. A reading of the summing-up in Chapter V, as well as a full consideration of the content of Chapters III and IV should rectify this impression.

CHAPTER II

THE PRESENT AND FORECAST EMPLOYMENT SITUATION IN THE COMMUNITY

1. In the Community there were, at the time of writing, more than 5 million registered unemployed out of a total available active population of about 106 million. If workers on short-time, workers underemployed in their jobs, and persons who wish to work but have temporarily ceased looking for work are added to this figure, the rate of under-employment for the total available active population may be put at least at 7 to 8%⁽¹⁾.
2. A large part of this under-utilization of human resources is, of course, the result of the present economic situation, and will be remedied in the economic revival which is just beginning. But analyses carried out in the Member States and at Community level lead to the conclusion that the countries of the EEC will have little chance of returning, at the end of the revival, to levels of employment comparable to those which were recorded up to the eve of the recession in 1974.
3. It is as though the present recession has pulled back the curtain hiding a number of imbalances in the labour market. These imbalances, which were often concealed by a favourable overall economic situation, were beginning to become apparent to careful observers even before the recession. Their effects are now associated with those resulting from the general economic recession.

⁽¹⁾ Under-employment is estimated here as the total of the wholly unemployed (persons registered as looking for a job) and of the three categories specified in the second sentence (the equivalent in terms of persons wholly unemployed both of short-time working and of hours paid for but not worked, plus the number of persons who wish to work but have given up looking for a job). This estimate is only a rough approximation on account of difficulties of definition and enumeration relating to the last two categories. Moreover this rate of under-employment does not take account of the long-term under-utilization of the potential manpower supply that existed in certain countries and regions before the present recession.

4. This amalgam of short-term and long-term factors in the recession since 1974 makes it difficult to analyse the situation with a view to action. Opinions expressed on remedies for that recession range from the most traditional recommendations for wisdom and moderation to facilitate recovery, to very radical proposals for laying completely new foundations. This diversity in the analysis makes discussion at the Community level particularly difficult, even though, in view of the interdependence achieved within the Community, it is particularly important to seek a solution at this level.

5. The group has therefore found it necessary to analyse the position in successive stages. This chapter provides a factual presentation of the background and seeks to establish a context for analysis. This is done in three stages.

Firstly, a broad outline is given of the problems concerning employment as they were perceived at the eve of the recession. The purpose of this is to pinpoint factors of imbalance which were apparent at the time and will form a useful point of reference for a preliminary assessment.

Secondly, the dominant trends of future developments are pointed out; the various elements of uncertainty are highlighted in relation to those hard facts that are available.

Lastly, the major concerns of the present situation are set out. This list of problems is intended to serve as a basis for the analyses which are made in chapters III and IV.

A. The situation on the eve of the crisis

6. During the first two decades after the war, the Member States of the European Community were, to varying degrees, able to make considerable progress towards achieving full employment. The high rates of expansion attained until very recently in most Member States seemed capable of absorbing the growth in the working population and of providing jobs for all who wanted to work.

During this period, employment policy was directed towards two sets of issues:

- the existence in some countries of an often pronounced shortage of manpower gave rise to a wave of immigration which developed rapidly during the sixties (mainly from non-member countries);

- the persistence of a high level of unemployment (and of immigration) in some parts of the Community emphasized the existence of structural difficulties which general economic expansion was not able to overcome. These shortcomings were attributed to geographical or social factors or to the decline of traditional industries.

7. At the beginning of the seventies this relatively optimistic picture was still generally held to be valid. However, certain new elements were beginning to cast a shadow over it.

Firstly, the difficulties encountered by certain categories of workers on the labour market (particularly women) were becoming more apparent despite the situation of almost full employment.

Secondly, the gap between the nature of jobs offered and the characteristics of the labour force became especially noticeable (particularly for young people entering the labour market); this brought to the fore problems concerning job content, training and regional disparities, the intensity of the problems varying from country to country.

Moreover, in certain countries there appeared a tendency to underutilize, even to exclude, older and handicapped workers.

Lastly immigration, which had become an important element in the equilibrium of the Community labour market, reached a level that gave rise to great social and political concern.

8. In addition, the study of underlying trends of unemployment gradually revealed an important phenomenon. Overall unemployment rates, which had fallen generally until about 1965-66, began to trend upward from this date. In most

Member States, registered unemployment at the most recent cyclical peak was higher than at earlier peaks.

TABLE 1

Unemployment rate (% of the active population)

<u>Country</u>	<u>Yearly average</u>			
	<u>1955-59</u>	<u>1960-64</u>	<u>1965-69</u>	<u>1970-73</u>
Germany (Federal Republic)	3.1	0.7	1.0	0.8
United Kingdom	1.4	1.7	2.0	2.9
Italy	9.6	7.0	5.8	5.7
France	0.6	0.7	1.0	1.6
Netherlands	1.0	0.5	1.1	1.7
Belgium	3.0	2.1	2.1	2.1
Denmark	n.a.	1.2 (1)	1.1	1.1
Ireland	n.a.	5.1	5.0	6.1
Luxembourg	(e)	(e)	(e)	(e)

Notes: (1) 1961-1964

n.a. = not available

(e) = negligible

SOURCES: National Statistics

This phenomenon was noticed rather late because of the difficulty of separating short-term economic factors from pluriannual trends in the unemployment statistics. However, it could be discerned, in a more intuitive fashion, in the growing difficulty encountered by national policies in reconciling the objectives of full employment and price stability. Maintenance of the same level of employment seemed to call for an ever higher rate of inflation.

9. Despite these common trends, there were still considerable differences in the employment situation in the various Member States.

At the eve of the recession the countries of the Community could quite conveniently be divided into two groups:

- those in which there was full employment mainly thanks to a reasonably high rate of expansion (Germany, France, Benelux, Denmark) ;

- those in which there was a high rate of unemployment (close to or above 3 %) : Italy, Ireland, United Kingdom.

With the exception of Denmark and the Netherlands, all the countries in the first group were characterized by considerable immigration. But there were marked differences between countries as regards population. France and the Netherlands registered an increase in the population (total population, population of working age and active population) appreciably higher than the Community average. On the other hand, in Germany, Belgium and Denmark these three elements of the population were stable and, hence, the average age of the population was higher

Of the countries in the second group, Italy and Ireland experienced fairly high rates of growth, combined with persistent emigration and a high rate of unemployment. The situation in the United Kingdom was special : a marked increase in the rate of unemployment was combined with a low rate of growth, especially at the end of the period.

TABLE 2

Active Population

<u>Country</u>	<u>Annual rate of growth</u>			
	<u>1965-70</u>	<u>1970-75</u>	<u>1975-80</u>	<u>1980-85</u>
F.R. Germany	- 0.64	- 0.09	0.35	0.50
United Kingdom	- 0.32	0.09	0.61	0.66
Italy	- 0.77	0.19	0.62	0.60
France	0.87	0.91	1.21	1.26
Netherlands	0.99	0.37	0.53	0.80
Belgium	0.42	0.47	0.62	0.49
Denmark	0.89	0.70	0.40	0.56
Ireland	n.a.	n.a.	n.a.	n.a.
Luxembourg	n.a.	n.a.	n.a.	n.a.
Community	- 0.14	0.27	0.67	0.74

SOURCE : O.E.C.D.

10. The impact of the severe recession since 1974 has had the effect of intertwining very closely short-term and structural aspects. It makes forecasting especially difficult. Indeed the scope of existing forecasts of economic activity and employment is severely limited by uncertainties regarding developments in the international environment, government policies, and the behaviour of investors and consumers. Most recent studies are based on the exploration of alternative scenarios generally following two types of hypotheses:

- the first tends towards a return to growth rates similar to those observed before 1974 - with an immense risk of a renewal of inflation and external imbalance and often a pattern of total growth which is more favourable to a growth in productivity than in employment;

- the second is geared towards more moderate growth rates, more in keeping with the objectives of price stability and with financing opportunities, but thus even less favourable to an expansion in employment.

11. These alternatives are being explored in the appropriate circles (1). For the purpose of this report the stress will be placed on:

- the major trends which are emerging in the field of employment, particularly as regards population;

- the major issues of economic policy of the Member States that will have a decisive influence on employment.

B. Major trends

12. Three groups of factors should be pointed out:

- medium and long-term outlook as regards population changes, insofar as it affects the labour supply;

- the effect of the increase in school attendance on the structure of this supply;

(1) cf. work of the Study Group on Medium-Term Economic Prospects of the Commission (4th programme for medium-term economic policy).

- the specific outlook for certain categories of workers whose role (up to now determinant) in providing a necessary flexibility to the labour market seems bound to diminish.

a) Population trends

13. Population trends in the next few years will be marked, in general, by a considerable increase in the population of working age. Considering only the natural increase in the population (ignoring migration) it is seen that the number of persons in the age-groups entering the labour market will, in the majority of Member States, be larger than those withdrawing from the market.

TABLE 2
Population of working age (15-64 years)

<u>Country</u>	<u>Annual rate of increase</u>			
	<u>1965-70</u>	<u>1970-75</u>	<u>1975-80</u>	<u>1980-85</u>
F.R. Germany	- 0.20	- 0.01	0.49	0.92
United Kingdom	- 0.01	0.14	0.50	0.61
Italy	0.40	0.44	0.49	0.96
France	0.82	0.61	0.69	1.17
Netherlands	1.31	1.12	1.12	1.02
Belgium	0.30	- 0.15	1.00	0.71
Denmark	0.53	0.35	0.39	0.51
Ireland	n.a.	n.a.	n.a.	n.a.
Luxembourg	n.a.	n.a.	n.a.	n.a.
Community	0.29	0.31	0.59	0.90

SOURCE : O.E.C.D.

In the majority of Member States, this situation is merely an extension of previous trends. In the case of the Federal Republic of Germany and Belgium it constitutes a reversal and corresponds to the upswing in birth rates that occurred about 1960.

14. Longer term population prospects (1985 and beyond) show a marked contrast with the foregoing. The low birth rate recorded since 1968-70 in all the Member States will have repercussions from 1985 onwards, all things being equal, with a reduction in the population of working age and the working population.

That is to say that there will be a marked reversal in the population of working age and in the labour supply in the course of the nineteen-eighties. Before this date the major problem will be to create new jobs for an active population that in about half the Member States will be increasing moderately. Thereafter the main problem will be the growth in the number of inactive persons dependent on each active person, on whom they depend for their livelihood (pensions) and for their social welfare (health, etc.); moreover it is not impossible that there will be a return to a situation of a deficit in the labour supply.

This expected reversal of the situation in less than a decade must be taken into account in the choice of measures to be adopted with regard to employment. In particular, the reversibility should be ensured of measures to be taken in the short and medium-term to improve the distribution of work, notably as regards the number of hours worked.

b) The effects of school attendance on employment

15. The gradual increase in the duration of schooling (1) has been one of the most characteristic phenomena of the last twenty years; it was the result of an increased demand for training which expressed both the aspirations of young persons and their families and the needs of the economy as a whole. Developments of this kind lead to two types of consequences for employment:

- in the short term, they reduce the number of members of the younger generation entering the labour market;

- in the longer term, they tend to change the level of qualifications and the aspirations of these young persons with regard to employment.

16. It is difficult to put forward precise information on the possible course of this tendency in the next few years. Some factors may serve to maintain it - the difficulties encountered by young people in finding jobs may encourage some of them to prolong their education. Other factors may be likely to curb it,

(1) This refers to actual school attendance; the duration of compulsory education also increased, especially in the fifties and sixties.

particularly the financial cost of an expansion of education, the increasing awareness that the chances of success in a trade or profession are connected more with social and family origins than with the number of years spent studying, and the feeling that there is a noticeable gap between school and working life. Moreover, there are signs that in most Member States educational policy is laying more stress on the qualitative reorganizations of teaching systems than on their quantitative extension.

17. Whatever the future developments in school attendance may be, the most striking feature seems to be the difference between the levels of qualification acquired by the new generations of young persons and the type of jobs offered by the economy. This difference is evident, in a widespread way in the unwillingness of young people leaving secondary school to accept certain types of work. It is illustrated very well by the development in university education. At the present time, the generations entering the labour market contain between 4% and 10% of university graduates as compared with an average of 3% for the total active population and appreciably less for the age groups approaching retiring age. If it is assumed that the percentage of university graduates per generation does not increase during the next ten years, the economy will have to create (or transform) between now and 1985 between 2 and 3 million jobs for this level.

Whilst it is recognized that there is a degree of flexibility both in those looking for jobs and in the jobs available, the magnitude of this problem cannot be ignored, especially since it is a relatively recent problem, with the wave of massive university expansion in most of the Member States dating back only eight or ten years and coinciding so far with a phase of vigorous economic expansion which has made it possible to absorb the majority of university output into the tertiary sector, in particular the public sector.

c) The position of "marginal" categories

18. During the phase of expansion in the sixties, there was a definite flexibility in the employment market thanks to certain categories of workers who, for various reasons, offered scope for adjustment, pouring on to the labour market or ebbing away from it according to the needs of the economy and the tensions of that market. The two main categories acting as "adjustment" factors in this way were women and migrant workers.

Although their socio-economic characteristics, their behaviour, and their degree of integration into society were very different, these two categories of workers had one point in common: they were concentrated in the least skilled jobs and in those most exposed to economic fluctuations. They constituted the basis of what has been called the "secondary labour market".

The machinery for mobilizing a supplementary labour force that has been put into operation during a time of labour shortage, will not be easy to put into reverse in the next few years. There are several reasons for thinking that the flexibility which these categories contributed to the economy as a whole might be considerably reduced during the next few years.

19. This reduction in flexibility seems very probable in the case of female workers. The movement which has led them, in growing numbers, to refuse to restrict themselves solely to looking after their families and to participate in the working world is not the result only of economic factors connected with the need for additional income: it is also the result of a deep-felt aspiration towards equal rights and towards access to the outside world which the present conditions of urban life does not always allow them to satisfy. Most of the Member States acknowledge that an increase in female activity will continue to be a basic feature of our society, and the demand by women to participate in the labour market will henceforth be the rule rather than the exception, even if the employment situation is very difficult (1).

20. The outlook is not so clear as regards the adjustment role of migrant workers. Indeed, the recourse to immigration is not always the response to an overall labour shortage, and can equally be the result of a shortage of some specific types of workers. It is, however, probable that immigration will not play, in the next few years, as important a role as it has done in the recent past. It does not seem very likely that the host countries will return, in the near future, to the open immigration policy that was practised before the depression. The chief restraint lies in the socio-economic saturation which was becoming apparent on the eve of the crisis in many of the industrial regions of the Community (reception facilities, school attendance, risks of tension).

(1) Moreover, it should be noted that the growing number of married women who are working tend to reduce the geographical mobility of married couples and creates problems relative to the diversification of the labour market at local and regional level.

21. Therefore, it may reasonably be expected that these two sources of flexibility on the labour market will decrease considerably during the next few years. This development constitutes an important factor to which labour market policies will have to be adapted.

C. - Central problems of the next five years

22. The magnitude of the problems to be solved during the next few years may be assessed with the help of a few figures, which, although they do not claim to be prescriptive, or a definite forecast make it possible to determine to some extent the size of the problem.

The rate of under-employment - in the sense used at the start of this chapter - is at present about 8 %. The available active population is destined to increase, between 1975 and 1980, by about 0.6 % or 0.7 % per year (1), that is by 3 % - 3½ % in five years.

To bring back the rate of under-employment to around 3 % in 1980, it is, therefore, necessary to achieve an overall growth in employment of about 7 - 8 % between now and 1980 (that is 1½ % per year). If it is assumed that the increase in productivity follows the trend of the years 1960-73 (that is about 3 % - 4 % for the Community as a whole), to achieve the desired increase in employment presupposes an average annual rate of growth for the Community of 5 % - 6 %. For certain countries, based on the present situation, other things being equal, the rate of growth that must be achieved is higher (for example in France 9 % to 10 %).

23. These orders of magnitude indicate clearly that it would be an illusion to expect a high rate of growth alone to restore a satisfactory balance in the labour market. A solution as simple as that would inevitably lead to a vigorous renewal of inflation, to problems of external balance, and, finally, to policies of alternating expansion and savage retrenchment (stop and go).

The lessons of the past (2) are clear : even at times of rapid growth, the countries of the Community encountered increasing difficulties in achieving their aims as to employment. This calls for a re-examination on the directions of growth

(1) See table 2 page 11

(2) See pp. 7 - 8

in the medium term, particularly starting with the problems considered in chapter IV.

On the other hand, stagnation or very weak growth would have dramatic consequences on employment. It is between these two extremes that economic policy must be managed, starting from a highly unstable situation. Without claiming to propose an overall strategy, which would be beyond its mandate, the group has given some thought to what appears to it to be the major risks to employment over the period in consideration.

24. There is firstly the risk of a renewal of inflation. Without re-opening the debate on the possible causes of inflation, it is sufficient to state that the "classical remedies" have hardly taken in most Member States.

The risk of becoming settled in an equilibrium of under-utilization of physical and human resources constitutes a second cause for concern. This can be created by the alternation of periods of expansion and restraint. It can also be produced by the general acceptance of cautious attitudes;

- On the part of enterprises tempted to restore their profitability before resuming investment and recruitment, and prompted to give priority in their investments to economizing on labour rather than to expanding capacity called for by the increase in demand;

- on the part of households, maintaining their high rate of saving;

- on the part of workers, anxious, even nervous, about the protection of their employment;

- on the part of those responsible for economic policy concerned about imbalances existing or potential, with regard to balance of payments, public finance and prices.

25. To avoid these two dangers, the Member States will have to develop a complex strategy. Overall expansion will have to remain within moderate limits. It will be able to re-establish a satisfactory level of employment if it is supported by complementary policies for employment; these would need to be developed along two lines.

The first line might relate to the policy of non-inflationary employment promotion in the fields of the labour market and of aids of employment. This thought is developed in Chapter III.

The second line might concern the directions and content of growth; it would be based on past experience as to the influence of growth on employment, in an attempt to discover a type of expansion that complies better with employment objectives. This is a field, that, in comparison with the first, is both broader and less well-explored, since it concerns particularly the quantity and quality of jobs in relation to demand (the directions of demand) and with investment (amount and nature). The group has approached this subject in chapter IV with a caution justified by the preliminary nature of its work.

CHAPTER III

THE PROMOTION OF EMPLOYMENT CAN HELP TO BEAT INFLATION

1. The analysis in the previous chapter has brought to light the two major threats to future employment trends. Many months will pass before the effects of the economic revival are really felt in the form of a significant reduction of unemployment. In the longer term Member States run the risk of settling down into a state of permanent underemployment.

2. Those responsible for economic and employment policies are currently faced with a particularly difficult situation. On the one hand, the traditional method of stimulating employment - the expansion of overall demand by monetary and financial means - is proving difficult to use on a scale commensurate with the extent of the present underemployment. There is a general fear of reviving inflation before any noticeable effects on employment are obtained, especially since monetary and financial instruments require more delicate handling in encouraging expansion than in curbing it.

On the other hand, governments have not been able to develop the instruments of an active employment policy (training, placement and other aids to employment) on a scale that enables them to play more than a secondary role in a period of underemployment.

3. These limitations may discourage action, thus increasing and consolidating underemployment. The temptation to restrict the labour supply or to protect employment (import restrictions, cartelization) has so far been resisted in the majority of Member States. It could however become increasingly difficult to resist it the longer underemployment continues.

4. Continued underemployment is not inevitable; it can be avoided if the Member States review their range of instruments and concentrate on those instruments which are best suited to deal with a new situation. For, as far as employment is concerned, it is no longer simply a question of taking measures to accompany, correct

or improve an expansion which is to some extent predetermined; it is much more a question of developing an active policy which supports the economic revival and channels it towards a non-inflationary, and even anti-inflationary, form of expansion.

5. With this aim in view, the first section of this chapter examines certain aspects of the relationship between overall demand, employment and prices which seem particularly relevant in present circumstances. The group does not claim to have carried out an exhaustive study of the problem within the limits set by this report. It nevertheless felt it was essential to lay the theoretical foundations of some suggestions developed in the second section. That section deals with some types of action to be considered for a non-inflationary employment policy.

A. - On the employment - inflation dilemma
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6. The gravity of the dilemma was already apparent before the oil crisis, since the inflation rate for a given level of employment was gradually increasing (1). It has become a matter of particular concern since 1974 : even extremely restrictive policies, involving considerable unemployment, have frequently had only a limited effect on the progress of inflation. Thus governments nowadays hesitate to undertake expansionary measures for fear of giving rise to new waves of inflation.

Numerous studies have been devoted to the problem of avoiding inflation. Most of these stress either the use of structural measures, whose effects become apparent after a period of years or the need for an incomes policy and social consensus. Whilst abstaining from any judgement on the relative importance of these measures, the Group considers it necessary to recall certain elementary but basic aspects of the phenomenon which are more directly linked with the policy of management of overall demand and are consequently capable of dealing with immediate problems.

(1) cf. Chapter II, page 10

7. It can be asked whether the ideas which currently prevail with regard to the management of overall demand take sufficient account of two particularly important points regarding the relationship between the level of demand and the level of employment.

8. The first point arises from the development of "built-in-conjunctural-stabilizers", particularly with regard to unemployment benefits. The change-over from being employed to being unemployed often results in only a limited loss of disposable income, owing to the combined effects of unemployment benefits and income tax.

If the restrictive monetary and financial measures are to succeed in reducing overall demand, a massive reduction in employment is required. But when this has been achieved, it may lead to a cumulative downward trend ending in a breakdown of confidence. On the whole, the relationship between the instruments of overall demand management and the level of employment has become increasingly volatile and difficult to control both in expansion and in contraction and in relation to the strength and delay of the response.

9. This trend is aggravated by internal partitioning in the labour market. The first persons to be affected by a slowdown in economic activity are those groups of workers which are the most marginal to the labour market. The measures of restraint have therefore to be very severe before they affect the well-established categories of workers who have decisive influence on the wage-price cycle. Moreover, these workers tend to create increasingly restrictive job security arrangements for themselves; these further reduce the anti-inflationary effectiveness of measures to restrict demand.

10. As a result of these two factors, the inverse relationship between unemployment and prices is becoming more unstable. The effectiveness and precision of demand management policy are considerably weakened and this necessitates the introduction of massive measures the effects of which are extremely unpredictable.

11. Two courses of action are possible in order to deal with this situation:

The first course would involve challenging the various measures implemented by legislation or collective agreements which have helped to reduce the effect of the level of activity on employment and incomes in order to re-establish the original purity of the macro-economic archetype. It is difficult to imagine such a social

retrogression. It would, in any case, be very dangerous and could, on the contrary, help to strengthen still further the most restrictive and inflationary measures of social protection.

The second course would involve acknowledging the powerlessness of general economic policy alone to serve simultaneously the objectives of employment and price stability and setting up additional support policies, of which the most frequently referred to is an incomes policy. Incomes policy has been tested in the majority of member countries, up till now against a background of excess demand and nowadays against a background of inadequate demand, and has met with partial, generally temporary success. It is intended to provide a temporary pause in the wage and price-fixing negotiations and is scarcely capable of providing a remedy for the actual causes of inflationary tensions, of for the rigidities mentioned at the beginning of this section.

12. Employment policy measures are less frequently suggested as an integral part of a strategy to counteract inflation. Institutionally they are generally connected with social policy and are intended to ensure social protection or to mitigate the effects of the depression until there is an improvement in the economic situation.

The analysis developed above regarding the shortcomings in the overall economic management policy would, however, suggest that employment policy measures should be given a role at least equal to that of incomes policy in the search for substantial support in the effort to overcome the employment-inflation dilemma.

13. The relative importance of labour costs and the rigidities noted in the labour market suggest that employment policy has a considerable potential for action in reducing production costs or increasing output, both in the short-term economic context over the next two years, and in the medium-term.

As far as the labour factor is concerned, two types of measures come to mind :

- operational measures to reduce or eliminate the obstacles to occupational and geographical mobility and to improve the productivity of the least favoured categories (aids for training and mobility, placement services);
- financial incentives designed to compensate firms for the additional costs of recruiting additional workers (subsidies based on the increase in a firm's work force, differential taxes on wages) with a view to matching the supply and demand for labour without creating excess demand for the best established categories of workers.

In both cases the measures involved tend to reduce costs and increase output and therefore help to serve the objectives both of employment and of price stability. It is suggested that a suitable combination of the various measures in two categories, with procedures adapted to each specific economic phase, would considerably lighten the task of overall demand management policy and help resolve the dilemma.

14. This statement can be illustrated with reference to a specific phase of the cycle : one in which a revival of activity, having mobilized all the internal work force of the firm is heading towards a further increase in employment.

Inflationary and deflationary factors in the behaviour of costs and prices during an economic revival

15. When economic revival is taking place, two mutually contradictory forces exist. On the one hand, the growth in the volume of production has an anti-inflationary effect by increasing supplies and reducing the cost price per unit as a result of spreading fixed costs over a larger number of units produced. On the other hand, the growth in monetary demand increases the strain on prices and enables undertakings and wage and salary earners to increase their nominal incomes (wages and profits) at a higher rate than their increase in productivity. The pressure for an increase in prices brought about by the growth in monetary demand is usually greater than the curb imposed by the reduction in costs and the growth in supply. The stimulation of overall demand, even when accompanied by moderation in wages, always involves the risk of a renewal of inflation, even when there is a situation of marked underemployment.

16. However, the balance between these two forces may be modified, if the anti-inflationary element resulting from the general stimulation (reduction of costs) is supported by additional measures. The aim of such measures must also be to reduce costs and increase output whilst acting with greater selectivity as regards cost components.

17. One of the most significant points for action in a period of underemployment seems to be at the level of labour costs. Under conditions prevailing nowadays the cost of recruiting additional labour is more than just the basic wage cost; there is an additional cost in the recruitment and training of workers, in the consequences of a higher turnover among newly hired personnel and in the entrepreneurial risks resulting from obstacles to dismissal (1).

18. When the firm reaches the point where additional workers are needed the firm will be reluctant to increase its demand for labour : often it will be able to overcome this reluctance only if it can ensure a rise in selling prices which covers its additional costs and its extra responsibilities for this additional number of workers. Unless other measures are taken, the economy will have to tolerate these price increases, on which the growth in employment depends. It may even have to promote them by fiscal-monetary measures or by exchange rate adjustments, despite the fact that a lower price level would be consistent with a higher volume of employment once the change to this higher volume had been achieved and stabilised.

B. Towards anti-inflationary promotion of employment

19. The major task immediately ahead is to bring about economic revival. In the sphere of employment the choice of measures to be adopted will be

(1) In other words, the marginal cost of labour is higher than the average cost.

difficult. On the one hand, pressures for measures to protect employment and income will increase. On the other hand, the range of measures to be implemented or developed cannot be limited to short-term solutions; it should also take account of medium-term objectives.

20. In view of the need to promote employment in an anti-inflationary way in both the short-term and the medium-term, it is appropriate to consider a number of instruments, in particular :

- measures concerning the supply of labour or its distribution by influencing the number of persons working or the number of hours worked;
- measures to match labour supply and demand : there are mainly placement and training measures which will be grouped under the heading labour market policy (in the limited sense of the word);
- measures affecting the supply of work by means of specific activities to create jobs; they aim, depending on the case in question, to augment or counteract the effect of overall demand management in specific economic zones.

We shall not deal here with another type of measures, aimed at qualitatively adjusting the demand for labour to the supply characteristics. This problem, which the group feels is of great importance, will be dealt with in the next chapter.

a. Measures to deal with the supply of labour

21. These measures seem to constitute a simple answer to the crisis. They may take two forms :

- reduce the available labour supply by restricting the access to jobs of certain categories or by causing other categories to leave their jobs;
- change the distribution among the population of the "work load" that is generated by a given level of economic activity.

22. These two forms have one thing in common : they are based on the concept of a limited volume of work to be done which should be directed or distributed as effectively as possible.

In principle, this premise is wrong : the work volume to be done depends on the amount of labour which the social and economic systems makes available. Furthermore, if the concept of distribution of work load were to be correctly applied, it would mean that substitution is generally possible among individuals and among jobs. Neither the economic organization nor the concrete characteristics of the labour markets allow this hypothesis. The group therefore refuses on principle to adopt a restrictive approach which would aim at dissuading people from working to the extent they wish. This would constitute both economic and social regression.

There are, however, to varying degrees depending on the country, sector and actual work structure, individuals working harder and for longer hours than they would if there were a real freedom of choice (including a sufficient alternative income).

23. Having mentioned the general aspects :

- measures to reduce access to employment for certain groups of persons seem inopportune or difficult to implement, apart from the curb on immigration which has already been discussed in Chapter II. The reasons why action aimed at discouraging women from working was neither very feasible nor very desirable have already been pointed out (1); action of this type would be contrary to the objectives of equality of opportunity and treatment which have been recognised throughout the Community. An increase in the length of school attendance and in military service, where it exists, have often been used as instruments for adjusting general employment rates. They, too, seem inappropriate today. Schools and the armed forces both have their own problems and it is very unlikely that the authorities are in a position to risk complicating these problems by increasing the number of persons in them simply to relieve the labour market. The need which is felt for additional education calls for methods other than a mechanical extension of compulsory school attendance; they will be examined later.

(1) of. page 16

24. The measures aimed at enabling persons to retire early if they wish are of a different type, inasmuch as there is no question of forcing them to do so prematurely. The level of retirement pensions is low for a large portion of the population; age conditions are inflexible. Particular attention should be paid to ways to reassess pensions, to make retirement rules more flexible and to introduce special arrangements for people on heavy work. Provided that they are placed within the framework of overall social policies for old people and of a more flexible concept of the limits of a working life (1) they are also likely to ease the labour market. In this respect, they may be granted priority depending on the circumstances.

25. As regards the number of hours worked per week or per year, it would be wrong to envisage plans for reduction exclusively for the purpose of work sharing; the effect of this would be largely illusory and would also certainly lead to the introduction of harmful inflexibilities; moreover it is necessary to introduce the subject of adequate wages for the categories concerned and the effect they could have on firm's costs if they were not accompanied by corresponding moderating of overall wage increases (i.e. financial solidarity among wage earners).

The situations vary, however, according to country and occupation : in certain cases, working hours are very long, and it is an express social priority to reduce them. Thus it is justifiable to search for the best way to progress rapidly in this sphere, by giving priority to the reduction of long working hours, and of heavy work (team work, for example). One can then search for the methods and areas of application making it possible to develop additional employment possibilities (e.g. shift work). Negotiations between the various countries to discuss sensitive points (shift work) for the purpose of harmonizing conditions of competition would be welcome.

(cf.) O.E.C.D. Flexibility in working life.

Lastly mention should be made of the question of training leave, enabling workers to interrupt their work to attend vocational or general training courses. Measures of this type introduced in certain Member States in recent years (France, Belgium, Federal Republic of Germany) have met with some difficulties. The present economic situation may give rise to a certain distrust on the part of potential beneficiaries (fear of being transferred to a less attractive job when they return to their employer). Nevertheless, this formula, which is one of those that would be desirable in the longer term (better links between education and employment), should be examined with particular attention.

Measures concerning placement and training
(Labour market policy in the limited sense)

26. The obvious limitations of these two types of action in a period of under-employment should not cause their importance to be underestimated.

Firstly, their role on the labour market continues during a recession. To neglect these instruments on the pretext that the real problem is one of demand may be costly for various reasons.

The revival of employment will mean that countries must have available placement and training services capable of rapidly meeting the demand which will arise and which will undoubtedly involve many workers in changes in specialization. What is more, the quality of these services may be decisive in determining the extent of the economic recovery, insofar as it helps to prevent the appearance of local shortages of labour by region. In general, as much as in particular situations, placement and training measures reduce the costs of taking on staff and increase the supply of labour : they are therefore distinctly anti-inflationary.

27. Moreover, placement services, because of their central position on the local labour market where employers and applicants for jobs meet, form the embryo of a trend already well-advanced in Sweden and in Germany and which has only just started in some other Member States towards active employment agencies that monitor the labour market and coordinate the various instruments available. This trend, which began a few years ago may very well be halted by the present crisis if the authorities do not remain vigilant. Services submerged by the onrush of claimants for unemployment benefit may fall back into the old routine; this could jeopardize the success of an important reform whose effective implementation is bound to take time.

28. There is a similar threat to vocational training services in the public sector. Several of the member countries had started to extend and modernize these services some years ago, with a view to serving the economy better and meeting the

aspirations of workers to a greater extent. The trend which had begun is now threatened by two hazards.

The first involves finance ; the reduction in the demand for labour and, consequently, immediate training requirements, and uncertainty regarding the nature of future market needs, could lead to a reduction in the training carried out by the public services. Such a course would not help to increase the capacity of the labour force to meet needs when they arise again.

The second hazard involves the utilization of training facilities in order to keep unemployed persons busy, particularly young persons (training for stock). Although programmes of this type undertaken in several member countries have certain advantages they may, as a result of overspecialization, lead young people up a blind alley particularly if care is not taken to relate the training to the needs both of the economy and of those concerned. It therefore seems preferable to develop practical training schemes of a broadly based and multi-skill nature. The present recession could also be the right moment for extending the use of new teaching methods whose effectiveness has already been proved : they are better suited to solving the problems of motivation often raised in discussions on the training and employment of young persons, particularly those most in need of help to overcome the handicaps of an inadequate education.

29. A labour market that is to operate better also involves the development of other forms of activity :

- exchanges of information between employers, employment services and job applicants (including prior notification of decisions to reduce or increase the number of staff);
- promotion of staff policies in firms that result in an organization of the work that is better adapted to the actual structure of the labour supply (including measures benefiting particular categories of persons).

- vocational guidance for young or adult workers (according to both individual capacities and prospects of openings to various kinds of job).

These fields of action have been listed in order to indicate the tasks that remain to be done to ensure a more systematic and better integrated development of the national employment services.

Steps taken in respect of the demand for labour

30. The caution required with regard to general stimulation of demand gives selective measures for creating jobs a particularly topical interest. Once again attention must be drawn to the fact that the terminology used varies considerably from one country to another. The desire to stress the employment objective in measures taken by public authorities sometimes leads to references to the creation or promotion of employment in connection with measures which only affect employment indirectly.

31. Three lines of selective action can be distinguished which are likely to give rise to the creation of jobs :

- some are aimed mainly at stimulating the demand for goods and services in certain sectors, either by making changes in conditions for granting credit (for building or for the purchase of semi-durable goods) or by a selective increase in public spending (e.g., for public amenities). The effect on employment occurs at a second stage; it is subject to assessments and decisions by the borrowers or by the spending public authorities regarding the best possible use of the facilities available in view of their particular needs;
- other measures are chiefly geared to the creation of employment, but take the form of investment operations subsidized by the budget : they concern investment premiums and traditional public works programmes;
- a third approach involves direct subsidies to increase or maintain employment in private undertakings or in the public services. This line of action will not include measures whose aim is to save firms in difficulty;

it refers to measures intended to bring about an increase in the number of jobs without discriminating between firms but with specific objectives as to regional employment or as to employment of underprivileged categories.

32. Such direct aid to the creation of jobs deserves particular attention now. They are usually regarded unfavourably : on the one hand, they may generate an artificial demand, distort market preferences or the preferences of public authorities, and create temporary jobs; on the other hand, the administration of aid and the control of the conditions for granting it seem more complex and more difficult for employment subsidies than for investment subsidies (the results of which are tangible) and a fortiori than for selective stimulation measures.

The validity of these two objections should be examined. If a more precise comparison is made between employment subsidies and investment subsidies, it appears that the latter may also be directed towards operations which will prove to be mistaken after the event (and in addition costly). In addition, assessment of management and control procedures depends much on the particular type of measure involved : some employment subsidies may be easy to administer, some investment aids may be difficult.

The time now seems ripe to question the general preference given to investment aids at the expense of employment subsidies.

33. At the time when the theories concerning overall demand management were conceived, the labour market appeared to be a relatively homogeneous system through which the stimulus of demand could spread in a balanced manner (1). The cost of hiring was not a curb to economic revival. The problem of regional imbalances was not felt as acutely as it is today and the geographical mobility of labour was not challenged. Nor was there much awareness of the segmentation of the labour market between the more privileged categories, which were often protected against

(1) The development of the theme that follows is based on the analysis shown in section A of this chapter, p. 19

unemployment and who played in a determining role in the fixing of wage levels, and more vulnerable groups whose role in this respect was passive.

It was normal in such a context to associate a growth in income with a growth in employment : any injection of purchasing power was expected to spread at employment level with a minimum of leaks due to inflation. The promotion of employment could thus be achieved, indirectly but efficiently, by increasing the demand through reductions in taxes or increases in investment. The income multiplier was identical with the employment multiplier.

Under present conditions, on the other hand, the segmentation of the labour market increases the risk of seeing a portion of the injected purchasing power take the form of price increases and excessive rises in wages, even when there is a state of underemployment. Employers' caution in hiring workers may put a brake on an economic revival and emphasize the coexistence of inflation and underemployment. The income multiplier is distinctly different from the employment multiplier (1).

The opprobrium attaching to direct aid to employment is, at least partly, based on the idea of obtaining the most widespread effect possible from public intervention. The present structures of the labour market and the struggle for the distribution of income demand, on the contrary, instruments with a maximum effect on employment and a minimum effect on incomes. With this in mind, it is advisable to rehabilitate subsidies for the creation of jobs.

34. It is important to understand the differences between the three lines of action set out above, according to the way in which their effect is divided between the price factor and the job-creation factor. The first one, the selective stimulation of demand, is generally the most inflationary : it does not assure that the increase in supply takes effect in areas where it would be necessary to forestall price increases.

(1) In this context, it is superfluous to speculate on whether this trend is due to facts which have altered since Keynes' time, or to a better understanding of the machinery.

At another level are measures such as aids to investment which combine a direct increase on employment with indirect effects (by means of the "multiplier") that generate extra demand outside the target area. Even when the main operation is directed towards sectors or areas where equipment and labour are underemployed, its indirect effects may spread to areas of the economy where they will have an inflationary influence. The weaker these indirect effects are (or compensated for by taxation), the more such action will have a neutral effect with regard to the inflationary criteria, subject to the influence of the increase in employment on wages. This influence will itself depend on which sector of the labour market is affected by the measures taken : the greater the number of workers in the sector from those categories which are the most vulnerable to unemployment and with the least influence on wage trends, the smaller the influence will be.

Direct methods of creating jobs form the third level. The majority of the group feels that under certain conditions, these methods have a decidedly neutral or even distinctly anti-inflationary effect. The line of reasoning set out in the first section of this chapter showed the difference between the marginal and the average cost of labour : aid should be given in such a way that undertakings are encouraged to increase their sales without raising their prices; it is also necessary to overcome the reluctance to recruit extra workers because of the extra hiring costs involved. This reluctance is often at the root of their decision to delay increasing production. The resulting critical threshold may be surmounted by making use of temporary aid to increase employment : this aid would enable them to initiate the process of reducing costs simply by increasing production. Direct aid to the creation of jobs can often seem to be the most efficient and most anti-inflationary form of promoting the demand for labour. In certain respects it is the opposite of aid to support declining activities, whose uneconomic character is recognized.

Conclusions

35. The analysis of this chapter tends essentially to show how and why it is possible to enlarge the room for manoeuvre between the objectives of price stability and of a high level of employment. This room for manoeuvre has two features:

- it is narrow and subject to a very short time horizon. In a medium term perspective the causes of unemployment coincide largely with those of inflation and can be remedied by certain kinds of policies directed at structural imbalances in the employment market. In the short-term, this room for manoeuvre, although noticeably narrower, nevertheless exists;

- it can only be seen and exploited to the extent that account is taken of the segmentation of the labour market, thus allowing selective measures to be taken.

36. Focussing its conclusions on the short-term problem the group feels that the justifiable fears of an inflationary expansion of the economy could limit both the force of the expansionary measures and the length of the upturn which is just becoming apparent. It believes that these risks can be reduced and expansion strengthened by the use of a range of measures to promote employment, while at the same time reducing pressure to increase prices.

37. This double result can be obtained by measures to reduce costs and increase supply at the margin, in situations where action to move to a higher level of production and of employment (and thus to contribute to price stabilisation) may be prevented by the additional expenditure involved in taking on staff, quite apart from the payment of wages.

Priority should therefore be given to two types of measures.

38. The first group consists of measures dealing with the placement, training and retraining of workers. The group is aware of the tendency which still exists in some Member States to allow the public effort in training and placement to follow a cycle, depending on the extent of current demand for

training. What seems needed is to give an anti-cyclical character to these activities, thus anticipating the needs which will emerge when economic expansion begins to affect the labour markets. The uncertainties which exist as to what kinds of qualification, or kinds of training to promote do not appear to the group to be a conclusive objection to this action provided that priority in the public effort is given to polyvalent training.

39. Turning now to incentives or financial measures the group emphasizes the importance of providing as wide a range of instruments as possible, it considers however that the most appropriate - and the least inflationary - instrument is direct aid to job creation, whose importance relative to aid to investment should be increased. The costs and risks of taking on extra staff justify - from even a purely economic viewpoint - premiums to enterprises to encourage increasing their workforce (or a differentiation of taxes on payrolls). Such premiums could, where necessary, apply only to certain regions or to certain categories of workers (provided that the administration of the scheme does not become too complex).

40. There is a danger however that these measures will be inadequate especially on account of the medium-term outlook and the major role of productivity in the economic recovery. The group therefore calls for reflection and analysis - especially at Community level - on the following theme: Governments are willing to intervene as a last resort to maintain the income of persons without employment. They seem to show much less willingness to use these same sums to allow the same persons to have a job, or another useful activity, for example in education or training. A fairly low-cost effort would in fact be enough to change the character of the present essentially passive range of measures into measures of an active employment policy.

41. Such an effort would give persons deprived of employment a set of options, rather than the present brutal alternatives:

- firstly a new job, similar to the former;
- secondly, a new job acquired after a period of retraining;

- thirdly, work in one of a range of public programmes (including self-managing projects such as for example the Local Initiatives Programme in Canada);

- fourthly, forms of training or education aimed at developing versatility and at raising personal capacities rather than acquiring a particular technique:

- lastly, the traditional unemployment benefits.

43. Most of the members of the group felt that the Community could make an important contribution if it gave governments the courage to overhaul their approach to employment and unemployment following these lines. They recommend that the Commission should examine the financial and administrative implications of these suggestions with the Ministers of Employment, Finance, and Education.

CHAPTER IV

THE RISK OF PERMANENT UNDER-EMPLOYMENT REQUIRE ACTION ON THE CONTENT OF DEMAND

1. The previous chapter was concerned with how policy in the employment field could contribute to the reestablishment of non-inflationary growth. Basically this meant adjusting the labour market to the conditions resulting from overall economic development and improving the employment outlook for a given type of growth.

But one of the main lessons of the present crisis, and of the developments which preceded it seems to be that it will become increasingly difficult for employment to rely purely and simply on growth, whilst depending on marginal adjustments to correct the imbalances thereby created.

2. This is why, if the first objective is to reestablish growth, the more difficult analysis of how to ensure a better policy response to the imbalances caused by growth must be undertaken. This will be necessary both to prepare, in a more long-term perspective, for a type of growth which is more favourable to employment and to partly relieve overall economic management of the tensions which it suffers between the competing objectives of full employment and price stability.

3. As has been indicated in the introduction, it is not intended in this report to propose hasty responses to what are in many cases new problems, but rather to list a number of preoccupations.

The present chapter therefore identifies some important imbalances brought about by growth; their scale - in the view of the group - has extended in the past and could continue to extend in the future - beyond the opportunities for correction offered solely by labour market policies and policies for the protection of employment by legislation or collective agreements.

For this purpose, the first section which is of a more theoretical nature will briefly show that growth does not lead to employment automatically, but only under certain conditions. The second section will set out the chief imbalances resulting from growth which have been recently observed

and to which attention should be paid.

A. - A fact : growth does not always favour employment

3. Expansion and economic development are based on a process of destruction and creation which constantly renew the structures of demand and production. The development of employment is governed by this process and is marked by contrasting movements of job destruction and creation.

In this context, promotion of employment means, firstly and generally speaking, achieving conditions which enable forces which create jobs to compensate, at national and if possible at regional level, for jobs which are transferred or abolished. This also means ensuring that the quality of the jobs created is at least equivalent to that of the jobs abolished.

4. The experience of Western Europe during the years preceding the crisis provides ample evidence that a high rate of growth in production was not sufficient to guarantee full and better employment. The gradual increase in unemployment and in unskilled work performed by migrant workers are the most obvious manifestations of this shortcoming. They undoubtedly varied in intensity from one country to another: those countries with a higher growth rate were at least able to reduce the quantitative problems of employment, without eliminating them entirely.

5. Furthermore, a number of indicators seem to show - although rigorous proof may be difficult - that progress in consumption standards has prevailed over progress as regards employment and working conditions.

One is led in effect to assert that within the overall economic process, as it has developed until now, the labour market is essentially a passive element. The influences of the demand for goods and services (as reflected in the demand for labour) is predominant, whereas the domestic labour supply and the potential which it represents plays a minor role. In order to be convinced of this fact, one need only consider the two most usual forms of intervention in the event of imbalance in employment; threats of a slow-down in activity give rise to calls for a reflation of overall demand, whereas shortages of labour

give rise to appeals for immigration . Without going into too complex explanations, it is possible to attribute this lack of symmetry to the delayed reaction of the labour supply and to the complexity of the human elements which help to determine it.

This situation is not unconnected with the difficulties encountered in developing an active employment policy. As long as a policy of this type is centred solely on the internal components of the labour market, it can only play a limited part in correcting the imbalances observed. A real policy for employment cannot remain passive in the face of changes in demand, nor count on the process of growth to establish spontaneously an overall balance of employment. It must endeavour to influence this process, without undermining it.

6. Such a course of action involves two difficulties. The first lies in the traditional distinction between "economic" and "social" policies. They are still regarded as two completely different worlds with their own political and administrative structures - the economic world ensures growth and the social world has the task of allocating the fruits and helping the victims. In fact, however, endeavours to achieve a growth rate which is in harmony with the objectives of employment demands a very close dialogue between these two worlds.

The second difficulty is the conflict between short and long term considerations. Among the various ways in which employment considerations may influence growth are those aimed at defending existing jobs . Often the natural temptation is to have recourse to protectionist or restrictive practices. But such short run actions, which aim at protecting employment for today , often jeopardize employment for tomorrow. Positive measures, to promote better job opportunities are usually set in a medium-term perspective; they are not easy to implement because their advantages are not always clearly perceived and the transition involved can be unacceptable from a social point of view.

Because of these difficulties, the group preferred, as a general rule, to limit the present chapter to the discussion of some major issues in the hope that some of the themes outlined may be the subject of future studies.

B. - Sources of imbalance

7. The idea that the present difficulties are no mere accident is becoming more and more widespread. The present crisis has served to disclose several imbalances of growth which have accumulated throughout the years.

8. As far as employment is concerned, three types of imbalance should be particularly stressed.

The first concerns the general employment situation resulting from the abolition and creation of jobs; here it is a question of identifying the sectors in which jobs will be created that will enable the level of employment to be redressed during the next few years.

The second concerns the relationship between investment and employment. Although an increase in investment is a necessary condition for the creation of new jobs, it is not a sufficient condition. In the years preceding the present crisis the relationship between investment and employment became distorted. This distortion must be analysed and if necessary put right.

The third concerns the structure of jobs and qualifications. Within the labour market itself changes have occurred which are far from being ideal: the growth of rigidities and the change in the quality of jobs are a cause for concern which is not widely known and which call for corrective measures.

a) Sectoral trends

9. On the basis of the estimates presented in chapter II, the return to an average level of unemployment of around 3% for the overall Community would entail an increase of 3 to 4 million in the number of employed persons compared with the present situation.

10. A review of sectoral trends on employment in the recent past is illuminating on this point. It is known that past trends took the form of a steady decline in the primary sector (agriculture and mining), an increase in the tertiary sector (private and public services) and stabilization (and sometimes an increase) in the secondary sector (industry).

Generally speaking, the jobs created have been concentrated in the last fifteen years in the secondary and, above all, in the tertiary sector. In the secondary sector this mainly involved transfers of jobs, the number of jobs abolished being more or less equivalent to the number created.

TABLE 4
DEVELOPMENT OF EMPLOYMENT BY BROAD SECTORS OF INDUSTRIAL ACTIVITY

Sector	1960		1965		1970		1980	
	in millions	%	in millions	%	in millions	%	in millions	%
Primary sector (growth rate)	16.74	16.8	13.27 (-4.5%p.a.)	12.9	10.38 (-4.0%)	10.0	6.90 (-4.0%)	6.5
Secondary sector (growth rate)	41.38	41.5	44.97 (1.7%)	43.6	44.87 (0.0%)	43.3	44.02 (-0.2%)	41.3
Tertiary sector of which (annual rate)	41.66	41.7	44.93 (1.5%)	43.5	48.28 (1.4%)	46.6	55.75 (1.4%)	52.3
- private (annual rate)	30.35	30.4	32.17 (1.2%)	31.2	34.02 (1.1%)	32.9	37.83 (1.1%)	35.5
- public (annual rate)	11.31	11.3	12.76 (2.4%)	12.4	14.26 (2.2%)	13.8	17.92 (2.3%)	16.8
Total for the Community as a whole	99.78	100.0	103.17	100.0	103.53	100.0	106.67	100.0

11. What are the medium-term prospects for creating employment in the major sectors of activity? Despite the uncertainties already referred to, this subject may be surveyed briefly⁽¹⁾.

In the secondary sector, the number of jobs created cannot be expected to be much in excess of the number of jobs abolished. The pressure of competition, the hoped-for transfers of activity to the developing countries, the possible saturation of certain labour-intensive branches (the motor industry and, in some countries, the building industry) are likely to maintain the previous trend towards a large growth in productivity (highly capital intensive) and a slight increase (or even a slight decline) in employment.

12. The outlook for the tertiary sector is more varied, since this sector includes two types of activity.

The market-oriented services sector (commerce, banking and finance, personal services) have undergone rapid changes, which seemed to be marked, first by a great increase firstly in employment, then (from the end of the sixties) in productivity. Future prospects for this sector are uncertain: two factors could have an unfavourable effect: a slow-down in the development of demand for this type of service caused by the anticipated reduction in disposable household incomes and in the slow-down in the expansion of banking and finance; and a continuation of the earlier trend towards marked gains in productivity.

The public services sector also underwent large-scale expansion of employment - particularly in the spheres of education and health. Future medium-term development depends largely on political decisions but these will be determined by both financial constraints and demographic trends. The expansion in employment in the education sector will probably slow down because of the reduction in the number of children of school-age in most member countries, with the development of adult training exercising a partially compensatory influence. On the other hand the demand for health services should increase with the growth of population

¹See "Employment trends to 1980 in the Member States of the European Community" V/628/75.

in the older age brackets; the demand for day-nurseries seems equally likely to develop (with the access of married women to the labour market). Faced with such a demand for public services it is not possible at present to sketch out precise indications on the development of the resources available for public finance. But doubts must remain as to the possibility of seeing employment in the public services developing over the coming years at the pace which it has experienced between 1965 and 1973 for example.

13. Only an economic analysis of the future opportunities for the Member States to expand these two types of services would make it possible to assess more precisely their possible contribution towards creating jobs. The Group hopes that Community studies in the context of medium-term economic policy will make it possible to reduce the margins of uncertainty on this question.

In any case, the Group doubts whether spontaneous developments in the private and public economy will make it possible, in the medium-term, to increase the demand for labour to a level which will result in full employment. Constant pressures to improve the level of competitiveness and to control the growth of public expenditure are likely to prevail over measures for creating jobs. If this hypothesis is confirmed by future studies, it will be necessary to consider - in a more profound way than before - how to adapt demand to take into account the employment dimension.

B. Creation of jobs and investment

14. At the very point when the revival and the redeployment of the community economy implies a large increase in investment¹, a debate has begun in some member countries on the role of investment with regard to employment. The group could not avoid referring to this problem. It found it necessary, however, to stress the caution which should be applied in describing the complex relationships between investment and employment, relationships which must be described in the context of the overall economic process; furthermore the problems which will be examined below must be viewed in a medium-term perspective and do not put into question the absolute necessity of an immediate recovery in productive investment.

¹ It will be recalled that the creation of fixed capital in the Community has decreased by 9% between 1973 and 1975.

15. Investment plays a central role in the process of growth and the creation of jobs. On the one hand, it provides the tools of the trade and therefore conditions the creation of jobs. On the other, it is a factor in improving productivity and thus contributes to the displacement of existing jobs. The capital factor is therefore both the complement to and the substitute for the labour factor.

The achievement of full employment thus rests on a delicate balance aimed at achieving, at an overall level, the best possible combination of labour and investment. This combination is influenced in the medium term by technical developments, the composition of demand, and the relative prices of the two factors.

16. In the last two decades development in this sphere has been marked by a rapid growth in the capital employed per labour unit. This development, which is normal in any industrial society, should be related to the growth in value added per worker.

This rapid growth has had two main effects.

17. On the one hand, it has implied a growing increase in the amount of the national product devoted to investment. This trend, which already applies in the industrial sector, is equally marked in the tertiary sector for most member countries. There has also been a related growth in public investment.

TABLE 5

Gross Fixed Capital Formation (as a % of GNP)

<u>Country</u>	<u>1950-55</u>	<u>1956-61</u>	<u>1962-67</u>	<u>1968-71</u> ¹
Federal German Republic	20.2	23.3	25.7	25.6
United Kingdom	12.7	15.0	17.5	18.4
Italy	17.2	20.7	20.8	20.2
France	16.0	19.1	23.7	25.5
Netherlands	20.1	22.9	25.3	25.0
Belgium	n.a.	18.9	21.1	21.5
Denmark	14.9	17.2	21.6	21.6
Ireland	16.1	14.2	19.0	21.4
Luxembourg	n.a.	n.a.	n.a.	n.a.

¹1971 is the last year for which a comparable time series can at present be constructed. Source: Calculated from the national accounts of OECD countries.

18. On the other hand, studies carried out in some countries of the Community (particularly in France) have shown a tendency towards a decline in the value added per unit of capital employed. In order to limit the impact of this phenomenon on the overall productivity of factors and thus on the overall efficiency of productive resources a large growth in the productivity of labour has been sought. This development has led to the questioning, in these countries, of the productiveness and efficiency of the investment made; this has consequences for the volume and the quality of employment offered.

These observations, the second of which must still be examined in respect of the other Member States, lead to two important questions. The first concerns the volume of investment made: has it not been too large and somewhat strained in some countries at least, in relation to the potential of resources and growth, and has it not helped to fuel the inflationary process? The second question is more concerned with the orientation of investment: have they not been directed more towards the productivity of labour (and the displacing of jobs) than towards the total productivity of the factors of production.

19. The group was not in a position to explore these questions deeply, although it recognized their prime importance in the medium term. However, it did seem necessary to draw attention to two particular aspects of these problems.

Investment for rationalization and for expansion

20. The very difficult situation currently facing the majority of European undertakings, in terms of cash flow and profitability, leads to the conclusion that most of the investment expected during the next two or three years will be geared towards rationalization and productivity, which will reduce rather than create jobs. The larger the pay rises, the more pronounced this tendency will be; it may prolong still further the effects of the recession on employment.

21. It therefore seems justifiable to explore the spheres in which compensatory measures may be implemented to encourage investment that creates jobs. Public spending, where the profit motive is less compulsive, might lend itself to such action. In particular it is conceivable that the order of priority for the implementation of projects may be modified in favour of types of operations where the number of jobs created for a given level of expenditure is higher, whether these are jobs necessary for the implementation of projects or jobs which will be created as a result of their completion. Similarly, investment aids (particularly regional aids) could be supplemented by direct aids for the creation of jobs¹.

Changes in the relative cost of capital and labour

22. The relationship between investment and employment is partly determined by the relative costs of labour and capital. If the cost of labour per unit produced increases more rapidly than the cost of capital per unit, this will lead, all other things being equal, to an increase in the volume of capital employed per worker.

¹Chapter III.

23. In the normal growth process, changes in the cost of labour per unit produced are determined, roughly speaking, by the difference between the increase in real wages and the increase in productivity per worker. Changes in the cost of capital are governed by more complex factors of which the real interest rate, the effects of economies of scale, price trends (for investment made during previous periods) are the main elements. By and large, and over a period of years, the unit cost of labour in real terms has remained more or less stable or increased slightly, whereas the unit cost of capital in real terms has gradually diminished, mainly as a result of economies of scale and inflation.

24. The resulting pressure to increase capital per worker is a normal effect of the growth process. If the economy is to achieve an increase in real income, and in particular an increase in salaries, the value added per worker must increase. The growth of this added value is determined, among other factors, by the growth in capital available per worker .

25. However, this tendency may be aggravated by additional influences resulting from government action. The granting of interest rate subsidies, tax relief in respect of depreciation, and investment aids (regional or others) lowers the cost of using capital. Furthermore, the use of wages as the base for social security contributions and certain parafiscal charges lead to changes in the parameters within which the employer makes his calculations and tends to accelerate the substitution of capital for labour.

26. There are good reasons for thinking that the policies followed in most Member States for the last ten years have tended towards an increase in the cost of labour (particularly to finance the growing cost of social security) and a fall in the cost of investment ¹ greater than that which would have resulted from the sole effect of the respective prime costs of these two factors.

¹As far as investment is concerned, this trend has been partially offset, to varying degrees depending on the country in question, by the increase in taxation on capital and on profits.

27. This twofold incentive would be likely to increase the amount of capital used per worker and to contribute towards a certain over-capitalization¹. It may thus change the capital - labour relationship more than is strictly necessary to ensure growth.

However, the conclusions to be drawn from this should be treated carefully in the current economic climate. It is with the medium term in mind and in the light of a general study of the costs, objectives of, and alternatives to the different factors contributing towards this imbalance that one may hope to remedy it.

c. Growth and qualitative structures of employment

i) Structural change, growth, and increasing rigidities in the labour market

29. As stated earlier, economic growth - especially of the kind achieved in all EEC countries in the postwar period - is accompanied by a continuous process of destruction and creation of jobs. Such a process, when it is not sustained by particularly favorable circumstances (such as a substantial flow of immigration, or an inflow from agriculture, or a strong demographic increase), requires a considerable amount of mobility in the labour force; the movements of labour involved are of both a geographical and of an occupational character; they take place both between different jobs within individual firms, and between firms and between sectors.

This need for mobility was offset by two major trends which could be observed over the same period.

30. First, there seems to have been a tendency for training within industry to become increasingly specific to the needs of individual firms, while occupational-type skills applicable across industries or sectors have tended to decline in significance in most EEC countries. This development has in part been due to the pattern of post-war changes in employment structures. Economic growth has to

¹The Group of Experts regrets the absence of empirical studies on this problem at European level. Its reflections are based both on certain national studies (notably in France) and on widespread empirical observations.

some extent been accomplished by mobilizing additional adult labour for the secondary and tertiary sectors. Such additional workers did not in general offer occupational skills of any significance, so that recruiting enterprises were led to undertake changes in work organisation, personnel and training policies whereby such workers, in order that they might be employable quickly, were given short specific training limited to the requirements of the company. Thus the relative importance of existing or newly introduced occupational skills within the overall stock of labour force skills has declined.

At the same time, the expansion of secondary and university education had the effect of reducing interest in conventional occupational training at a sub-academic level.

31. Secondly, and in response to the pressure for mobility, labour law, collective bargaining, and industrial relations practices tended to increase guarantees attached to specific jobs, thereby reducing the mobility of the labour force already employed. This was a major factor in the establishment of barriers between primary and secondary labour markets, which ultimately left the latter outside the sphere in which jobs were protected.

32. The conflict between economic requirements for a high degree of mobility on the one hand, and strong structural and institutional obstacles to mobility on the other, is likely to produce inflationary effects on economic growth in several ways, and sharpen the inflation-employment dilemma:

- (a) the experience of several countries shows clearly that a reduction in the level of activity (employment), induced or tolerated to fight inflation, affects mainly the secondary market; meanwhile, wage pressures in the primary labour market are not reduced.

- (b) furthermore, the factors mentioned may result in increased pressure - by means of direct or indirect subsidies - for the maintenance of jobs which have in fact been rendered obsolete by economic change;

(c) finally, the resistance to mobility of large sections of the labour force increases - at high levels of employment - the wage drift in those areas where labour requirements are increasing; additional labour for such sectors can only be mobilised by offering above average wage rates.

33. Attempts to increase the general level of mobility of the labour force - for instance, by increasing public support to vocational training - have most often been on such a small scale that they were not able to counteract the influence of the factors mentioned above.

The expansion of public effort has often been too late or too modest in terms of the numbers of training places created and the levels of training given. To date at least, such publicly organised vocational training programmes have not succeeded to a significant extent in developing new outlets for those trained.

34. Further consequences of the trend to a greater degree of enterprise-specific training should also be considered. Labour markets in which enterprise-specific skills predominate are characterised by strong (mutual) attachments between workers and specific plants, which gives rise to a high risk of friction in the event of changes in job structure or the organisation of the enterprise. The increase in the cleavage between primary and secondary labour markets is also indicated by the growth in the proportion of young persons among those unemployed at times of economic recession. If publicly organised education and training are directed towards general, not immediately productive, skills, then school-leavers are of little immediate use to enterprises. Such enterprises look upon the young as potential acquirers of plant-specific skills rather than as already possessing effective knowledge. Thus when profits and prospects are uncertain during recession, the recruitment of school leavers is postponed and the queue of school leavers attempting to enter the primary labour market lengthens.

ii) Training and skill requirements of the economy

35. A generally accepted idea is that growth and increases in productivity imply a general increase in qualification levels. Vocational training - likened to human capital investment - is thus identified as a major condition of full employment and of growth. In reality the observed development is far more complex and requires closer examination.

36. Until the present, the expansion of education systems and of the economy were closely linked. Growing prosperity enabled an increasing number of parents to provide for their children a better, and longer period of schooling than they themselves had received. Economic expansion thus generated a growing demand for training, imparting a definite stimulus to its expansion.

At the same time economic growth was itself creating the conditions for the expansion in education. The increased social product enabled more resources to be devoted to the public education system; these resources existed thanks to growth in labour productivity, which compensated for the decline in the available labour force resulting from higher school leaving ages.

Then again it was accepted without question that growth in the economy and in productivity on the whole increased the demand for qualifications by workers and consequently led to extensions and improvements in education and training.

37. But for some years it has been apparent that in the field of training this presumed convergence of social desires on the one hand and economic needs on the other is not automatic; it will be difficult to bring about spontaneously.

On the one hand, productivity gains achieved in many sectors of industry, and more recently in services, have come about through mechanisation and rationalisation. This has increased the number of simple jobs available, those which need little skill but are psychologically and physiologically taxing; at the same time a growing number of workers, particularly the younger generation, seem less keen to accept jobs of this kind.

Because of this, in many countries of the Community, despite the growing underemployment of the national labour force, it has been necessary to bring in from less developed countries foreign workers who are less demanding, to take these jobs at the bottom of the qualifications ladder, which are suited neither to the level of education nor to the characteristics of national workers.

38. On the other hand, in the majority of the member countries, the response to the increasing demand for education has mainly taken the form of a numerical expansion in the most attractive (and often most expensive) forms of education, without any significant change in their qualitative content. The higher levels of training and qualifications have mainly taken the following form: a growing number - but still a minority - of young people entering traditional institutions for higher qualifications (colleges and universities) despite the limited possibilities of an increase in the number of jobs requiring these qualifications (education, research and senior posts in management and administration).

Consequently, there is the threat, just as soon as the internal needs of the education system have been provided for, of an excess of university graduates.

There are grounds for thinking that a growing divergence has loomed up, in the majority of European countries, in the past two decades, between the employment structure and the education system: this divergence makes it more and more difficult to achieve the necessary equilibrium between on the one hand the labour requirements of the economy, and on the other hand, the output of the education system. This could have serious consequences for the labour market.

39. In order to achieve in the long run a better balance between aspirations relating to training and the quality of work on the one hand and economic requirements on the other, two approaches are conceivable:

The first would consist of halting the increase in secondary and university education, even of bringing them back to the level of ten or twenty years ago. This path is strewn with conflicts and problems such that it seems politically unrealistic and economically not worth while.

The second would consist of changing the structure of jobs offered to young people in adapting job requirements to suit young people's potential abilities and working conditions to meet the aspirations; it would presuppose in particular that the member countries orient their structures or production methods (industry and services) much more than in the past, to those activities offering the greatest possibilities for innovation requiring high levels of qualifications.

40. The growing disequilibrium between the type of qualifications required and those brought on to the labour market seems closely linked to the type of expansion which has prevailed for the past twenty years in the majority of the member countries.

41. To show this, reference should be made to the distinction between two types of industrial development. The first is based upon innovation in production methods; it resorts to increasing doses of capital, to reduce the unit labour cost, and leads to product standardisation.

The second is based upon innovation in products, without necessarily implying any increase in the capital intensity of the production process. (A similar distinction can be made in the service sector).

42. The most wide-spread type of production innovation (innovation in methods) as a general rule lead to the polarisation of labour needs to the two extremes of the qualification spectrum and with a predominant trend of dequalification. On the other hand, product innovation always requires a higher average level of qualification; this cannot be generally achieved at reasonable cost except where the majority of workers are reasonably highly skilled.

43. In many sectors of the Community's economy highly capital intensive procedures predominate, with a rate of innovation high in production methods but low in products; this is the case for cars, television sets, household equipment. These are also precisely the sectors in which low skilled labour, working in more difficult conditions, form a large, and until now increasing part of the work force.

44. The above considerations throw new light on the relationships between growth, employment and working conditions. The group was not in a position to go more deeply into the more important implications.

It noted with interest the study which the Commission services have undertaken to examine certain salient aspects and hopes that the months to come will allow a deliberation on the conclusions which should be drawn for economic and social policy.

45. Taken together, the considerations presented in this chapter suggest that the new balance of growth which should be sought in the medium term cannot simply involve a unilateral adaptation of the labour force to the structure of demand. It will be necessary to find ways to adapt the structure of demand to the characteristics of the work force of the Community.

CHAPTER V

CONCLUSIONS

1. Two major observations should be made with regard to medium-term employment prospects. Firstly, on the basis of the experience of the last fifteen or twenty years, it now seems to be an established fact that an overall policy of growth, however necessary it may be for the maintenance of employment levels, is not in itself sufficient to ensure full employment. Secondly, the very possibility of achieving this growth seems in no way guaranteed under such favourable conditions as during the last two decades.

2. During the period of prosperity which Europe has just experienced, disputes have arisen about work or working conditions. These disputes may well be the product of prosperity and they may well diminish with the coming of more difficult times. But it would be particularly hazardous to base an economic and social policy on such an assumption. On the one hand, it would encourage the temptations to take restrictive action (protectionism, rejection of change, increased rigidity on the labour market). On the other hand, it would accentuate misunderstandings between those responsible for economic policy and the general public : the continued high rate of unemployment, with a strong concentration among young persons, against a background of gradually increasing competition runs a serious risk of aggravating previous disputes by transferring them towards a more basic target. A society which is not in a position to offer jobs to those who are looking for them should not be surprised if one day the very role of work as a social value is questioned.

3. One of the most alarming factors in this context lies in the frequent confusion between the risks of prolonged underemployment and promises of a post-industrial society geared towards leisure and high productivity. To make this comparison would mean forgetting two essential points. The first is Europe's position of dependence for its supplies, especially since the energy crisis. The second is the difficulty, in a period of low growth rate, of achieving the redistribution and reorganization which are necessary in order to prepare for the post-industrial era.

4. For these reasons the Group has concentrated on finding ways in which the risk of prolonged underemployment could be avoided. It has been forced to conclude that the line followed until now has led to subordination of the search for individual satisfaction to promotion of consumer values rather than to the overall development of human resources.

5. It now seems very difficult to regard employment as the passive result of a process partly governed by all the policies applied in the economic and financial sphere and partly by the slow development of educational systems. One of the most definite conclusions of the Group is that a policy for employment is bound to fail if it does not deal substantially with a whole series of problems which play a decisive role in employment; thus, it will remain mere verbiage if the concern with employment is not projected into the policies governing these various aspects.

6. Such a step would demand changes in the deep-rooted attitudes and methods which are currently dominant in many sectors of economic and social policy. It is hoped that the following suggestions, which do not claim to be exhaustive, will contribute towards progress in this sphere.

7. These are arranged at three levels. The first ones concern certain misunderstandings which currently prevail in the sphere of economic policy and which seem to explain the pattern of decisions observed in the preceding chapters. A second level concerns activities directly affecting employment. A third level concerns studies, where major gaps are apparent.

These suggestions are mainly designed to be used as background to discussions at Community level, and may need to be reexamined in the light of the

reactions noted at that time.

A. - Refining the standards of macro-economic policy

8. The standards governing general economic policy involve several half truths whose use produces, in the long term, harmful results. Two of them should be pointed out in view of the serious errors to which they have led :

a) A too simplistic view of unemployment

9. Unemployment is used as one of the decisive indicators of demand. An increase in it releases growing pressures of public opinion demanding reflationary measures; when it drops below a certain level, this leads to pressures in the other direction for restrictive measures.

10. Just because of its symbolic significance, this indicator does not seem to have always been judiciously used. Firstly, by restricting their analysis more, often than not to total unemployment figures, economists have ignored certain aspects which are particularly pertinent when deciding on general measures of control. Failure to appreciate the structures of unemployment (in terms of its duration, levels of qualification, and categories) has frequently led to political decisions to deal, by modifying overall demand, with situations which should have been met by more specific structural action, either for certain categories of workers or in certain specific areas of demand.

11. This trend is also supported by the very widespread feeling that an expansionist policy is a cheap way of reducing unemployment, whereas structural measures represent a heavy financial burden on public finances. The economic cost of inflation is only apparent a posteriori and is difficult to attribute to one particular measure. The financial cost of structural measures, on the other hand, is apparent from the beginning. In order to remedy this state of affairs, the Group makes the following recommendations :

aa) data concerning the composition of unemployment should be integrated more systematically into assessments for economic policy not only from a regional point of view but also as regards duration, levels of qualification and the categories of persons involved. The establishment of agreed statistical indicators would ease the dialogue between those responsible for economic policy and those responsible for employment;

bb) in order to give a clearer presentation of economic policy choices there should be a constant effort to distinguish more clearly those elements influencing unemployment which are directly connected with the level of economic activity ("short-term economic factors") from those which result from the misdirection of demand (structural weaknesses of exports, for example), or from the regional distribution of activities, or from structural discrepancies on the labour market. Such an analysis is difficult, but it is essential for economic and financial policy. It is particularly necessary at Community level in order to be able to assess the significance of an indicator like unemployment, particularly in the coordination of economic policies ;

cc) joint discussions in the problem of unemployment should be encouraged in particular with both sides of industry. There have been considerable developments in the significance of this phenomenon in the last fifteen years, notably because of the changes which have taken place and the improvement in social protection. But it gives rise in public discussions to rather rigid attitudes, very often centred on a search for panaceas and which do not really favour the search for lasting solutions to the employment problem.

b) Misunderstandings concerning the role of investment and productivity.

12. To meet the need for decision and action, economic policy has simplified the role of investment in the growth process. By dint of stressing in internal and public discussions its role in expansion and innovation, there has all too often been a tendency to pass over the side-effects to which it may give rise (1).

(1) cf. Chapter IV.

13. Two particularly striking effects of this schematic view should be pointed out here. Firstly, as far as public spending is concerned, government investment is regarded as a positive forward-looking step, whereas government spending on consumption is regarded as "running costs", or even waste. The most obvious consequences of this distinction appear in the systematic bias which has developed during the sixties in many Member countries towards "large-scale projects" and "cathedrals in the desert" and in the consequent penalization of maintenance work. It is perhaps useful to stress that an investment operation always involves risks and may lead to waste; conversely, public consumption fulfils social functions which, in varying degrees, may involve an element of investment not incorporated in the physically tangible form of capital goods (expenditure on training, health).

14. This same distinction is found again at macro-economic level : investment aid is regarded as good, and direct aid to the creation of jobs as dangerous, because it contains the risk of perpetuating non-competitive structures and because it is more difficult to control (1), etc.... But when, in each of our countries, the number of jobs created thanks to investment aid is announced, nothing is known of the number of jobs which have had to be abolished as a result in that country or in another one.

15. There is no simple alternative to the oversimplified distinction which has just been pointed out. It is not a question of turning back or repudiating the macro-economic analysis and the national accounting concepts which give rise to this distinction. But it must be acknowledged that the reality is more complex than these would suggest.

Accordingly, the Group considers that it should put forward the following suggestions :

aa) in analyses of the effects of investment, the income multiplier is generally adopted as the basic concept. It seems increasingly necessary to regard the employment multiplier as an autonomous term and to develop its application for the same reasons as the income multiplier. "Employment matrixes" should be developed to supplement the data supplied from national accounts ;

(1) cf. Chapter III

bb) the generally favourable attitude towards investment is often a result of shortcomings in methods of analysis and control of public expenditure. A study should be made of the extent to which an improvement in these methods would make it possible to influence this attitude. The role of budgetary classifications could also be examined ;

cc) lastly, decentralization measures, which bring the decision-making process nearer to those governed by it, would be likely to make this attitude less widespread.

16. But, in addition to these remedies, a more important question arises : since physical investment is not the only factor in increasing overall productivity, what concepts should be developed in order to enable economic policy to escape from the very narrow stereotype which tends to identify promotion of investment with growth in productivity ?

B. - Development of measures to counteract the trend towards underemployment

17. The observations made in the two preceding chapters on the problems of creating jobs underline the need to increase the present provisions and to look for possible new solutions. The Group advocates two approaches on this matter :

- a) the development of incentives for a greater use of labour ;
- b) the examination in the longer term of forms of economic development capable of creating jobs which are "profitable", from a social point of view.

a) Incentives for a greater use of manpower

18. The analyses set out in this report have been sufficiently qualified to prevent them being interpreted as a rejection of investment and productivity. It is basically a question of directing overall and sectoral developments towards an improvement in the mix between the factors of labour and capital.

19. The chief approaches to be examined in this connection are :

- the review of taxes on labour and aids to capital, taking into account their effects in encouraging or penalizing the utilization of these factors ;

- the introduction of direct premiums for the creation of jobs (in the secondary and tertiary sectors) which would apply both to firms and to local authorities ;

- the development of additional devices to stimulate employment by means of public aid for local employment initiatives, and particularly for operations fulfilling specific social objectives and involving little capital expenditure (example : environmental improvements in town or country, elderly persons, etc.).

b) Examination of the future potential for creating jobs

20. There is an inclination to take in view that, as regards the more advanced countries in the Community, new jobs should be created mainly in the services sector (chapter IV, B, 3). However, this approach is hindered by restraints concerning not the nature or acuteness of the underlying needs, but the way in which they are financed (constraints arising from the need to balance the budget and the limit of the burden of taxation).

The Group considers it is important that this problem be studied in detail at Community level in view of its significance for the balance of employment in the longer term.

C. - Detailed study of problems concerning the dynamics of employment

21. Knowledge of the dynamics of job creation and suppression is very limited. It is of prime importance in the context of the next few years. Although it has not given a detailed list of the studies to be undertaken, the Group has noted several fields by way of example where progress could be achieved and which would be likely to give the national and Community level discussions a firmer basis.

a) Little is known in Europe about questions concerning the productivity of capital and capital intensity; very few studies have dealt with these subjects in the last ten years in Europe, and the recent observations referred to in Chapter IV

are limited to one or two countries. They should definitely be examined in detail.

b) The behaviour of individuals with regard to employment and particularly to employment changes is governed by a complex series of factors, including housing conditions, social security schemes, etc. The importance of these factors often tends to limit the effect of direct action (for example, mobility aid or training). Concrete studies on interaction between these different factors, in relation to employment behaviour, would be likely to shed light on the decisions to be taken. It is also essential that those responsible for employment and public finances should consider jointly the costs and respective advantages of employment protection measures, of employment promotion measures, and the best way of distributing public effort between them.

c) Very little is known about the trends and changes that have occurred regarding job content and qualifications. The majority of economic decisions are taken on the basis of rather rudimentary axioms which treat employment as a whole and claim that any adjustments to it could be effected by making large-scale use of training (or foreign labour). It seems essential, despite very understandable difficulties, to make a comprehensive assessment of major trends regarding job content. In the absence of such information, there is a risk of errors of judgment with serious consequences for economic balance and social development. The Group considers that it will be difficult to exercise control over future developments without a greater effort on the part of experts in the field of employment and training to formulate and communicate their comments to those responsible for economic and financial policy.

ANNEXES

TABLE A 1

Unemployment (% of active population)

Country	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
F.R. Germany	0.7	0.6	0.7	0.6	0.5	0.6	1.7	1.2	0.7	0.6	0.7	0.9
United Kingdom	1.1	1.6	1.9	1.4	1.1	1.1	1.9	2.1	2.0	2.2	2.9	3.2
Italy	3.4	2.9	2.5	2.7	3.6	3.9	3.4	3.5	3.4	3.1	3.1	3.6
France	1.0	1.2	1.4	1.1	1.3	1.4	1.8	2.1	1.6	1.7	2.1	2.3
Netherlands	0.8	0.8	0.8	0.7	0.8	1.0	2.0	1.8	1.4	1.2	1.4	2.4
Belgium	2.4	2.0	1.7	1.5	1.7	1.8	2.4	2.9	2.3	1.9	1.9	2.3
Denmark	n.a.	n.a.	n.a.	n.a.	1.2	n.a.	1.2	n.a.	1.1	0.7	1.1	0.9
Ireland	5.0	4.8	5.0	4.7	4.6	4.7	5.0	5.3	5.0	5.8	5.8	6.4
Luxembourg	n.a.											

NOTE : n.a. = not available

SOURCE : O.E.C.D.

TABLE A 2
Total Population

Country	Absolute Number (in thousands)					Annual Rate of Increase (%)			
	1965	1970	1975	1980	1985	1965-70	1970-75	1975-80	1980-85
F.R. Germany	59.014	60.596	61.720	62.743	63.995	0,53	0,37	0,33	0,40
United Kingdom	54.520	55.870	57.167	58.607	50.154	0,49	0,46	0,50	0,52
Italy	52.443	54.303	56.375	58.093	59.597	0,70	0,75	0,60	0,51
France	48.562	50.524	52.256	54.413	56.708	0,80	0,68	0,81	0,83
Netherlands	12.211	12.958	13.655	14.395	15.098	1,19	1,05	1,06	0,96
Belgium	9.428	9.660	9.749	9.805	9.866	0,49	0,18	0,11	0,12
Denmark	4.741	4.901	5.010	5.107	5.189	0,67	0,44	0,38	0,32
Ireland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Luxembourg	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
COMMUNITY						0,65	0,57	0,56	0,56

SOURCE : O.E.C.D.

TABLE A 3

Active Population

Country	Absolute Number (in thousands)						Annual Rate of Increase (%)				
	1965	1970	1975	1980	1985		1965-70	1970-75	1975-80	1980-85	
F.R. Germany	27.300	26.443	26.320	26.787	27.465		- 0,64	- 0,09	0,35	0,50	
United Kingdom	26.049	25.637	25.747	26.548	27.433		- 0,32	0,09	0,61	0,66	
Italy	20.964	20.169	20.357	20.997	21.633		- 0,77	0,19	0,62	0,60	
France	20.439	21.339	22.333	23.721	25.253		0,87	0,91	1,21	1,26	
Netherlands	4.502	4.730	4.819	4.947	5.148		0,99	0,37	0,53	0,80	
Belgium	3.783	3.864	3.956	4.080	4.181		0,42	0,47	0,62	0,49	
Denmark	2.140	2.237	2.316	2.363	2.430		0,89	0,70	0,40	0,56	
Ireland	n.a.	n.a.	n.a.	n.a.	n.a.		n.a.	n.a.	n.a.	n.a.	
Luxembourg	n.a.	n.a.	n.a.	n.a.	n.a.		n.a.	n.a.	n.a.	n.a.	
COMMUNITY							- 0,14	0,27	0,67	0,74	

SOURCE : O.E.C.D.

TABLE A 4

Population of Working Age

Country	Absolute Number (in thousands)						Annual Rate of Increase (%)			
	1965	1970	1975	1980	1985	1965-70	1970-75	1975-80	1980-85	
F. R. Germany	38.667	38.279	38.266	39.209	41.047	- 0,20	- 0,01	0,49	0,92	
United Kingdom	35.309	35.289	35.544	36.443	37.577	- 0,01	0,14	0,50	0,61	
Italy	34.617	35.308	36.084	36.969	38.769	0,40	0,44	0,49	0,96	
France	30.243	31.501	32.477	33.610	35.621	0,82	0,61	0,69	1,17	
Netherlands	7.586	8.098	8.562	9.053	9.522	1,31	1,12	1,12	1,02	
Belgium	5.995	6.088	6.041	6.349	6.577	0,30	- 0,15	1,00	0,71	
Denmark	3.076	3.159	3.215	3.278	3.363	0,53	0,35	0,39	0,51	
Ireland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Luxembourg	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
COMMUNITY						0,29	0,31	0,59	0,90	

SOURCE : O.E.C.D.

TABLE A 5

Active Population Compared with Total Population (%)

Country	1965		1970		1975		1980		1985	
	Popul. tot.	Popul. act.								
F.R. Germany	100,0	46,3	100,0	43,6	100,0	42,6	100,0	42,7	100,0	42,9
United Kingdom	100,0	47,8	100,0	45,9	100,0	45,0	100,0	45,3	100,0	45,6
Italy	100,0	40,0	100,0	37,1	100,0	36,1	100,0	36,1	100,0	36,3
France	100,0	42,1	100,0	42,2	100,0	42,7	100,0	43,6	100,0	44,5
Netherlands	100,0	36,9	100,0	36,5	100,0	35,3	100,0	34,4	100,0	34,1
Belgium	100,0	40,1	100,0	40,0	100,0	40,6	100,0	41,6	100,0	42,4
Denmark	100,0	45,1	100,0	45,6	100,0	46,2	100,0	46,3	100,0	46,8
Ireland	n.a.									
Luxembourg	n.a.									
COMMUNITY	100,0	43,6	100,0	42,0	100,0	41,3	100,0	41,6	100,0	42,0

SOURCE : O.E.C.E.

ANNEX B

TERMS OF REFERENCE

The experts of the group on Employment Prospects will carry out the following tasks in 1975:

- 1) define the major factors and trends affecting the development and utilization of the potential work force in Member States over the next few years;
- 2) identify the zones in which action should be awarded priority in order to direct such trends towards full employment and search for the most appropriate solutions for these zones of action;
- 3) define more specific guidelines or recommendations for some of these fields of action. These guidelines will be presented either by the Group as a whole or in the form of differing opinions expressed by the individual members of the group.

The contribution of each expert will cover both participation in the drawing-up of a joint report, and the provision of individual contributions, both during the work and for a possible supplement to the report.

The contractor undertakes to maintain necessary contact with the Commission and the other members of the "Employment Prospects" group with a view to carrying out the work referred to above.