COMMISSION OF THE EUROPEAN COMMUNITIES

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Brussels, 24 November 1993

Commission Recommendation

for the

Broad Guidelines of the Economic Policies

of the Member States and of the Community
drawn up in conformity with
Article 103(2) of the Treaty on European Union

***"Restoring growth and employment
- strengthening convergence"***

Commission Recommendation

Article 103 of the Treaty on European Union provides the framework for economic policy coordination from the start of Stage II of the process towards Economic and Monetary Union. The economic policy guidelines adopted under this article will constitute the reference for the conduct of the economic policies in the Community and in the Member States.

Main Objectives

The Community should aim to substantially increase employment creation so as to cut significantly the present high unemployment levels. A decrease in unemployment is imperative to reduce the negative economic and social consequences arising from this wastage of human resources. Higher employment creation is also necessary to achieve a more active society where all those wishing to join in the production process are given a chance to do so and where the weight of the factors leading to social exclusion is substantially reduced. Reducing unemployment, for instance cutting it by half by the year 2000, would imply the creation of at least 15 million new jobs.

This employment objective should be obtained by a non-inflationary, strong and employment-creating growth, lasting over many years and respecting the environment. Higher growth is essential not only in relation to employment creation but also to enable the Community to reap the benefits of the internal market, to improve its economic and social cohesion and to meet its growing commitments in relation to the rest of the world. But growth cannot be artificially generated, it must be brought about mainly by market forces and by the dynamism of the European internal market, open to the outside world.

Achieving higher sustainable growth also requires a strengthening of economic convergence among Member States. Convergence will set in place the conditions for stronger job creation and will allow the Community to reap the full benefits of the internal market. It will also make possible a successful transition to EMU.

In this respect the task of policy-makers is to allow market forces to display their full potential by:
i) providing a stable and coherent macroeconomic framework;
ii) removing the macro and microeconomic obstacles to growth.

In the present situation the challenge is a dual one. ***Firstly***, to act decisively to support growth in the short-term without putting at risk the commitment to high employment creation in the medium-term. ***Secondly***, to create the conditions which will permit a stronger, durable and more employment intensive growth in the medium to longer term.

Igniting the recovery process will require a restoration of confidence through a rebalancing of the current macroeconomic policy mix combined with credible structural measures. Lower interest rates, achieved on a sound basis, represent the most potent instrument presently available to boost short-term prospects in the Community. The sooner current and expected pay and budgetary trends incorporate the stability objective, the sooner interest rates can be further reduced substantially on a sound basis. Given the severity of the present situation, however, and the size of the budgetary adjustment to be undertaken in many countries, the recovery process may well be modest and hesitant. In these circumstances it may be necessary to envisage an intensification of the Community initiatives agreed at the European Council meetings in Edinburgh and Copenhagen.

In the medium-term policies and behaviour must remain consistent with stability. They must help to overcome rigidities and to put an end to the damaging reduction of national saving inflicted by high budget deficits, thereby strengthening the investment conditions and the growth potential of the Community so that many years of stronger, and more employment-creating, growth becomes possible.

Policy Guidelines

In order to create the conditions to realise the Community's employment / unemployment objectives, the Commission recommends to the Council to adopt the following broad economic policy guidelines.

Price and Exchange Rate Stability

The Community will aim to keep a stable macro-economic framework. A rate of inflation of no more than two to three per cent should be reached for the Community average by 1996.

Achieving this target implies that all policies and behaviours should be consistent with this stability objective. Those Member States who have already reached this target range should ensure that policy measures are consistent with the maintenance of this performance. For the other Member States, more courageous initiatives are needed involving determined action in relation to budgetary consolidation and to the wage evolution in order to allow a loosening of monetary policy on a sound basis.

If these measures are implemented with sufficient speed, short term interest rates could come down rapidly and long term rates would follow as inflationary expectations are stabilised.

The high degree of integration and the reaping of the benefits of the single market demand that the Community continues to aim for exchange rate stability built on sound economic fundamentals embracing both nominal and real variables.

The Community reaffirms its commitment to the EMU process and timetable as agreed in the Treaty on European Union. To this end it will intensify its efforts at achieving economic convergence.

Sound public finances

The restoration of confidence requires that ***in 1994*** Member States prevent any further deterioration in their budgetary situations and aim to start the process of deficit reduction. In those Member States facing more worrying fiscal positions, confidence will benefit from an immediate strong pursuit of the consolidation process. This holds especially for Member States with very high and rising public debt ratios. The consolidation process should also start in those Member States expected to face a relatively favourable economic situation in 1994. In other Member States tight control of budgets will be necessary in 1994 but the emphasis should mainly be on credible medium-term consolidation strategies with measures to be already announced now which will take effect in future years as the recovery strengthens.

From 1995, the Community will aim at making its public debt position sustainable again. Under the expected growth path for the years ahead, this means reducing budget deficits to the reference value indicated in the Treaty on European Union (three percent of GDP). The Community could achieve this goal by 1996/97. Most Member States have the potential to reach this goal by 1996, with the others needing more time.

The measures used to consolidate public budgets will give priority to reductions in current expenditure and to improving the efficiency of the tax system. All Member States need to re-orient public expenditure to more productive uses and to increased investment in particular. In addition, it is necessary to adapt the tax system in a way which will contribute more to employment creation. Reductions in employers' social security contributions in a number of Member States, especially for the lowest paid and for younger workers, are particularly important in this regard although any action taken will clearly need to be revenue neutral given the scale of the budgetary adjustment to be achieved in many countries.

In the long term, Member States budgetary policies will be directed towards contributing to higher national savings and investment. This will entail much lower budget deficits (perhaps close to balance by the year 2000).

Creating more employment

Member States and the Community will take determined action to improve the functioning of their economies, aiming specifically at improving competitiveness and the Community's underlying capacity to create jobs. Such structural measures will be highlighted in the forthcoming White Paper on "Growth, Competitiveness and Employment"

In addition to the micro-economic measures to be presented in the White Paper the overall evolution of wages and salaries will play a crucial role in creating jobs. To this end, governments and the two sides of industry will use all the instruments that national arrangements put at their disposal to ensure that wage developments in the Community adapt rapidly to the agreed inflation objective.

In the short term, the need to create new jobs will not allow for real wage increases in most countries. Once the recovery sets in and real wages will be able to increase again, wage developments will allow an increase in investment profitability by keeping real wage increases below productivity growth. For example, between 1982 and 1989 real wages per head increased by about one percentage point less per year than productivity growth. Furthermore, the wage evolution will provide for an appropriate differentiation according to member countries, regions, vocational qualifications and work experience.

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The policy guidelines laid out above will form the central core of all future multilateral surveillance exercises. The broad framework for, and assessment of, Member States convergence programmes will be established by the guidelines. By laying out a credible and coherent implementation programme for the broad policy orientations, individual convergence programmes will act as symbols of the degree of political commitment which individual Member States attach to the Community's overall policy objectives for the year 2000.

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