

COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION OF THE COMMISSION
TO THE JOINT MEETING OF MINISTERS OF FINANCE AND ECONOMIC AFFAIRS
AND EMPLOYMENT AND SOCIAL AFFAIRS

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Contents

1. Introduction
2. The economic situation : prospects and uncertainties
3. Community initiatives in the economic and social field
 - (i) Strengthening the economic environment
 - (ii) Reorganisation of working time
 - (iii) Increase of employment opportunities for young people

Communication of the Commission to the joint meeting

of Ministers of finance and economic affairs,

employment and social affairs,

16 November 1982.

1. Introduction

In response to the increasingly acute problem of unemployment in the Community, the European Council in 1981 summoned a Joint Council, with the participation of Ministers of finance and economic affairs and of employment and social affairs. This was held in Luxembourg on 11 June 1981. The purpose was to develop a higher degree of mutual understanding of all aspects of the unemployment problem and to examine in common the economic and social situation and the scope for further Community initiatives aimed at complementing and strengthening adjustment policies in the Member States.

The Joint Council, in particular, examined ways to improve the general economic environment, to reduce unemployment and to increase the capacity of our economies to adapt to economic changes. The Joint Council expressed interest in examining the experience of some Member States with respect to adaptation of working-time and stressed the importance of combatting youth unemployment and of ensuring appropriate professional experience for young people. The anxieties which prompted the calling of the 1981 Joint Council, however, have been increased rather than allayed since then by the trend in unemployment and other economic indicators. This reinforces the need for a comprehensive strategy of recovery, comprising a range of policies which can together call forth a stronger social consensus.

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The present Communication, after a short analysis of the current economic situation and prospects, takes stock of developments on various points of interest to the Joint Council and identifies areas where particular further Community initiatives and coordination efforts are required. The discussion should also take into consideration the various communications and proposals to the Council which are under examination.

The Commission wishes to underline that these communications and proposals together aim at providing a more comprehensive strategy to cope with the present economic difficulties. The Commission asks the Council to express its support both for the actions figuring in this Communication and for the other initiatives already proposed to the Council.

2. The economic situation: prospects and uncertainties

Since June 1981, unemployment has increased sharply and by September 1982 exceeded 11 million persons (more than 10 % of the labour force). This deterioration is inter alia the result of the poor growth performance in the Community since then : the Community's gross domestic product hardly rose at all during the second half of 1981 and stagnated in the first half of 1982, mainly as a result of weak trends in exports (+ 0,3 % over the second half of 1981) and in investment (- 3,8 % over the second half of 1981) in the Community.

Although the rate of inflation has been reduced in 1982 to about 10 % on average for the Community the divergence of inflation rates among Member States remains very high with the increase in consumer prices ranging from 23 to 5 %. The deficit on the current account of the Community's balance of payments, which reached 1,4% of gross domestic product in 1980, may be reduced to 0,7 % of GDP in 1982. The general government borrowing requirement, on the other hand, is estimated at 5,0% of GDP in 1982 or almost the same as in 1981. In both these areas differences between Member States are very large, with budget deficits ranging from 15 % to less than 1 % of GDP and external deficits reaching 9 % of GDP in one case while some Member States record a surplus up to 4 % of GDP.

The annual number of net entries into the labour force in the early 'eighties remains for the Community as a whole close to one million people (1). Over this decade the net entries will gradually decline, but remain positive. In order to achieve a noticeable reduction of unemployment, in addition to absorbing the net entries, the total number of jobs in the Community would, therefore, have to increase by considerably more than 1 million per year over the next few years.

The medium-term outlook for economic growth and employment remains bleak. The reasons for the new and unexpected weakening of economic prospects are complex :

- the high level of interest rates resulting from instability and disorganisation of the international monetary system has certainly been a major factor;
- moreover international trade has stagnated : indeed the financial difficulties of many less developed countries as well as some centrally planned economies have forced them to reduce their imports from the Community. At the same time many OPEC countries were to an increasing extent limiting their purchases from abroad;
- within the industrialised countries many firms have experienced increasing problems in servicing their debts and have consequently been cutting down on investment, stockbuilding and employment.

The present economic difficulties are not only due to these factors, but also to the Community's difficulty in adapting to changes in the economic environment and in undertaking necessary structural and institutional adjustments :

- too little has been accomplished in terms of substitution of oil by other energy sources; as a result the Community's dependence upon imported oil remains excessive;

(1) Unpublished estimate calculated by Eurostat on the basis of 1979 participation rates.

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- in many Member States, income formation has taken insufficient account of the need to maintain a profitable and dynamic enterprise sector;
- despite considerable efforts to contain the rise in social expenditure several Member States have been unable to adapt the level and particularly the growth of public expenditure to conditions of slower GDP growth; as a consequence budget deficits in some countries have increased to such proportions that their financing is creating serious internal or external problems;
- moreover, faced with the need to contain budget deficits, governments have tended to reduce the share of those public expenditure categories which contribute directly to economic development as well as to improved competitiveness and thus to the conditions for higher employment;
- existing rigidities in the labour market have been reinforced by the reluctance of the workforce to contemplate geographical and occupational mobility in the face of increasingly insecure employment, housing difficulties and a lack of vacancies for other family members.

In any case these difficulties as well as the structural measures necessary for finding lasting solutions require that all the social partners be willing to cooperate effectively in the creation of a better social consensus.

3. Community initiatives in the economic and social field.

Europe's most pervasive problem is now the high and growing level of unemployment. Given the severity of the current recession and the recent sharp aggravation of unemployment, economic and social policy in the Community should be geared even more directly towards the creation of an economic environment more favorable to employment creation. The Commission has already presented in several occasions the economic policy measures which it considers appropriate to this end : the Commission wishes to

underline yet again that these measures, - which must be taken at national and Community levels, are absolute pre-conditions for a lasting improvement in the employment situation in the Community. These economic policy measures concentrate on stabilising the international monetary and financial situation, on improving the competitiveness of the economy and on building on the achievements of the fight against inflation. The dangers and risks of the present economic situation can only be checked and reversed if the appropriate policies are backed by a stronger social consensus and a broader-based willingness to accept and share the adjustment process in public finance and labour costs. Moreover while not forgetting the economic constraints and the fact that rigorous measures are necessary, efforts should be made to ensure that the burden of the present economic difficulties does not have an excessive impact on the more vulnerable groups and that existing social inequalities are not further widened.

The Commission develops below elements of those policies which are of particular interest to the Joint Council under the three following headings :

- (i) Strengthening the economic environment;
- (ii) Reorganisation of working time;
- (iii) Improvement of employment opportunities for young people.

(i) Strengthening the economic environment

The main objective of economic and social policy must be the recreation of such economic conditions that enterprises are prepared to invest and to absorb the increased labour force in profitable and competitive jobs. The Commission therefore considers it necessary to construct the basis for investment-led growth through, notably, initiatives aimed at improving international economic and financial stability,

at increasing convergence and stability within the Community while achieving the best possible level of activity, and at promoting structural change and expansion of investment in the medium term.

a) International economic and financial stability

In this area, the Community, acting on the basis of the EMS, must endeavour to ensure that an effective monetary cooperation be established between the United States, Japan and the Community along the lines of the conclusions of the Versailles Summit. It is indeed essential for stabilisation and adjustment efforts in Member States to be successful that the whole international monetary system is managed in such a way as to allow interest rates to decline in line with the slowdown of inflation and to assure a better stability in exchange rates.

Moreover, intermediate financing to support adjustment policies and to eliminate the real risk of a cumulative downturn in world trade must be provided by the industrialised countries and their main financial institutions. As the largest trading block in the world, the Community has a particular interest in ensuring stability in the international monetary and financial system; the Community, in particular, is in favour of increasing the resources available to development in general and notably the International Monetary Fund and the World Bank as a necessary complement to the private capital flows. The Community's own development aid programmes, moreover, have an important role to play in the financing of development efforts in the LDC's and the Commission, in the context of a general review of aid policies, has recently suggested an increase in Community resources for this purpose to one per thousand of the Community's GDP over the coming 10 years (1). However, even a contribution at this level would only be a small complement to the efforts which must be made by the Member States.

(1) Commission memorandum on the Community's development policy,
COM(82) 640 Final.

b) Increase of convergence and economic stability within the Community

Within the Community advantage should be increasingly taken of the contribution which the European Monetary System can bring to the building of a more stable environment which is more conducive to the development of real activity and thus to the improvement of the employment situation. The EMS in 1981 and 1982 has given proof of its capacity to accommodate central rate adjustments while maintaining its cohesion in face of the instability of the dollar. As proposed by the Commission in its communication of February 1982 (1), it is necessary at the same time to strengthen the EMS mechanisms and to reinforce the convergence of economic performances through a closer coordination of economic policies. In this respect, domestic monetary and budgetary policies, as well as efforts to narrow divergences in price and cost developments should contribute substantially to balance of payments adjustment.

In view of this objective, but also with the purpose of freeing budgetary resources for high priority expenditure, the Commission in its Communication on Budgetary Discipline and Economic Convergence (2) proposed a framework for a reduction of government budget deficits and a better control of medium-term trends in public expenditure. General support for the principles of budgetary discipline outlined in this communication would contribute significantly to moderating inflation expectations and facilitate a reduction of interest rates.

The implementation of these policies must be graduated in response to the employment situation and the overall cyclical development and differentiated according to the situation of the individual Member States :

- most Member States are in need to reestablish urgently control over their budgets as well as to intensify their efforts to bring about a lasting deceleration of inflation;

(1) COM(82) 133 Final.

(2) COM(82) 422 Final.

- at the same time, in view of the present risk of cumulative deflation, countries recording a satisfactory slow-down in inflation and which are in a more favorable financial position should avoid action to offset increases in budget deficits that would result from a further worsening of the economic situation. Interest rate reduction should still be a priority objective in present circumstances. But as and when the scope for interest rate reduction is exhausted, if no improvement is in sight and provided that the pace of inflation has slowed markedly and that the public finances are not excessively out of balance, budget policy initiatives to support economic activity could become wholly compatible with monetary policy objectives. Such budgetary action could typically include tax cuts or changes in tax and expenditure structures designed to have maximum supply-side and employment benefits.

c) Medium-term policy and structural change

The Community should now take all possible steps, including a better utilisation of its own instruments, to improve the medium-term economic prospects through a set of policies aimed at accelerating structural change and strengthening the competitiveness of enterprises. In its review of the problem of investment in the Community (1) submitted in July, the Commission stressed that an investment drive is necessary to safeguard the competitiveness of the Community's industry, to relax the energy constraint, to permit a return to growth and to create new jobs. Strong support for an expansion of investment as a major instrument of employment creation was also expressed in the resolution of the Council (Social Affairs) of 12 July 1982 (2).

A mobilisation of resources in favour of investment is necessary : in particular an increasing share of savings must be directed towards productive activity. Adequate mechanisms should be put in place to ensure

(1) COM(82) 365 Final.

(2) OJ C 181/1 21 July 1982.

that such a mobilisation actually occurs and has the desired positive employment effects: it is the responsibility of businesses to achieve a genuine improvement in their competitive position by making full and effective use of investment opportunities. Such an effort must result in an effective increase of the share of investment in GDP. This implies inter alia the adaptation of existing indexation mechanisms with a view to excluding factors outside corporate control such as terms of trade losses, consequences of exchange rate depreciation and changes in indirect taxation. Such policies should be implemented without prejudice to measures necessary to protect incomes of the lowest paid.

Although the general level of capacity utilisation is a major determining factor for investment, the weakness of investment in the Community since the first oil shock is also attributable to uncertainties about inflation and exchange rates, rigidities and regulations and other economic and social obstacles. Efforts to promote investment in the Community must therefore, in addition to a general policy conducive to macro-economic stability, include both initiatives to eliminate or reduce such obstacles as well as various positive measures to actively improve the investment climate.

Public authorities have a particular responsibility in the field of investment : while under the budgetary constraint, they possess power of regulation and financial means; in addition, in conditions of low growth, they are less constrained by the need for immediate returns on the invested capital than the private sector. Public investment should be directed towards the stimulation of investment and employment growth in the private sector and would thus contribute to restoring business confidence.

A detailed proposal for initiatives to promote investment was recently presented by the Commission to the Council (1). In this communication, the Commission considers that measures ought to be taken both in the Member States and at Community level :

- national measures should concentrate on increasing corporate resources available for investment and reinforcing the efficiency of investment aids and subsidies, and on restructuring the public budgets in favour of

(1) COM(82) 641 Final.

development-orientated expenditure;

- measures to be adopted at Community level in favour of investment should include a strengthening of the Common Market as well as action in the field of energy, industrial innovation and of R+D, in activities such as information technology and bio-technology, and in the area of industrial reconversion.

In order to provide the Community with the means to pursue such policies, the Commission has submitted to the Council proposals of a budgetary nature (financial incentives for investment in the field of rational use of energy, non-quota section of the Regional Fund). In accordance with the conclusions of the European Council, the Commission has also submitted to Council, in October 1982, a proposal for a new tranche (3000 million ECU) for the New Community Instrument for the financing of investment in infrastructure and energy, and productive investment in general with priority given to investment in small- and medium-sized firms.

(ii) Reduction and reorganisation of working time

Reductions in working-time have taken place as part of general economic developments this century, the benefits of the increases achieved in productivity being divided between increased leisure and a rise in incomes. More recently, in view of the pronounced increase in unemployment and the poor employment prospects for the medium-term, the question has arisen whether an acceleration of the process of working-time reduction beyond the actual trends might contribute to reducing unemployment particularly when combined with a reorganisation of working hours.

At European Community level the debate on reducing and reorganising working-hours and expanding work-sharing was launched in various settings in 1978 and 1979, with a Council resolution of 18 December 1979 fixing some general Community principles in this field. In view of social and economic developments in the meantime, the Council (Social Affairs) on 27 May 1982 requested the Commission to present, before the end of the year, a memorandum on the adaptation of working-time. As part of its preparatory work

the Commission organised a seminar on 5-7 October to reflect on developments in Member States and on current ideas for the reorganisation of working-time. It was noted inter alia that job creation and job maintenance through working time reduction are beginning to become a feature - alongside wages, working conditions and productivity arrangements - in collective bargaining.

A more efficient organisation of work resulting from some reorganisation of working-time possibly in combination with a reduction in working hours can lead to an increase in employment. However this contribution to the reduction of unemployment depends on a number of prerequisites being fulfilled :

- first, the competitive position of firms should not be impaired (i.e. unit production costs should not increase);
- secondly, there must be sufficient flexibility in labour markets to prevent bottlenecks arising in the supply of specific types of labour;
- thirdly, schemes for the reorganisation of working-time must take into account specific constraints resulting from differences in production methods and/or scale of operation.

More generally these prerequisites mean that any attempt to reorganise working-time should be designed and negotiated at the most appropriate level for assessing satisfactorily difficult problems, conflicting constraints and potential adjustments in factors of production.

The need to maintain or reduce unit production costs rules out full wage compensation for the reduction in total income resulting from reduced working hours and it must be made clear that the greater the wage compensation, the smaller is the scope for job creation effects.

Overtime working is for certain types of enterprises, including small-sized firms, an essential element of flexibility in responding, for instance, to fluctuations in production or activity. In some sectors, however, excessive and systematic overtime work is still a regular feature and part of expected income. There is a widespread general agreement that systematic overtime should be further reduced and that working-time reductions designed to increase employment opportunities should not instead lead to increased overtime. Measures to limit the systematic use of overtime, for example, by introducing the principle of 'time-off in lieu' instead of payment, need to be undertaken in accordance with the Community policy guidelines set out in the Council's Resolution of December 1979.

Greater flexibility in the organisation of working-time will, in any event, become increasingly necessary to enable industry to adapt to the requirements of new technology, in particular by making it possible to establish longer production schedules. There is already evidence that the collective bargaining process can, in this context, bring within its scope, negotiations on reductions in working-time designed to increase the number of jobs available. Such developments are seen, in particular, in competitive firms in growth sectors.

The progressive reduction in the annual volume of working-time is not, therefore, just an end in itself, as was the case during periods of economic growth, but can also be a means of redistributing opportunities for employment. When specific measures for reorganising working-time can meet the particular needs of individual sectors and can also fulfil the economic prerequisites referred to above, it could be possible to indicate at Community level and for certain sectors the general conditions and mechanisms for the implementation of a better organisation of working-time. In any case the precise arrangements concerning job creation, wage compensation, productivity improvements and so on should be left for negotiation at the appropriate level.

Any reduction in unemployment resulting from these developments will in turn mean lower expenditure on social benefits and transfers and increased tax receipts. Governments could therefore consider to what extent they might share in the costs of launching new working-time arrangements. They should also seek to remove legal or other obstacles to a more flexible organisation of working-time. In order to stimulate policy convergence across the Community in the whole area of working-time organisation, the Commission will in particular seek to initiate a discussion on possible sectoral indications for a Community approach in accordance with the Council's resolution of 18 December 1979 which could put into effect general indicative guidelines on working-time at European level.

Moreover the Commission has already tabled proposals on several of the aspects of working time reorganisation dealt with in the Council's Resolution. On flexible retirement, for instance, a draft recommendation is before the Council urging Member States to take steps to give workers the right to choose the time of their retirement from a given age, in accordance with certain principles. It is hoped to achieve Community-wide results in this area where several Member States have already achieved appreciable employment effects.

The Commission's draft directive on voluntary part-time work should be adopted by the Council and once implemented would end the situation in which part-time workers have worse employment conditions than full-time workers, thus making it a more acceptable form of employment and contributing to the wider distribution of work. A more active promotion of part-time work should be undertaken if and when this new legislation comes into operation. In the creation of new part-time jobs, for example through "job splitting", the principle that the part-time option is voluntary must be maintained.

(iii) Special measures to increase employment opportunities

for young people

There are almost 4 million young people unemployed in the Community - that is about 40 per cent of all unemployed workers. Youth unemployment has become a pervasive source of anxiety, but in spite of the whole range of specific measures that have been launched in recent years to assist the young unemployed, it is evident that young people continue to be among the main victims of the recession. They are now experiencing increasingly long spells of unemployment and in certain areas of the Community, many young people leaving school see little prospect of ever getting a foothold in the labour market.

Unless and until the Community's macro-economic policies succeed in bringing about an improvement in the general economic and employment situation there will clearly continue to be a problem of youth unemployment. Special measures to combat youth unemployment do have a separate rationale as long as they do not detract from the broader policy measures necessary to stimulate employment growth.

The main focus of the considerable efforts already made by national and Community authorities has been on improving the basic skills and employability of young people entering the labour market for the first time. More emphasis needs to be placed on the actual training content of such special measures and on integrating the various training programmes on offer within a coherent overall policy. The Commission is a principal instigator of a Community-wide guarantee of training and work experience for young people, a guarantee to which the European Council committed itself in principle at its meeting on 29/30 March. The Commission has made more detailed proposals in this sense in its communication to the Council on Vocational Training in the 1980s (1), supported by its Opinion on the Review of the European Social Fund (2).

(1) COM(82) 637 final

(2) COM(82) 485 final

However important the pursuit of an effective training policy may be, the credibility of training in the eyes of young people will depend largely on the availability of employment thereafter. The Commission considers that special measures to promote the recruitment of young people and to increase the volume of employment opportunities for young people are justifiable if today's generation of young people are to retain the capacity to contribute to economic recovery. The problem of reintegrating, both economically and socially, workers who have had no real experience of employment and have become part of the long-term unemployed before they are 25, would otherwise become insurmountable.

The Commission, therefore, believes that it is necessary, in these circumstances, radically to revise existing attitudes to job creation and recruitment policies. Urgent consideration needs to be given by public authorities and social partners alike to the further development of special recruitment programmes for young people linked to reductions in working time - for example by the provision of part-time jobs or shared jobs for young people, either as a separate initiative or as a complement to flexible retirement programmes. Different kinds of employment premiums could be used to stimulate this kind of arrangement. Recruitment premiums or other forms of wage subsidy can also be used to help particularly disadvantaged young people obtain stable employment and to promote the employment of young women in jobs where they are traditionally underrepresented. Such measures may be controversial insofar as they discriminate in favour of young people. They should therefore be used selectively, and made available to other disadvantaged groups such as the long-term unemployed. Conditions need to be established to ensure that premiums do not simply subsidise the recruitment of young people who would have been taken on in any event nor make of young people a reserve supply of cheap labour.

In addition to measures to stimulate recruitment, thought needs to be given to a new approach to subsidised job creation. There have in the past been several types of initiatives in the area of temporary job creation - "make-work" programmes supported by public funds, temporary jobs

in the public sector and so on. These have most often been of limited scope and duration and have sometimes encountered the opposition of public service unions, themselves affected by cuts in the public sector. Given the sheer scale of youth unemployment, particularly in areas of the Community where the traditional private sector of employment is simply not capable of generating enough vacancies to satisfy first job seekers, an expansion of certain forms of subsidised job creation is urgently required.

Particular attention should be paid in this respect to the employment potential of various non-traditional forms of enterprise which young people can be specifically encouraged and trained to set up for themselves. There is also scope for job creation partially supported by public funds in the intermediate area between the traditional public and private sectors, for instance in the area of environmental protection and social services. Public subsidising of certain activities, especially those designed to benefit local communities or to contribute to the restructuring of the economy can constitute from both an economic and a social point of view a more efficient use of public resources than the income support that would otherwise be required for unemployed young people and the longterm unemployed.

Alongside such actions, a much more developed system of local guidance and counselling centers for young people is required, to support and encourage young people not only when they are about to enter the labour market but also when they are trying to find durable employment within it in their teens and early 20s. The Community has a role to play, in particular through its various financial instruments, in supporting the expansion of special employment provisions for young people and as well as for other disadvantaged groups such as the long term unemployed. The Commission for its part is preparing a new communication on youth employment which will be submitted to the Council later this year. It also intends to study a number of particular related issues, including the possibility of setting employment quotas for young people in part or all of public

employment, the influence of different types of age-related salary scales on employers' choices between workers and the specific problems that need to be tackled for those young people who experience repeated and prolonged periods of unemployment. Better understanding of these issues could help strengthen policy in the future.