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RESTORING FULL EMPLOYMENT AND STABILITY IN THE COMMUNITY

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RESTORING FULL EMPLOYMENT AND STABILITY IN THE COMMUNITY

1. In preparation for the next Tripartite Conference, the Commission presented, at the end of March, a document in which it set out its ideas on the origins of the present economic crisis and the lessons to be drawn from it, and put forward possible ways of overcoming it (1). This document has been the subject of extensive consultations with representatives of the social partners; its basic aspects have been discussed both by the Ministers for Social Affairs and for Labour and by the Ministers for Economic and Financial Affairs.
2. There is broad agreement on the basic orientation of the strategy which the Commission has presented for discussion. Governments and the social partners have indicated in particular that
 - in principle they agree with the analysis presented by the Commission;
 - they believe that the simultaneous restoration of full employment and stability is a feasible proposition and must be given priority;
 - this requires concerted action within the Community;
 - the situation can only be controlled if those responsible in society, Government and economic life act with joint responsibility both at the national and the Community level.

This basic consensus should make it possible to agree also on joint solutions in those areas in which there still exist some differences of opinion.
3. It is the task of the Tripartite Conference to translate the political will to overcome the crisis which is evident on all sides into action. Agreement on the best course to be followed must be reached between governments and the social partners at Community level. Since the existing social and economic conditions differ from one country to another, the type, scale and timing of the measures to be taken in the individual Member States to attain the common objective must vary to some extent.

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(1) "A Community Strategy for Full Employment and Stability", SEC(76)1400 of March 1976.

In addition, policies for the elimination of structural imbalances - basically outside the scope of this document - must be pursued and strengthened at national and Community level.

4. In the following sections, the Commission attempts to summarize :
- the common problems facing the Member States in restoring full employment and stability;
 - the dangers for the common market and the Community's existence presented by the continuation of current trends;
 - the principal measures which, in its opinion, are indispensable if these problems are to be solved and these dangers averted.

Common problems

5. After the severe recession which engulfed the world economy in 1974/75 an upswing has begun in all Member States. In contrast to earlier economic downturns, the recession was marked by a considerable decline in the national product. The upswing, which began in the second half of 1975, is therefore taking place against a background of high unemployment and unused production capacity. Furthermore, the rate of inflation in almost all Member States is still running around 10 % or more. Lastly, partly as a result of the oil crisis, the balance of payments disequilibria within the Community are still greater than are sustainable in the medium term.
6. Danger from several quarters therefore threatens the continuation of the present upswing in all Member States. It is feared that :
- because of low capacity utilization, investment to expand capacity will not grow sufficiently and unemployment will therefore remain high;
 - the upward movement of prices will soon start to gather momentum again and might compel the economic policy makers to pay more attention to the stability problem than to the employment problem;
 - an expansionary policy pursued by individual Member States on their own will quickly run into problems on the balance of payments front.
- The Commission shares these fears.

Dangers for the Community

7. Although the economic situation and the resulting requirements for economic policy are similar in the Member States, in recent years divergences have emerged in the Community which cannot be ignored. The differences between the Member States in the trends of incomes, costs and prices are today considerably larger than they were before the crisis. Just recently they have been accompanied by a depreciation in some member countries' currencies, which has apparently exceeded the differences in the cost and price trends. If these tendencies persist, grave dangers for the Community could result, for example protectionist chain reactions. The Community must face up to these dangers resolutely and bring about a greater convergence in the economic trends.

A Community Strategy

8. Governments and social partners share the Commission's view that full employment cannot be gradually restored without vigorous economic growth. The Community must strive for an average growth rate of at least 4,5 - 5 % a year during the period 1976-80. Production capacity is at present under-employed, and this will permit an above-average increase in GNP both this year and next. At the same time, investment in the Community must increase once again, so that the growth in production potential accelerates and conditions are created enabling the citizens of the Community to look forward to higher living standards and adequate employment opportunities in the medium term. This will only be possible if consumption grows, for the time being, at a slower rate than investment.
9. Given the economic interdependence of the member countries, it will be easier to attain an ambitious growth objective if this objective is made part and parcel of a Community strategy. The existence of a Community approach will also give investors more grounds for confidence and thus facilitate their planning decisions. In very general terms, medium-term sales and profits expectations must be given a firmer basis. Monetary and fiscal policies properly geared to this goal could go far to ensure its achievement.

The objective of growth requires an external policy which does not put the objective at risk. Considering the dependence of the Community's economic activity on world trade, it is absolutely essential to preserve its international competitive position. Protectionist measures would risk to compromise

this competitiveness, and therefore are not compatible with the objective of full employment through growth.

10. Unqualified growth must be avoided. Future investment activity must

- meet environmental requirements,
- secure long-term energy supplies for the Community,
- improve working conditions and,
- in general, serve to improve the quality of life.

More investment in the peripheral regions of the Community will be conducive to a more even distribution of economic potential, to a fuller use of the Community's productive resources, and should contribute to a greater degree of convergence of economic trends.

Private and public investment must be guided by these principles.

11. A higher growth rate can only be sustained in the medium term if inflation is brought under control. The aim must be to gradually reduce the rate of inflation, by 1980 at the latest, in all Member States to no more than 4 - 5 % a year. This will require close cooperation between government authorities and the social partners and the coordination of national economic policies within the Community.

12. The linch-pin of any strategy for full employment and stability must be the realization that collective discipline with regard to incomes and prices, is, in the medium term, a paying proposition for all concerned. The last few years have made it clear

- that more inflation does not bring more growth and jobs and
- that higher unemployment does not lead to price stability.

All those involved must accept the implications of this and subordinate their short-term advantages to their medium-term interests. In the longer term, the key parameter governing real income increases for individual groups will be the overall growth of productivity in the economy. In the short term, an individual group can achieve an above-average growth in real income by increasing its share of the national product. In the final analysis what matters, however, is the enlargement of the overall size of the "cake" to be shared. In recent years, the differences from country to country in the

rates of increase of money income have been greater than ever before in the post-war period; the differences between the increases in real income have, on the other hand, been small. This demonstrates that the underlying real trend cannot be modified by nominal tricks.

13. Incomes policy is implemented in one form or another in many Member States. The concrete form which incomes policy takes must continue to be tailored to the specific conditions in each Member State.

In some countries, for example, wage-indexation systems exist to maintain labour's share of the national income in the face of price rises; other member countries disapprove of such mechanisms. In the Commission's view there is danger in applying a system for establishing wage levels in money terms which is too automatic or too rigid. If price rises resulting from government action (e.g. increases in indirect taxation) or from a deterioration in the terms of trade (e.g. oil prices) lead to wage increases, inflation will accelerate as a result of the process of simply passing on increases in this way. On the other hand, where wages are not indexed, it might be appropriate for provisions to be made in longer-term collective agreements for further adjustment, in case price increases turn out to be higher than was foreseen when the agreements were established. Similar provisions may be made to deal with higher productivity increases.

Incomes restraint must not be confined to wage earners but should extend to all forms of income.

14. Measures designed to promote personal asset ownership and savings of workers should be used to complement and back up the incomes policies. More wealth in the hands of workers also increases the scope for financing both public and private investments.

15. Price restraint is the counterpart of restraint on the incomes front. As unit costs tend to fall during an upswing, the public has every right to expect that management observe price discipline. As far as is necessary, incomes policy should be supplemented by national price policy measures, which are implemented in various Member States.

16. An active competition policy cannot by itself restore stability when overall economic balance is fundamentally disturbed. In the Community and in each Member State competition must be sufficiently vigorous to have a permanent dampening impact on price trends. Proper control of corporate mergers in the Community is also required in this context.

17. The authorities can contribute most towards regaining stability by pursuing more restrained and more stable monetary and fiscal policies.

In the past, those responsible for monetary policy have accommodated the excessive demands made by both private and public sectors on the national product. In future, monetary policy must be aligned more closely to the medium-term growth potential of national product and all concerned must be given clear indications, preferably in advance, as to the limits of credit expansion.

In the seventies', the increase in the public sector's part in the national product of all Member States was accompanied by an increasing deficit aggravated by the recession. The restoration of stability requires the medium-run retrenchment of the public sector deficits.

The short- and medium-term coordination of monetary and fiscal policy in the Community is also needed in order to align gradually cost and price trends in the Member States. This would create the essential basis for the stabilization of exchange rates.

Supplementary measures

18. The recession of 1974/75 was caused both by cyclical and by structural factors. Even with a vigorous growth of GNP, the level of unemployment will only decline slowly. The Community must set itself the objective of
- establishing full employment by 1980 at the latest,
 - eliminating at least the cyclical component of unemployment by the middle of 1978 at the latest.

This process must be accompanied by a number of supporting measures in the field of employment and labour market policy :

- The social partners should examine the technical and economic feasibility of encouraging the recruitment of new workers as a substitute for overtime.

- There is a broad measure of agreement on the view that the restrictions on the recruitment of additional workers from non-member countries in general must be maintained for the time being.
- Given the high direct and indirect cost of unemployment to the economy, possible alternatives (e.g. employment premiums) to the payment of unemployment benefits must be envisaged.
- In view of the increase in the number of school leavers more apprenticeships and traineeships must be made available for a period.

Both companies and public authorities have to ensure today that the European economy of tomorrow has at its disposal a sufficient number of properly trained craftsmen and specialist workers.

- ↳ The dynamics of economic change require constant adaptation of the structure of employment to changes in the structure of production. Governments and companies must ensure, by means of an active labour market policy including measures to promote retraining, placement, vocational training and mobility, that this process of adjustment, which is necessary from an economic point of view, is accomplished with a minimum of upheave for the individual worker and in consultation with the social partners.

A short-term reduction in the labour supply would give rise to substantial problems from an economic point of view. A further shortening of the working week is, however, a desirable social objective in the medium term. The Commission points out in this context that the Member States are bound by a Council Recommendation of 1975 to introduce a 40-hour week and four-week paid annual holiday for all workers by the end of 1978 at the latest.

1. The re-establishment of full employment and stability will remain a permanent task confronting governments and society in all Member States over the next few years. It can be accomplished if there is a close cooperation between governments, workers and employers in each country and at the Community level.

Just what form this cooperation will take will depend on individual experiences and the available institutional framework. Governments and social partners must reach an understanding, on a regular basis, on the economic outlook and the requirements of economic situation. Regular coordination at Community level as well is indispensable if a greater degree of convergence of economic trends within the Community is to be achieved.

20. The social consensus which is necessary to cope with the problems facing us, will have to be achieved in different ways in the individual Member States. The following measures would help in this respect :

- Greater worker involvement in company decision-making. See in this context the Commission's green paper "Employee participation and company structure".
- Regular reporting of current, agreed and intended investment programmes to increase transparency in certain capital-intensive industries where the danger of surplus capacity exists.
- Regular discussions at Community level between management and trade unions representatives in individual industries to discuss jointly the problems likely to occur in the medium term (international competitiveness, structural changes, working conditions, etc.).

Conclusions

21. The Conference should demonstrate the determination of all participants to make a joint effort to
- secure the continuation of the upswing in order to
 - make possible, in the coming years, sustained growth with stability and thus
 - create the basis for full employment and further social progress.

This Community strategy for full employment and stability subscribes to the achievement of the following targets :

- (1) By 1980 at the latest, full employment must be achieved. By the middle of 1978 at the latest, at least the cyclical component of unemployment must be eliminated.
- (2) The Community aims at an annual rate of growth of at least 4,5 - 5 % over the period 1976-80. This will require an above-average increase in investment.
- (3) The rate of inflation must, by 1980 at the latest, be reduced gradually in all Member States to 4 - 5 % a year, since vigorous growth can be sustained, in the medium term, only if greater stability is achieved.

In order to reach these targets governments and social partners will start by taking the following measures and steps in their own specific areas :

- (4) The governments will create the conditions needed for vigorous growth in the coming years by adopting the appropriate economic policies both on the demand and on the supply side. Where necessary, they will speed up the reduction of unemployment by encouraging investment and taking specific measures of employment policy.
- (5) The governments will make an essential contribution towards regaining price stability
 - by retrenching their budget deficits in the medium term,
 - by adopting a monetary policy corresponding to the potential growth in GNP,
 - by pursuing an active competition policy and
 - by developing adequate labour market policies.

- (6) For their part, the social partners will contribute to greater price stability by ensuring that the growth of income is more closely related to the real capacity of the economy. Trade unions will seek to moderate their demands and companies will show a corresponding degree of discipline over prices; similar restraint will be exercised over other forms of income.
- (7) Governments and social partners will take appropriate measures to promote workers' asset ownership and their participation in company decision-making.
- (8) Governments and social partners will work out, at regular intervals, a common viewpoint in each Member State and at Community level, on the short- and medium-term economic prospects and on the economic and social requirements. A major objective must be to achieve a greater degree of convergence of economic trends in the Community and a better integration of economic and social objectives.