

The European Economic and Social Committee



The European Economic and Social Committee

SOCIAL POLICY AND ECONOMIC PERFORMANCE

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**SOCIAL POLICY
AND
ECONOMIC PERFORMAN**

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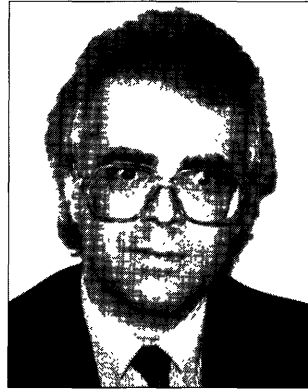
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**Foreword by Tom Jenkins,
President of the Economic
and Social Committee**



Employment is still at the top of the European agenda. High unemployment, which is still as unacceptable as ever, is marginalizing some sectors of society and hampering the progress of European integration. On the eve of the Millennium, we therefore need a consistent strategy for economic policy, which, in a scenario of high employment, will promote economic and social progress and foster balanced, sustained development.

When this strategy is being developed, the central question is the reciprocal influence of social policy and economic progress. How can political action contribute to making these two components intermesh as effectively as possible? What action must be taken to tap into these synergies and to minimize potential disincentives? The answers to these questions will help us to finally solve the employment conundrum.

The Economic and Social Committee has been deeply exercised by these issues and the results of its work is set out in this brochure. We were encouraged by the impressive results of the January 1997 conference on this topic organized by the Dutch Presidency in Amsterdam and we adopted an initial initiative opinion on the matter in May 1997. The draft opinion was adopted at a joint meeting of the Section for Economic, Financial and Monetary Questions and the Section for Social, Family, Educational and Cultural Affairs, attended by external speakers. The extensive discussion encouraged us at the same time to draft a wide-ranging follow-up opinion. The second opinion, which was adopted at the September Session, the last one of the current term, was drafted by an ad hoc Sub-Committee with three Rapporteurs.

I hope that this brochure will reach a wide audience, so that the ESC's numerous proposals, contained in its opinions, for solving the employment problem can be swiftly translated into political action.

OPINION
of the Economic and Social Committee
on
Follow-up: Social Policy and Economic Performance

PROCEDURE

At its plenary session of 10 July 1997 the Economic and Social Committee, acting under the third paragraph of Rule 23 of its Rules of Procedure, decided to draw up an own-initiative opinion on:

Follow-up: Social Policy and Economic Performance

and to set up a subcommittee to prepare its work on the matter, in accordance with the fourth paragraph of Rule 11 and the first paragraph of Rule 19 of its Rules of Procedure. At its meeting on 24 February 1998 the bureau of the Economic and Social Committee authorized the appointment of three rapporteurs. On 30 July 1998 the subcommittee adopted the draft of the own-initiative opinion.

The rapporteurs, Mrs KONITZER, Mr RODRÍGUEZ GARCÍA CARO and Mr SIMPSON, divided up the work as follows:

PART I

Setting the context
Rapporteur: Mr Simpson

PART II

Competitiveness, promotion of entrepreneurship and investment
Rapporteur: Mr Rodríguez García Caro

PART III

Employability, job creation and the future of low-productivity labour
Rapporteur: Mrs Konitzer

PART IV

Adaptability and equal opportunities
Rapporteur: Mr Simpson

PART V

Conclusions
Rapporteurs: Mrs Konitzer, Mr Rodríguez García Caro, Mr Simpson

At its 357th plenary session (meeting of 10 September 1998) the Economic and Social Committee adopted the following Opinion by 85 votes to 5, with 5 abstentions:

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I. SETTING THE CONTEXT

1. Objectives and causation

1.1 This Opinion reflects the motivation of the Economic and Social Committee to contribute to the reduction of unemployment throughout the European Union. The impact of the measures considered would, naturally and logically, have a wider impact than simply relating to the problem of reducing unemployment.¹

1.2 The key interdependent objectives of social and economic policy are to:

- generate an increase in the volume and quality of goods and services available in the EU at globally competitive prices, in a sustainable manner;
- improve the capacity of the EU to create employment and reduce unemployment;
- add to the well-being of the citizens of the Union;
- improve the situation of people who are disadvantaged;
- generate a better degree of equality of opportunity for citizens;
- facilitate an increase in demand for goods and services arising from the disposal of the increased real incomes generated by increases in economic performance.

Efforts to secure these objectives requires that economic and social policy measures must be co-ordinated and consistent, one with another.

1.3 This range of objectives relates both to the actions of the Union, particularly (but not only) in the context of Economic and Monetary Union, and to the actions of the authorities in the Member States. In addition to identifying objectives, the ESC has identified some aspects of the causation of economic and social problems which are related to, or frustrate the achievement of, these objectives. In offering ideas for their reduction or removal, there must be a recognition of the different roles of the various "actors" and the need for an acknowledgement of the principle of subsidiarity, supplemented by greater co-operation between the Member States on policies where they affect the functioning of the Single Market.

1.4 The spatial distribution and impact of the economic and social problems must be acknowledged and be integrated into the discussion of potential actions.

1.5 This introductory section, Part I, sets the context by reviewing the debate about the difficult questions of reconciling possibly conflicting elements of economic and social policy or, alternatively, identifying the potential for synergy between economic and social policies. Part II examines and makes recommendations on competitiveness, the promotion of enterprise and investment. Part III develops the debate on employability, employment creation and examines the future of low-productivity jobs. Part IV emphasises the critical roles of adaptability and equal opportunities. Part V contains conclusions.

¹ A list of other ESC opinions on employment can be found in the appendix. Particular mention should be made of those on a European employment council (OJ No. C 355 of 21 November 1997) and the Commission communication on guidelines for employment policy measures in the member states in 1998 (OJ No. C 19 of 21 January 1998).

2. The integration of social and economic policy

2.1 The ambition in the Union, whether acting within the framework of EU policies or within the framework of decision making within Member States, is to combine elements of social and economic policy to allow the European Union to retain, and enhance, its role as one of the world's most advanced economies, generating ever improving living standards for its citizens. Simply to reduce unemployment in ways which did not add to the total value-added and increase real incomes would be an inadequate outcome.

2.1.1 Similarly, to generate better economic performance and improve total value-added in a manner which widened the inequalities in the distribution of jobs, incomes and other social outcomes would also be an admission of failure and should be avoided.

2.2 These ambitions emphasise the critical importance of appropriate and sustainable macro-economic policies at EU level and in the Member States. The EU continues to seek long-lasting and sustainable economic growth.

2.3 These issues underscore the contribution of appropriate social policies affecting the distribution of the benefits of economic growth and development.

2.4 Yet, there is a potential tension between economic and social objectives. Economic growth can be prejudiced by social policies which, for example, adversely affect the motivation of people to enhance their contribution to value-added. Similarly, social policies may be constrained by economic pressure to enhance the performance of businesses and encourage investment in ways which adversely affect, for example, the basic, or minimum, income of people who are paid low wages.

2.5 At the extremes, policies which increase the taxation of employees may affect the balance between accepting employment and deciding not to seek work. Also, social policies which depend on high marginal tax rates on incomes generated by investment may deter the very investment which would add to the availability of employment. The task is to reconcile these policies to gain the optimum balance and to avoid, as far as possible, any conflict between economic and social policies.

2.6 The reconciling of social and economic policies must take place within the context of a European Union which in large part depends on the operation of a market lead economy dominated by the operations and decisions of many thousands of enterprises. The European Social Model acknowledges that the role of Government in management of the economy is, in an essential degree, to be seen in the context of influencing the economic environment for business. Government can itself act as an entrepreneur or participant in enterprise development or control where particular priorities point to the merits of implementing such a supplementary role. For example, where new technologies or the scale of research and development point to the need for actions which can most readily be delivered by Government or its agencies. This has generated a market lead economy which functions within certain constraints, usually introduced by Government, to try to achieve wider objectives, often related to social cohesion.

3. Factors influencing economic and social policies

3.1 A number of features are playing an increasingly important role in relation to the labour market of the EU. These include:

- a) the changing distribution of the age structure of the labour force;
- b) the increased incidence of early retirement;
- c) a counter-pressure from people who choose to work beyond retirement age;
- d) a smaller number of new entrants to the labour market arising from the natural decrease of the population within the EU;
- e) a reduced number, and proportion, of low skilled jobs;
- f) an apparent increase in the rate of change in the skills required in jobs;
- g) an increase in the number of employees who move from one job to another;
- h) an increase in the economic activity rate, in some countries, for women workers;
- i) a decrease in the activity rate for men workers, particularly in the older age groups;
- j) an increase in the number of people holding more than one job (whether declared or undeclared);
- k) the influence of non-EU citizens coming to live and work in the EU.

3.2 There are also concerns that part of the labour market may be distorted by enterprises which take advantage of differences in labour market conditions in different Member States which do not represent competitive processes and rely more on financial inducements (or fiscal discrimination) of a type which are inappropriate in a Single Market. This also embraces the concept of "social and environmental dumping".

3.3 The relationship between fiscal and social policies is also a subject of increasing concern across the European Union. The balance of economic policy points to the advisability of a reduction in the way in which taxes and social security charges impinge on the cost of labour. There are also pressures to reduce the total tax bill, as a proportion of GDP. However, since there are also convergence guidelines which have reduced the level of Government borrowing, this implies that public sector spending should be sharply constrained. These pressures sit uneasily alongside the pressures to increase the level of spending on social services, including social security. To reconcile fiscal and social policy, social policy measures should be targeted to identify the areas of greatest need, avoid waste and be delivered as efficiently as possible so that the demands on taxpayers are the minimum necessary to meet the social objectives.

4. An agenda relevant to this Opinion

4.1 The range of issues such as those identified in Part IV, point 2.5, sets part of the agenda for a range of options which must take account of the needs of individuals and the implications for enterprise. Clearly, at the appropriate level, which often means action by the Member State or subsidiary units of regional or local Government, these point to actions which are already acknowledged and may need to be further refined.

4.2 The action agenda should include:

- i) appropriate macro-economic policies to sustain and increase total demand in the economies;
- ii) appropriate macro-economic policies to operate on the supply side of the economy (some of which are identified in the next headings);
- iii) corporate and personal taxation and social security contributions which have as little disincentive effect on investment and adding to employment as is possible;
- iv) educational, vocational and training opportunities on an enhanced scale and universally available with adequate preparation whether provided through the basic educational and training offered by the State or by enterprises which carry the cost of their own specific training needs;
- v) selective schemes to enhance the employment prospects of the long-term unemployed and young people who are out of work;
- vi) selective schemes to improve the employment prospects for women, including measures to facilitate a 'return to work' of women who have been away from employment;
- vii) a framework of measures to reduce high unemployment in the most deprived regions (with support from the Structural Funds);
- viii) measures to help ethnic minorities adapt to work in the society where they live;
- ix) agreed EU policies on minimum wages and/or incomes;
- x) countering imports produced by unacceptable employment arrangements which offend agreed international standards and are regarded as a form of unfair competition;
- xi) policies to help to reconcile work and family life, (including the appropriate provision of, or assistance with, child care as well as a balancing of the tax and benefit arrangements so that the structure of incentives is positive);
- xii) policies to explicitly extend the encouragement of entrepreneurship to women as well as men;
- xiii) tax systems which minimise the adverse, or perverse, incentives which reduce the incentive to gain employment (for example, possibly including an emphasis on the individual as the base for taxation rather than the family);
- xiv) measures to avoid the 'poverty trap' with low paid employment and high marginal (effective) tax rates in the context of improvements in earnings and reduced reliance on social benefits;
- xv) policies which integrate schemes to allow flexibility in choice of dates for retirement, where appropriate, linked to social security and/or pension provisions;
- xvi) flexible working contracts which envisage part-time working, with continued security of contract, flexible hours, or labour only service contracts, and other variations shown to enhance productivity whilst maintaining the social security system.

4.3 The ESC has expressed opinions on these issues in many other documents. The purpose of this Opinion is to identify those policy areas where there is the potential for economic performance to be adversely affected by social policy measures and vice versa.

4.4 For enterprises, the net returns to additional investment need to be sufficient to attract capital. Labour costs should not be increased by social security additions which add to marginal costs and which may reduce the employment potential. The labour market should be a source of well trained potential employees.

4.5 The costs of the desirable social policies which bring a benefit to the wider community, or individuals who benefit from specific schemes, cannot reasonably be passed on to, or imposed on, individual enterprises.

4.6 Nevertheless, there are many examples of enterprises which accept added obligations related to the wider social issues. Business organisations often adopt schemes to help disadvantaged people to become better equipped to get a job or to act as mentors for smaller, or new, businesses who benefit from the expertise of larger organisations. The ESC commends the voluntary adoption of different forms of business partnership which allow enterprises to make a contribution in a manner which draws most appropriately on their expertise.

4.7 Maintaining and enhancing competitiveness requires that unit costs should be minimised. This raises a complete range of questions about the cost structure of enterprises, the introduction of improved management, improved application of RT&D, and appropriate sourcing of materials, etc.

4.8 Employment costs will always be an important element in determining competitiveness. Critical to this requirement is a link with the way in which earnings levels are determined in the enterprise and at a macro-level, which will then affect individual enterprises. In some Member States, this process is institutionalised by formal machinery with Government and the Social Partners (as with the Programme for Competitiveness and Work in Ireland). In other Member States, formal machinery is not in place. If economic performance is to be strengthened, then overall pay settlements must be within the overall increases in productivity.

4.9 As the Social Protocol, added to the Maastricht Treaty and now consolidated in the Amsterdam Treaty, evolves, the ESC expect that more of the difficult questions which relate social policy and economic performance will be an area of closer co-operation between member States. The ESC acknowledges that the more recent addition of a requirement for the Commission to issue Guidelines for employment policies, in addition to the existing Guidelines for economic policies represents a useful improvement in the co-ordination of policies between the Member States and also the overall integration of critical aspects of social and economic policy in a Community wide setting. It is important to integrate the economic guidelines and the employment guidelines so that they interact to create growth and increase employment.

4.10 The ESC proposes that the Commission should formally adopt, as part of the terms of reference for the Employment Guidelines, an obligation to assess and comment on the degree to which social and economic policies have been integrated and improved to remove some of the inappropriate internal effects of the existing position.

4.11 In Parts II, III and IV, which follow, the ESC offers some thoughts on the enhancement and integration of the employment guidelines as they have been developed for 1998.

II. COMPETITIVENESS, PROMOTION OF ENTREPRENEURSHIP AND INVESTMENT

This opinion forms part of the follow-up work to the ESC opinion on social policy and economic performance. The title of this part of the opinion, "Competitiveness, promotion of entrepreneurship and investment", denotes the cornerstones of economic development. These three issues have recently been, and still are being, addressed by the European Union. They are closely interlinked and must be approached with this in mind.

1. Competitiveness

1.1 The general framework

1.1.1 At a time when political debate - both at European and national level - is focusing on unemployment, it is now more necessary than ever to consider a factor that is crucial to improving the employment situation in Europe: promoting competitiveness.

1.1.2 Competitiveness is a concept that has often been used inappropriately, giving it a bad press and associating it with job losses, relocation and adjustment policies.

1.1.3 But it is businesses' lack of competitiveness that contributes to job-shedding. And competitiveness affects not just companies, but all social players.

1.1.4 In a world facing the challenges of growing globalization, where constant change is the main driving force, competitiveness must be understood as society's capacity to continually adapt to, be a step ahead of, and influence the prevailing environment.

1.1.5 The key to competitiveness is therefore an ability to adapt simultaneously from every individual, every government and every business. This is especially important as the pace of development is increasingly more rapid. Being a step ahead, something to which the EU institutions can contribute through appropriate discussion and information, by definition helps, in particular, to ease social tensions and thus facilitate the necessary process of adaptation.

1.1.6 As far as businesses are concerned, competitiveness means the ability to consistently meet their customers' needs more effectively than their rivals, by offering them more attractive goods and services in terms of price and other factors.

1.1.7 A country is regarded as competitive on the international stage if the following conditions are simultaneously in place over the long term:

1. if its productivity is increasing at a rate similar to or higher than that of its main trading partners with a comparable level of development;
2. if its trade balance remains stable within an open market economy;
3. if it has a high level of employment;
4. and if it enjoys political and social stability.

1.1.8 EU labour productivity has grown steadily over the last 24 years at a annual rate of 2%, which is ahead of the United States (with an annual rate of 0.7%), and, in recent years, of Japan (with an annual rate of 1.9% during the period 1986-97)².

² COM(1998) 103 final, Growth and employment in the stability-oriented framework of EMU

1.1.9 The EU current account balance has traditionally fluctuated within tight limits, either hovering around zero or even going into surplus.

1.1.10 However, examination of the third defining aspect of competitiveness highlights the main problem affecting the European Union, namely, unemployment.

1.1.11 The fact of the matter is that last year there were 18 million unemployed in the EU, which represents 10.7% of the working population.

1.1.12 This unemployment rate is in stark contrast with the figures recorded for the same year in the United States, i.e. 4.7%, although social and economic conditions in Europe and north America are not completely comparable.

1.1.13 An improvement in the competitiveness of the European economy is the key to growth, job creation and increased prosperity. It is, therefore, crucial to set about creating jobs in Europe by improving competitiveness.

1.1.14 To be competitive, the European economy must be able to meet the challenges of constant innovation and growing know-how. Businesses need to be able to adapt to these changes and workers need to develop the necessary skills.

1.1.15 The European Union has not been as successful as its competitors in translating steady growth into employment. In the past, Europe has not become aware of its loss of competitiveness in time and has consequently opted for adjustment policies when what is needed is a pro-active approach.

1.1.16 The main beneficiaries and players in a competitive society are the general public. Investment in human resources, as well as improvements in education and training, are therefore becoming increasingly important in relation to the current concept of competitiveness.

1.1.17 As consumers, the general public has access in a competitive market to a wider variety of higher-quality, lower-cost products. In this respect, consumers hold the key to improving company competitiveness.

1.2 Measures to promote competitiveness

Europe must be able to compete in a global world. To achieve this level of competitiveness, a number of measures must be taken:

1.2.1. Improving the flexibility of markets, especially the employment market

1.2.1.1 At the moment labour markets in Europe are responding extremely slowly to internal and external shocks. Governments, employers and employees need to be more flexible in terms of:

1. new arrangements for working time, entering into negotiations in order to strike a balance between employer and worker interests;
2. new types of employment contract, such as part-time contracts and tele-working;
3. greater geographical and professional mobility;

4. more emphasis on education and training, both with respect to quality and to addressing the problems of businesses and, obviously, improving the skills of the unemployed;
5. a reduction, above all, in labour costs, especially indirect labour costs, in order to achieve a more balanced capital-labour ratio;
6. devising new models for social protection that help improve labour market flexibility.

1.2.1.2 Governments will need to implement a series of structural reforms in order to boost economic competitiveness, and the social partners, exercising their independence and using the various mechanisms of Social Dialogue, will need to contribute to the adjustment of legislation in the appropriate areas to the specific features of sectors and businesses.

1.2.2 Re-assessing the role of the state in the economy

1.2.2.1 The best way for Europe to safeguard its competitiveness is not to dismantle the welfare state or prune minimum social standards, but rather to reform it, while preserving its basic values (economic and social cohesion, justice, freedom, tolerance, equal opportunities, and dialogue).

1.2.2.2 There is a need to review the role of the State, as Europe must compete in a global world and cannot do so by relying mainly on public spending. It is up to governments to provide an appropriate framework in which the European economy can compete at world level without being overly intrusive.

1.2.2.3 In the last twenty-five years, public spending in Europe has risen from 36.9% of GDP in 1970 to 51% in 1995. 1996 saw the first reversal of the trend, at 50.4%, with a further down-turn to 48.7% in 1997 following commitments made by EU Member States in preparation for Economic and Monetary Union.

1.2.2.4 Public spending increases in recent years have been concentrated more on current expenditure than on investment. This has had an impact on both public debt and the public deficit.

1.2.2.5 Investment is in fact one way of improving European competitiveness in the context of globalization.

1.2.2.6 The role of government bodies needs to involve less red-tape and be more geared towards preparing the public for economic change, with an emphasis on education, changing needs in terms of vocational qualifications, technology, high-quality infrastructure and conditions conducive to individual initiative.

1.2.2.7 The profound changes now occurring call for new conditions geared to establishing a healthy social model.

1.2.2.8 Public spending programmes need to be examined in detail in order to achieve greater economic efficiency. This may mean transferring activities to the private sector. At the same time, services which by their nature should continue to be handled by the public sector, should be increasingly run in line with efficiency criteria.

1.2.2.9 Social security systems must be examined bearing in mind the type of assistance to be offered and how it is to be financed. In relation to methods of financing, it

is important to act swiftly in order to ensure that these place less strain on employment, so that job creation is not hindered and so that social security systems are guaranteed a viable future. The Committee takes the view that the social security systems should be adjusted to match new needs and developments. Social protection can contribute to boosting and strengthening economic development.

1.2.2.10 It is worth bearing in mind that reducing current expenditure by the state will lower the tax burden and thus increase economies' investment capacity. This should be conducive to job creation.

1.2.3 Improving companies' performance, the results of their innovations and the volume of their investments

1.2.3.1 The progress towards economic convergence (in preparation for European monetary union) in the different Member States has already yielded lower interest rates and more stable exchange rates, which undoubtedly provides an incentive for investment and trade within the EU.

1.2.3.2 However, structural reform must be undertaken in order to achieve a sustained consolidation of public finances.

1.2.3.3 In this context, only businesses and operations that can maintain their competitiveness through superior quality, lower costs, constant innovation and an ongoing effort to carve out new markets will be able to maintain employment levels and create new jobs.

1.2.3.4 It is obvious that even businesses that are competitive themselves will not be able to survive in an uncompetitive environment.

2. Entrepreneurship

2.1 Encouraging entrepreneurship, understood as the dynamic process favouring the pursuit of business activity, and which thus makes it possible for businesses to discover and capitalize on business opportunities, is a crucial requirement in European society. In this area, small and medium-sized businesses, which account for two thirds of jobs in Europe, face major difficulties, such as access to financing, lack of equity and overregulation. It is worth bearing in mind that 50% of such businesses fold within less than five years³.

2.2 In recent months, entrepreneurship has quite rightly been receiving attention at Community level, highlighted by the adoption by the European Commission of a communication on the subject and the Council agreement on the importance of entrepreneurship for competitiveness, growth and employment. It is also necessary that this concern be reflected at national, regional and local level, so that at the appropriate level a contribution may be made to fostering an entrepreneurial culture and facilitating its development.

2.3 A enterprise culture has various aspects, all of which must be acted upon if we wish to promote entrepreneurship and thus boost competitiveness and growth in Europe.

2.3.1 *Culture*: There is a need to foster a risk-taking culture in Europe. This calls

³ The European Observatory for SMEs; Fifth Annual Report 1997 (Page 140)

for a change in mentality, starting in schools, so that business activity is regarded in a positive light as a professional career within everyone's reach. Business people are not born as such, they are self-made. This means introducing measures to encourage people to go into business and providing them with the necessary training.

Similarly, there is a need to remove the social prejudices in Europe against business failure. In this respect, the United States, where entrepreneurs in difficulty are not regarded as "losers" and are allowed to try again, provide a good example.

2.3.2 *Training*: Not only should people be encouraged to go into business, but they should also be given the education and training necessary to do so. Life-long training should also apply to people in business.

Moreover, there is a need to enhance links between businesses and education training systems, for both university education and vocational training, in order to inject these with the dynamism necessary to train professionals to meet present and future needs in society as a whole and particularly in companies, for management and more technical positions. This would go a long way towards alleviating the huge problem of youth unemployment in Europe, which in 1996 stood at more than 20%, compared to 12% in the United States and less than 7% in Japan⁴.

2.3.3 *Innovation*: The practical application of technological innovations requires greater cooperation between research centres and businesses for optimum results. Promoting technology parks, where there is greater synergy between large companies, small businesses and research centres, is a priority measure. The establishment of a European patent would facilitate the application of innovation in business.

In this respect the EU fares less well than the United States and Japan, which respectively earmark 2.5% and 2.8% of GDP for research. On average, the EU sets aside 1.8% for this purpose.

Lastly, it should not be forgotten that high-technology sectors hold out the greatest growth potential.

2.4 As the Commission points out in its Communication on *Fostering entrepreneurship in Europe: priorities for the future*⁵, good macro-economic results are crucial to promoting entrepreneurship. A stable, and therefore predictable, macro-economic environment makes it easier for entrepreneurs to take risks and invest.

2.5 Businesses in Europe today operate in an environment enhanced by the creation of the single market and the imminent introduction of the single currency.

2.6 The advantages of the single market are self-evident. According to European Commission estimates, Community income rose in 1994 by 1.1-1.5% more than it would have without the single market. However, the operation of the single market needs to be improved so that it is effectively completed. A striking example of existing obstacles are those problems which arise when setting up a business in another Member State⁶.

2.7 The introduction of the euro will open up new opportunities for European businesses, particularly for SMEs, as it will make it easier for them to operate at inter

⁴ OECD, Employment outlook, December 1997/OECD, Economic outlook, July 1997

⁵ COM(98) 222

⁶ CES 789/98 of 27 May 1998 (rapporteur: Mr Foliás) - See also CES 1123/98 (Rapporteur: Mr Burani) - CES 1128/98 (Rapporteur: Mr Lyons).

national level and will reduce costs linked to exchange rates. The Economic and Social Committee is currently preparing a series of documents on the euro's impact on various areas.

2.8 However, there are factors which severely hinder business activity. As mentioned previously, problems such as administrative obstacles, the complexity of tax legislation and the difficulty of access to financing complicate business operations enormously. The estimated total annual cost of red tape faced by EU businesses is ECU 200 billion, i.e. approximately 3% of Community GDP⁷. Payment arrears in commercial transactions make life extremely difficult for EU businesses, in particular for those starting up and, in general, for small and medium-sized enterprises.

2.9 There is no doubt that the relevant authorities need to introduce measures to facilitate the establishment and transfer of businesses. In keeping with the recommendations of the BEST Task Force for the simplification of the business environment, it is necessary to establish a single registration centre, a single registration document and a single identification number, and to set up cooperation between the administrations involved through the exchange of information. Such a measure would go a long way towards encouraging business activity. Businesses should also have access to information and advice services, particularly in their early stages.

2.10 Relations between the banking sector and SMEs can and should be based on understanding, for the benefit of both sides.

2.11 Another very important aspect of fostering entrepreneurial spirit is the need to improve the quality of legislation, by simplifying existing legislative, regulatory and administrative provisions and thus ease the administrative burden facing European businesses, especially SMEs. This does not mean underregulation, but rather effective legislation which, adopted at the appropriate levels and in keeping with the principle of subsidiarity, helps to improve business activity.

2.12 In this context, it should be pointed out that industry costs are high in Europe as compared with the United States. This means that the main services and factors of production, such as energy, transport and telecommunications, are much more expensive in Europe than in other parts of the world⁸.

2.13 It is a very positive sign that the Commission has included entrepreneurship in its employment guidelines for 1998, as adopted by the Council on 15 December 1997, and it should continue to include this principle in its guidelines for coming years.

2.14 In addition, the exchange of information on entrepreneurship should be supported as a means of benchmarking.

2.15 The European industries and businesses that are able to prosper in this new environment characterized by globalization and rapid development of information technology will form the hub of the future economy and provide its main source of employment.

⁷ Source: COM(1998) 222 Developing the entrepreneurial spirit in Europe: Priorities for the future. Page 5/Speech by Commissioner Cresson at Coventry, 18 May 1998.

⁸ Source: International Road Transport Union IRU, International Energy Agency, International Telecommunications Users Group, and OECD Communication outlook 1997

3. Investment

3.1 These challenges call for serious action, e.g. investment in R&D, training, new equipment and facilities, and new products. Applications of use to businesses must flow logically from research activity. An appropriate strategy for penetrating new markets is also required.

3.2 Businesses will only be able to take risks, i.e. undertake investments leading to more growth and thus more jobs, in a stable economic and social environment. The process of economic and monetary union and, more specifically, the degree of economic convergence achieved, have already produced a healthier macroeconomic climate.

3.3 As highlighted earlier, SMEs do not have adequate equity capital and so find it extremely difficult to secure access to financing. To foster entrepreneurship, entrepreneurs must have access to financing tailored to the specific needs of the business at any given time (start-up, intermediate and development phases) and offered on reasonable terms.

3.4 Today, no one is in doubt as to the suitability of the risk capital markets as a vehicle for channelling this financing towards businesses. This is reflected by widespread use of the instrument in the United States, where the risk capital market is favoured by rapidly expanding SMEs.

3.5 EU risk capital markets remain very limited and fragmented, as there are still many regulatory and fiscal barriers restricting their development and, as a result, job creation. The Commission initiative approved by the Ecofin Council to eliminate such obstacles should be welcomed⁹.

3.6 The volume of risk capital in the European Union is lower than in the United States. It would be advisable to inject greater dynamism into this instrument, gearing it more towards higher risks, high-technology investment sectors and company start-ups.

3.7 The introduction of the euro will encourage integration of the financial markets and, as a result, the development of a large European risk capital market. This should provide financial instruments that will promote business activity, so that businesses will no longer be mainly reliant on other types of financial resources, such as debt to the banking sector, which does not have the desired effect on growth and job creation. The Luxembourg European Council acknowledged the importance of large pan-European capital markets for job creation.

3.8 Following the Amsterdam European Council held on 16 and 17 June 1997, the European Investment Bank adopted the Amsterdam special action programme designed to generate investment possibilities conducive to job creation in Europe. Measures include a European Technology Mechanism designed to provide risk capital for small and medium-sized businesses in the high-technology sector. Such a dynamic approach by the EIB provides a good example of measures that could be adopted to encourage investment in the EU.

⁹ Communication on risk capital: a key to job creation in the European Union, 31/03/98

3.9 In its opinion on the Commission Communication on the Proposal for guidelines for Member States' employment policies 1998¹⁰, the Committee noted the link between the line of action for entrepreneurship and the EIB's action plan, highlighting its importance for encouraging growth and investment, especially in SMEs. The Committee urged the EIB to adopt a more risk-taking attitude focusing on projects which could increase job-creation capacity and the quality of employment.

3.10 In this respect, the ESC wishes to restate the importance of boosting investment within the EU and of consulting the Committee on future work in this area.

3.11 The Committee also welcomes the Council Decision on financial assistance measures for innovating and job-creating SMEs¹¹.

3.12 As indicated in the Commission White Paper on Growth, Competitiveness and Employment (1993), fostering competitiveness and sustainable economic growth is the main weapon for combating unemployment.

3.13 There is no escaping the fact that, over the past 25 years, the percentage of total employment accounted for by the public sector has increased substantially in Europe while remaining steady in the United States and Japan. Today, public sector employment (over and above employment in state-owned enterprises) accounts for 18% of total jobs in the EU, compared with 15% in the United States and less than 10% in Japan¹². However, experience shows that it is first and foremost the private sector which can create stable employment without harming the economy, e.g. by producing government deficit levels which cannot be allowed in a Europe with a single currency. It is nevertheless essential to create the circumstances in which the public sector can play its role in job creation.

3.14 In this regard, the Competitiveness Advisory Group, chaired by **Mr Jean-Claude Paye** stated its conviction, in its November 1997 report on Competitiveness for Employment, addressed to the Commission President and the Heads of State and Government at the extraordinary European Council on employment (20 and 21 November 1997), that the only way of achieving, fully and sustainably, the objective of creating jobs and reducing unemployment is through competitiveness¹³.

¹⁰ OJ No. C 19 of 21 January 1998 (rapporteur: Mrs van den Burg)

¹¹ OJ No. C 157 of 25 May 1998 (rapporteur-general: Mr Pezzini)

¹² OECD, Historical statistics

¹³ Competitiveness Advisory Group: Competitiveness for Employment, November 1997, page 4.

III. EMPLOYABILITY, JOB CREATION AND THE FUTURE OF LOW-PRODUCTIVITY LABOUR

1. Introduction

1.1 In its recent opinions on the European Council on Employment¹⁴ and on the Commission Communication - proposal for guidelines for Member States' employment policies 1998¹⁵, the Economic and Social Committee expressed its views on the labour market in some detail, and drew up a list of policy priorities.

1.2 The present opinion considers the labour market in the light of the more general issue of social policy and economic performance. The premise is that a high level of employment is both a prerequisite for, and the result of, high and sustainable economic growth.

1.3 Experience over the past few years has shown that there is nothing automatic about job creation; on the contrary, everyone must join forces to meet the tremendous challenge to be faced at the threshold of the new millennium.

1.4 For an upward spiral to take hold and be perpetuated, the priority task is to reconcile different interests and demands. A corporate competitiveness strategy, for instance, should be reconciled with the workforce's desire for education and training on the grounds that this enhances labour productivity. Similarly, environmental protection should be linked to the aim of a high level of employment by backing sustainable economic growth.¹⁶

1.5 One of the issues still to be resolved is how to integrate employment and social policy into a macroeconomic policy mix.

2. Employability

2.1 Employability is a keyword in the Guidelines for Member States' Employment Policies 1998. The Commission communication defines this term as follows¹⁷: "Employability means the capacity for people to be employed: it relates not only to the adequacy of their skills but also incentives and opportunities offered to individuals to seek employment".

2.2 The Economic and Social Committee takes the view that the labour market's biggest and most urgent problems are youth and long-term unemployment.

2.2.1 Upskilling young people should be based as far as possible on their wishes and aptitude. Industry, government and society should take account not only of the technical and economic factors which determine economic growth, but also, to the same extent, the social factors involved (including education, participation, equal opportunities and environmental impact).

2.2.2 The Economic and Social Committee sees education as an integral part of

¹⁴ OJ No. C 355 of 21 November 1997, rapporteur: Mrs van den Burg, co-rapporteurs: Mr Löw and Mr Pezzini.

¹⁵ OJ No. C 19 of 21 January 1998, rapporteur: Mrs van den Burg.

¹⁶ Cf. Communication from the Commission on environment and employment (building a sustainable Europe), COM(97) 592 final, 18 November 1997

¹⁷ Commission Communication - proposal for guidelines for Member States' Employment Policies 1998, COM(97) 497 final, 1 October 1997, section III: creating a new culture of employability, first paragraph

normal life and of employment relationships, and thus a task for society as a whole, in which all should play their part.

- Individuals should recognize the need for life-long learning and actively seek out education and training.
- Schools and parents will increasingly be called upon to pass on the necessary skills and to foster a personal and collective sense of responsibility, so that individuals can meet this challenge.
- Employers or government and society should use targeted education schemes to foster workers' human capital.

2.2.3 Long-term and recurring unemployment not only involves loss of income, but brings with it frustration and a sense of hopelessness which have negative side-effects and generate costs for society. Consequently, elements within the social security system which promote and sustain human resources need to be specifically expanded and fostered.

2.2.4 Efforts should be made at European level to identify best practices as in many Member States new practical methods are now being tested or have already proven their worth. Denmark is a good case in point. There, a targeted job-rotation system is being tested, linked to upskilling schemes. In Germany, workers who so wish may work intermittently for their employer during the paid leave due to them as new parents. In Sweden, periods of further training may, under certain conditions, be recognized as contributory periods for pension insurance. The Economic and Social Committee feels that many of these are good starting points. However, when transposing schemes from one Member State to another, local circumstances have to be taken into account.

2.3 Broadly speaking, now more than ever, both social policy and labour market policy should be expanded towards a policy based on action, motivation and the imparting of skills. In doing so we must not, on the one hand, lose sight of the additional priority of maintaining the employability of those in work. Indeed, one way to combat unemployment is to ensure that it does not arise in the first place. In this sense, it is essential to pursue a programme of preventive labour market and social policy. On the other, however, it is important to work for the active integration of the unemployed by means of appropriate labour market and social measures, since the psychological and social repercussions of joblessness are already acute. In this regard, mention should also be made of the importance of charitable organizations as an independent component of the welfare state in Europe.¹⁸

2.4 It is important to integrate any schemes into a coherent, macroeconomic policy mix in order to take account of their impact on the economy as a whole.

2.5 Regional, social and occupational mobility of workers is a particular priority here. Increased worker mobility is a sign of flexibility, which enhances the entire economic process. That said, mobility cannot be an end in itself. Consideration should be given to what can be done to avert the risk of people becoming rootless.

2.5.1 Regional worker mobility, as a way of maintaining and expanding employability, remains very much underdeveloped, particularly in international terms. Even though, in the wake of Maastricht, formal restrictions on personal mobility are increas

¹⁸ Cf. the ESC's Own-initiative Opinion on cooperation with charitable associations as economic and social partners in the field of social welfare, OJ No. C 73 of 9 March 1998 (rapporteur: Mrs zu Eulenburg).

ingly being removed, cultural, linguistic and social barriers remain.¹⁹ In this context, promoting cross-border cultural projects in order to foster international worker mobility is an important task of European policy which the Economic and Social Committee feels is not being given adequate attention in the employment policy debate. The Communication from the Commission on cohesion policy and culture: a contribution to employment²⁰ analyses both the direct and indirect effects of "culture" on employment. The Economic and Social Committee would like to see more work done on the basis of this analysis in order to bring out hidden potential.

2.5.2 Social mobility is made a reality by, in particular, an education and training system which guarantees equal opportunities.

2.5.3 As for occupational mobility, it is particularly important that the competitive sector of the economy does not become walled off from the low-labour-productivity sector potential. Social and labour market policy should ensure that it is possible to move between sectors with ease.

2.6 Another aspect to be considered would be the extent to which social and labour market policy can foster a "risk culture". In this context, it is important to get the balance right between flexibility and security.

3. Job creation

3.1 In a number of Member States a discussion is under way on the subsidizing of low wages, negative income tax and basic pensions, with the overall aim of making low-productivity jobs viable. The idea is that the employer pays only the wages warranted by productivity, while subsidies still assure the employee of an adequate income. The ESC does not wish to dismiss such considerations in principle, but would warn of the danger of possible knock-on effects. It therefore calls on the Commission to submit a study on the issue. Questions to be clarified include, in particular, the motivating potential of wage subsidies as opposed to benefits, the financing of such subsidies and their place within the economy as a whole.

3.2 A closely related issue is the proposal to establish a differentiated value added tax system as part of structural policy, with lower tax rates in labour-intensive sectors. Just as with possible measures under 3.1 above, one problem lies in defining the fields where this might be useful. In this regard, the Economic and Social Committee would stress the need for transparent procedures involving all the relevant groups in society.

3.3 A debate is also under way in a number of Member States on revamping the financial basis of social security schemes.

3.3.1 The Economic and Social Committee has repeatedly deplored the fact that European Union trends in income tax and social security contributions are extremely unfavourable to employment, with an excessive burden of charges on employed labour.²¹

¹⁹ The Economic and Social Committee welcomes the Communication from the Commission on an action plan for free movement of workers, COM(97) 586

²⁰ COM(96) 512 final. The ESC also welcomes the internal debate currently under way at the Commission on culture, the culture industries and employment (Commission staff working paper) and would urge that further intensive work be done on this issue.

²¹ ESC Opinion on taxation in the European Union - report on the development of tax systems, OJ No C 296 of 29 September 1997, rapporteur: Mr Geuenich, or the ESC Opinion on the European Council on Employment, OJ No. C 355 of 21 November 1997, rapporteur: Mrs van den Burg

3.3.2 The Committee therefore fundamentally welcomes evaluation of how to broaden the assessment basis for social security system funding²². In some Member States, this is being discussed in terms of a "value added" levy. This means that the entire gross value added by companies is taken as the basis for social security contributions, as opposed to the total wage bill alone.²³

3.3.3 First of all, the Economic and Social Committee recognizes that there is a plausible argument here. Placing the burden of charges one-sidedly on the labour factor - as many Member States did in the past - resulted in distortion. Labour became relatively expensive, leading increasingly to investment in rationalization. Unemployment followed. A "value added" levy as an alternative method of financing is designed to rectify the current distortion and thus bring the relative price of capital and labour into equilibrium. The aim is not to raise aggregate contributions but to change their composition. It is therefore essential to maintain strict neutrality as to yield.

3.3.4 Empirically, this line of argument would appear to be borne out. Two European Union countries - the United Kingdom and Denmark - largely fund their social benefits from general tax revenue, and not by placing the burden on employed labour²⁴. Both these countries also have relatively low unemployment.

3.3.5 However, there is one major objection which must not be overlooked. Making capital relatively more expensive curbs investment profitability. If other conditions remain the same, investment will drop.

3.3.6 A further problem is that when investment falls, the associated technical progress slackens too. Again however, the counter-argument is that, with less incentive to press ahead with rationalization investment, the technical progress that occurs will involve fewer job losses. Despite initial uncertainty as to the overall impact on jobs of funding social security by a value-added levy, the Economic and Social Committee is very interested in the debate on the subject.

3.3.7.1 The Economic and Social Committee is not unaware that a venture of this kind is a "hot potato". Even if, theoretically, the idea is viewed positively, considerable resistance may be expected, as there will be both winners (labour-intensive sectors) and losers (capital-intensive sectors). It is therefore very important to proceed with caution and with the consistent involvement of management and labour. It is also important to coordinate any possible revamping of contribution systems at European level in order to preclude distortions in the single market.

3.3.7.2 The Economic and Social Committee calls on the Commission to examine this whole area in a Green Paper and expresses its willingness to become actively involved in the consultation process.

3.4 Likewise, consideration should be given to the possible role of a minimum

²² In some member states this discussion has been broadened to cover taxation policy as a whole.

²³ For a detailed discussion of the concept, a precise definition, the statistical delimitation and possible problems of calculation, see a study published by the Austrian Institute for Economic Research (Österreichisches Institut für Wirtschaftsforschung): The value-added levy as an alternative to wage-related employer contributions to the family equalization-of-burdens fund (Wertschöpfungsabgabe als Alternative zu lohnbezogenen Dienstgeberbeiträgen zum Familienlastenausgleichsfonds), February 1997. Discussions on this issue are also under way in the United Kingdom and France.

²⁴ Cf. the Report from the Commission on Social Protection in Europe 1997 - Executive Summary, COM(98) 243 final, which states that, in the United Kingdom, social security contributions account for 40% or less of social protection funding, while in Denmark that figure is precisely just 23.5% (page 10)

tax rate for energy. Targeted ecological taxation offers market incentives for energy and environmental conservation while, at the same time, easing payroll taxation. As such, it could set a course of environmentally sound and employment-intensive growth²⁵. In this connection, the Economic and Social Committee would note the conclusions of its Opinion on the proposal for a Council Directive on restructuring the Community framework for the taxation of energy products.²⁶

4. Future of low-productivity labour

4.1 The globalization of the economy puts particular pressure on jobs and wages in low-productivity sectors. A distinction should be made between inter-sectoral and intra-sectoral considerations.

4.1.1 *Inter-sectoral*: Globalization accelerates structural change. Low-productivity activities can be more readily shifted to countries with more unskilled labour and, consequently, lower wage levels. It is important that as low-productivity sectors shift elsewhere, new sectors are established which hold promise of future growth. That is the way to create safe jobs. To do this, employees have to meet the skill requirements of such growth sectors. Infrastructure, particularly where new technologies are concerned, has to be of a superlative standard. A high level of social cohesion is an integral part of the stable economic conditions needed to ensure that investments which create jobs offer a financial return.

4.1.2 *Intra-sectoral*: In its Opinion on Employment, Competitiveness and Economic Globalization²⁷, which was adopted by a large majority, the Economic and Social Committee coined the term “asymmetric globalization”. This means that, while businesses are increasingly becoming internationally mobile, the economic policy institutions in place continue to operate too much within a national context. On the labour market, the opinion notes (point 2.1.2): “Asymmetry develops because job-seekers have to operate at a regional or local level, whereas employers can base their decisions on global calculations.”

4.2 The Economic and Social Committee reiterates the call to those involved to play their part in building up collective bargaining structures which can operate internationally, a demand already articulated in the above-mentioned opinion (point 2.1.4): “Internationally effective collective bargaining procedures and forms of social dialogue would be created to re-establish the negotiating balance on the labour market”. Appropriate attention should be paid here to regional, national and sector-specific data²⁸.

4.3 It is in the long-term interests of everyone concerned to avoid competition among workers in which one seeks to undercut the other. As the new millennium beckons, the basis of a successful economy is, essentially, dialogue and cooperation among all players. This applies both to working together within businesses and to politics as a whole²⁹. The current situation in south-east Asia forcefully demonstrates that

²⁵ cf. chapter 10 of the White Paper Growth, Competitiveness and Employment

²⁶ OJ No. C 19 of 21 January 1998, rapporteur: Mr Schmitz

²⁷ OJ No. C 158 of 26 May 1997 (rapporteur: Mrs Konitzer)

²⁸ Initial examples have already emerged which are worth emulating. The International Transport Workers' Federation (ITWF), for instance, has developed a world-wide collective agreement for the crews of ships flying flags of convenience; already, this agreement protects more than a third of all such workers across the world.

²⁹ See, for example, the introduction to the Resolution of the European Council on growth and employment adopted in Amsterdam on 16 June 1997: “Economic efficiency and social inclusion are complementary aspects of the more cohesive European society that we all seek. Taking account of this statement of principles, the European Council calls upon all the social and economic agents, including the national, regional and local authorities and the social partners, to face fully their responsibilities within their respective sphere of activity.” OJ No. C 236 of 2 August 1997, page 3.

economic problems can develop into a serious crisis if there is an absence of any regulatory framework in economic policy and a lack of social stability prevails. The Economic and Social Committee welcomes, in this connection, the fact that some far-sighted companies which operate transnationally have already set up world-wide structures to represent workers' interests (for example, the global works council set up at Volkswagen).

4.4 The Economic and Social Committee endorses the European Parliament's recommendation³⁰ to the Commission on the development of a code of conduct for European multinationals on the basis of the relevant ILO conventions.³¹ It establishes the following fundamental rights:

- promoting trade union freedoms and collective bargaining;
- combating forced labour;
- combating child labour;
- abolishing job discrimination and ensuring equal pay for men and women.

4.5 As far as the work of government is concerned, the problem has to be faced of competition for internationally mobile real investments from transnational companies. Economic globalization and the increasingly integrated financial markets tend to lead to the taxation policies of individual countries being increasingly geared towards guaranteeing transnational companies short-term financial return, so as to attract their investments. The Economic and Social Committee suspects that this has contributed to excessive taxes and charges being levied on employed labour, which is relatively immobile³². Such a situation is not ideal in macroeconomic terms, and brings with it negative repercussions for the labour market.

4.6 This does not, however, mean that the Economic and Social Committee is generally opposed to tax incentives to foster entrepreneurial initiative, as proposed by the Commission³³. In Part II, point 2 in particular, of this opinion, the Committee stresses the importance which fostering entrepreneurship can have for employment.

4.7 In this context, the Economic and Social Committee welcomes the Council decision of 13 December 1997 which states that, in terms of broad economic policy guidelines, "more attention should...be paid...to improving...education and training, and to making taxation and social protection systems more employment-friendly." This, however, is just one example of how coordinating major policy areas at European level entails active labour market and social measures. Other areas where action is still needed include fiscal and environment policy.

³⁰ European Parliament, Resolution on industrial relocation and direct foreign investments in third countries, 15 January 1998, point Q 2

³¹ The Committee has already addressed this subject on a number of occasions. On social clauses, cf. the Opinion on the global challenge of international trade: a market access strategy for the European Union, rapporteur: Mr van Dijk, especially point 5, OJ No C 56, 24 February 1997. The Opinion also outlines the relevant ILO conventions. Point 5.3 states that "All these ILO Conventions have been ratified by a large majority of countries, so these conventions might be seen as internationally accepted standards".

³² Cf. point 3.3, the Opinion on taxation in the European Union (OJ No. C 296 of 29 September 1997, rapporteur: Mr Geuenich) calculated that, between 1980 and 1994, the tax burden on employed labour increased from 34.7% to 40.5%, while the rate for the other factors of production decreased from 44.1% to 35.2% (implicit tax rates, including social security contributions).

³³ Cf. Communication from the Commission to the Council on Fostering entrepreneurship in Europe: priorities for the future, COM(98) 222 final. In relation to taxation, Part II, Point 2.5 states that "Encouraging investment in new businesses, e.g. through tax incentives for Business Angels; passing on a business to employees... Member States should also consider the relative taxation of debt and equity financing with a view to strengthening SMEs' equity capital base".

4.8 The Economic and Social Committee would warn against neglecting local-level employment potential. There is still scope for creative action here. In earlier opinions, the ESC has noted the possibilities offered by innovative public-private partnerships which, through systematic promotion and support measures, can help meet urgent supply-side needs and realize innovative projects.

4.9 The Economic and Social Committee notes that simple activities with low productivity are often under-represented on the market in Europe.

4.9.1 This may be due firstly to the fact that ancillary wage costs hit such activities particularly hard, as does the imposition of levies on value-added.

4.9.2 But there is possibly a second, cultural factor: The ESC suspects that to date no real service culture has been able to develop among European consumers. This may be due to various causes, depending on the case. For instance, it may not be considered good practice to have simple tasks done by other people. Or the exercising of such an activity may be associated with a negative image. Or it may be considered a good thing, or less cumbersome, to do things for oneself. Concrete examples of this can be found in the widespread tendency for people to clean their own private dwellings regularly, the do-it-yourself movement regarding simple manual jobs around the home or the increasing trend towards self service in supermarkets and commerce.

4.9.3 All in all, this is leading simple services in particular are being forced into the “shadow” economy or are done by people themselves as part of the housework.

4.9.4 It is difficult to approach this issue as part of an analysis of economic policy since it is individual preferences which are the subject of a “culture critique”. However, the ESC suspects that there may be a latent potential for employment here. It would like to see the Commission draw up proposals on how this potential could be activated so that, possibly, new jobs might be created. Care would have to be taken here to see that the resulting new employment relationships complied with normal practice and were free from discrimination.

4.10 The wider distribution of productive capacity could lead to a smaller proportion of the population looking to paid work as their only source of income. The Commission, in its Pepper report, also noted that worker profit-sharing and equity-participation schemes increase productivity³⁴. The Economic and Social Committee believes that wealth creation across large sections of the population is a long-term process which should be accelerated.

³⁴ The first proposal for a Council Recommendation on the promotion of participation by employed persons in profits and enterprise results (including equity participation) dates back to 1991 (OJ No. C 245, 20 September 1991, page 12). A further Council Recommendation 92/443/EEC on the same issue followed on 27 July 1992 (OJ No. L 245, 26 August 1992). The Pepper report itself is more recent (Report from the Commission on the promotion of participation by employed persons in profits and enterprise results (including equity participation) in Member States, 1996, COM (96) 697 final).

IV. ADAPTABILITY AND EQUAL OPPORTUNITIES IN THE EUROPEAN FRAMEWORK OF SOCIETY

1. Adaptability

1.1 The employment guidelines for 1998, published by the Commission, commend the promotion and encouragement of adaptability to the restructuring brought about by the introduction of new technologies and new market conditions. The changes are so extensive that the Commission sees this process as the emergence of a new economy with technologically more advanced enterprises and a growing services sector, with an increasing number of small firms.

1.2 If enterprises are to be viable, and remain viable, their ability to adapt can be critically important. A key requirement is that enterprises should be able to anticipate changes emerging both from the market place in which they compete and from the advances in methods and technology which determine the ways in which resources, including human resources, are used. This becomes a responsibility which impacts on management and employees. Improved management methods, changes in job content and types of employment, the introduction of new technologies and modifications of products and services are all aspects of the type of continuous change which enhances performance.

1.3 For employees, the need for adaptability is often linked to uncertainty and a perception of insecurity. To gain a constructive response to the need for change, ensuring that employees have adequate information and opportunity for consultation and co-operation is essential. Sometimes job prospects may be adversely affected either from changed processes, improved productivity, or downsizing. Uncertainty in the security of jobs is a reflection of the risks carried by many businesses that their market may change or their products may be edged out by other new products or technologies. A feature of a faster rate of technical change is that employees, as well as enterprises, carry an element of risk which can be partly offset by adaptability and flexibility in individual jobs.

1.4 The Commission recommends that the Social Partners should negotiate, at appropriate levels, "agreements on work organisation and flexible working arrangements, including where appropriate reductions in working time, with the aim of making enterprises productive and competitive, and achieving the required balance between flexibility and security³⁵." The ESC recognises that this is established practice in the majority of enterprises and acknowledges that these are critical issues which must continue to be tackled positively and constructively by the Social Partners.

1.5 The Commission also recommends that Member States should create a framework for more adaptable types of employment contract allowing for more diverse forms of employment. This should also give greater job security and occupational status to those with different types of contract. It should also have an objective to ensure that people who opt to work reduced hours are not penalised in terms of career development or social security protection. The ESC commend this approach to the authorities in the Member States.

1.6 The Social Partners will have a responsibility to modernise the organisation of working arrangements but a prerequisite for this is that enterprises should be moti-

³⁵ Proposed Guidelines for Member States Employment Policies 1998: COM(97)497.

vated to adapt to the changed conditions. Member States can encourage this more flexible approach within enterprises by removing any obstacles to the promotion of investment in enhanced skill levels and, possibly, the development of in-house training. Alternatively, Member States and employers, where appropriate, should consider other methods of offering employees incentives to take further training opportunities to enhance their skills.

1.7 The Commission has suggested that Member States should re-focus their policies to upgrade the labour force, improve the functioning of the labour market and aim to encourage the creation of sustainable jobs.

1.8 The ESC sees these Commission recommendations as a basic minimum set of actions to encourage greater adaptability in enterprises and in the labour force. Because the operation of the labour market differs significantly between each of the Member States, the methods used to improve the functioning of the labour market must reflect the particular social, economic, and cultural traditions in each State. However, the development of the Single Market should not be impeded by actions in any one (or several) Member States which varies the form of labour market regulation in a manner which unreasonably distorts the level of employment in favour of themselves but against the overall interest of the Single Market.

1.9 To some extent the needs of employment providers and job seekers are poorly matched. For example, some workers are offered only part-time or temporary contracts, when they would prefer full-time work. Others would like to scale down to part-time but are unable to do so. Many people are looking for employment, while others reluctantly (or willingly) work overtime. This problem of co-ordination is linked to social policy, since, for example, the payment of social security contributions hinges on the individual.

1.10 The ESC feels that consideration should be given at European level to the extent which the current system of social security and employment relationships hampers flexibility, as well as to ways in which these areas can either be deregulated or made subject to revised rules, in order to strike a balance between flexibility and security. The most appropriate combination would offer an acceptable level of security in conditions which gave positive encouragement for people to have the incentive to find employment.

2. Equal opportunities

One of the usual features of social policies is a positive concern to strengthen measures which are directed to enhancing equal opportunities for groups who, for various reasons, may be unreasonably disadvantaged.

2.2 The labour market is a critically important part of society when considering the application of equal opportunities policies. Opportunities should be widely available and people should be encouraged to take advantage of facilities to equip themselves as well as possible to contribute through the labour market both to their own prosperity and to the benefit of the whole society. In that environment, recruitment by employers to find the person best equipped to contribute to the work of the employer is both a rational economic and a rational aspect of social policy. In addition, a critical feature of a modern economy is that enterprises should maximise their use of the most suitable people as employees and encourage the life-long development of skills and training.

2.3 Equal opportunities are not always a guarantee of securing equal outcomes. Making use of opportunities, when they are available, also calls for efforts from individuals to enhance their own prospects. Some elements of inequality may reflect characteristics which influence outcomes and some degree of inequality may take time to reduce if, for example, social policies can only influence new entrants to the labour market.

2.4 Nevertheless, within the EU there are a number of indications of inequalities which would, desirably, be reduced. One of the best methods to reduce inequalities in the labour market would be to secure full employment, or get nearer to full employment. Whilst unemployment is high enough to be a cause for concern, inevitably those who remain unemployed will reflect aspects of the current inequalities.

2.5 Policies to promote equal opportunities should, inter alia, take account of:

- a) unemployment that is too high;
- b) those unemployed through lack of skills, or whose skills have been displaced;
- c) those unemployed for a longer period;
- d) young people who remain unemployed;
- e) unemployment of women, where women experience higher unemployment than men (or vice versa in some cases);
- f) spatial differences in the experience of unemployment (taking account of variations in the definition of unemployment in different Member States);
- g) higher unemployment amongst ethnic or religious minorities;
- h) people with handicaps which limit their employment opportunities;
- i) employment earnings which are officially considered to be too low;
- j) education and training needs and opportunities;
- k) lower participation rates, in the labour force, of women than men;
- l) promoting equality of opportunity of women in the whole occupational structure;
- m) the interaction of taxation and earnings which generates a disincentive to seek employment;
- n) the interaction of "undeclared work" and social benefits which gives an incentive to the expansion of the "black" (or "shadow") economy.

2.6 Examining and agreeing on indicators of a lack of adequate equal opportunities is only a first step. Policies must be devised which reduce the degree of inequality and in a manner which is not prejudicial to economic performance.

2.7 This dichotomy is at the heart of the creative tensions, or synergy, between social policy and economic performance.

V. CONCLUSIONS

1. This Opinion has been prepared for the Economic and Social Committee because there is a recognition that, within the EU, a first priority is the need to enhance the employment opportunities of those who are unemployed. Unemployment is unacceptably high. The success of the European Union in so many different aspects of economic, social and environmental policies is not in doubt. What is necessary is that the European model of society should embrace a more successful outcome in terms of employment for people who are seeking work.

2. With these over-riding aims, there are many policy issues which can contribute to better answers. In this Opinion, the ESC has examined one critical area where policies interact: the way in which economic performance may be influenced by social policy. The Opinion emphasises that social policies are necessary and can be mutually supportive of economic performance. However, it also recognises that, without careful co-ordination, social policies may function in ways which are counter to or marginally disadvantageous to, economic performance.

3. The ESC has a concern that these issues have not been fully acknowledged in all aspects of EU and national policy and suggests that this Opinion offers a framework for their further consideration.

4. In the search for measures to enhance the level of employment in the EU and reduce the current unacceptably high levels of unemployment, the ESC acknowledges that there is a complex matrix and mix of economic and social policies which are further influenced by policies to promote sustainability and integrate different levels of responsibility as reflected in the degree of subsidiarity which is needed in the range of initiatives. No single action, alone, will be adequate. Nevertheless, whilst the European Social Model represents a complex series of actions, the European Union has the ingenuity, wealth and cohesion to develop ideas which can offer a world-class example of progressive thinking which combines economic improvements and advanced standards of social protection.

5. This challenge is so critical that the ESC believes that a major review of the interaction of current economic and social policies is merited. Such a review should take account of the scope for action by the European Union, acting through the setting of the guidelines for employment and economic policies, and action by the Member States within the parameters of subsidiarity. In particular, the review should take account of the impact of the strengthening of the single market and the evolution of economic and monetary union.

6. This Opinion has established part of the framework and set out some of the constraints which would be relevant to such a review.

7. The ESC has already indicated its support for the introduction of Guidelines for Employment Policies as a consequence of the Council conclusions at Amsterdam. The ESC also endorsed the broad principles set out in the Guidelines for 1998.³⁶

8. The heads of state and government of the European Union called for the creation of conditions to boost and encourage entrepreneurs and small businesses, both at Community and national level. Furthermore, at the European Council in Cardiff, it was reaffirmed that the full benefits of Economic and Monetary Union and the Single Market can only be achieved through a strategy that boosts employment by improving competitiveness and

³⁶ ESC Opinion on the European Employment Council, OJ No. C 355 of 21 October 1997, rapporteur: Mrs van den Burg, and on the Communication from the Commission on guidelines for Member States' Employment Policies 1998, OJ No. C 19 of 21 January 1998, rapporteur: Mrs van den Burg.

economic and social cohesion.

At the meeting of the European Council held in Cardiff (June 1998) the impact of the Employment Action Plans submitted by the Member States was assessed. The ESC has noted with satisfaction that the Council concluded that the Member States were making serious efforts to enhance the employability of the active population, actively promoting the development of skills and lifelong learning, seeking to improve the conditions for SMEs and the self-employed and taking measures to promote work as opposed to dependence. These are objectives which are supported by the ESC and are consistent with the ideas expressed in this Opinion.

9. The proposal of the European Council that the Social Affairs and ECOFIN Councils should continue to work together to prepare, inter alia, the 1999 Employment Guidelines is a welcome step. In particular, the ESC looks forward to an opportunity to examine the Guidelines which are to be presented to the Vienna European Council later this year.

10. The ESC supports the Council in the search for better ways of linking the enhancement of economic performance and the evolution of caring social policies. The Guidelines for Employment Policies are a useful innovation which will be refined as they are reviewed annually.

11. The key policies outlined for 1998 have already been shown to be relevant and constructive. Each has been reviewed in this Opinion and the ESC believes that there are now indications of how they can be made even more relevant and have continuing, and increasing, impact on employment and social policy.

12. The ESC acknowledges that the need for increased employment opportunities as the first priority for the EU. The Council, Commission, Parliament, Committee of the Regions and the ESC each has a role to play. It is a challenge on which the ESC is particularly able to offer advice which draws on the wealth of experience of its members.

13. The challenge of increasing the number of employment opportunities is a responsibility of all the institutions, agencies and social organisations of the EU and the member states. Not only will the ESC use its opportunities to enhance the prospects for higher employment but it asks for the support of all the social organisations throughout the EU which are represented on the ESC in seeking to implement and strengthen the ideas outlined in this Opinion. Members of the ESC should ensure that the organisations which they represent face up to this challenge.

14. The employment challenge will not be solved by short-term measures alone. Some of the options are fundamental and structural. The ESC will, therefore, be seeking other opportunities to contribute to the search for even stronger measures to reduce unemployment and enhance the living standards of the citizens of the EU.

Brussels, 10 September 1998.

The President
of the
Economic and Social Committee

Tom JENKINS

The Secretary-General
of the
Economic and Social Committee

Adriano GRAZIOSI

N.B.: Appendices overleaf.

APPENDIX 1

1. The table overleaf provides a set of statistical indicators. These relate to comments in Part III, Point 4.
2. The gross profit share and net profit share columns show the distribution of income generated in Europe, USA and Japan and its development over time.
 - 2.1 Gross profit share added to the gross wage share will give one (or 100% of the income available for distribution). The basis of this income available for distribution is gross domestic product at factor cost. This corresponds to gross domestic product at market prices minus indirect taxes plus subsidies.
 - 2.2 In the case net amounts, depreciation is also subtracted. Net wage share plus net profit share also add up to one.
 - 2.3 These figures give no indication of the sectors in the economy where income available for distribution is produced (e.g. private sector compared with public sector).
3. The capital return and GDP growth columns are given by way of further explanation.
4. The figures have been statistically adjusted for the self-employed (cf. Footnote 1) to prevent distortions caused by related changes in level. This has no significant effect on the information presented in the table.
5. The following two points of information are significant:
 1. Europe's profit share has been rapidly increasing since the beginning of th 80s.
 2. This development means that Europe's profit share is now higher than inthe USA.

In its forecasts, the Commission assumes that this trend will continue.

Table 1: Profit-share and capital-return indicators

	Gross profit share ¹			Net profit share ²			Capital return ³			Growth in GDP ⁴							
	in % USA	EU15 ⁵	1991=100 USA	in % USA	EU15 ⁵	1991=100 USA	1991=100 USA	EU15 ⁵	JAP	1991=100 USA	EU15 ⁵	USA	JAP				
1961	25,3	28,2	23,9	89,4	102,5	84,5	14,9	18,1	100,7	116,0	98,4	111,8	106,1	79,1	5,4	2,5	12,0
1962	25,1	28,7	22,1	88,7	104,4	78,1	14,6	19,0	98,6	121,8	78,9	110,3	113,8	77,1	4,5	5,2	8,9
1963	25,0	29,2	23,3	88,3	106,2	82,3	14,3	19,7	96,6	126,3	86,2	108,3	117,8	82,3	4,4	4,0	8,5
1964	25,2	29,3	24,8	89,0	106,5	87,6	14,5	19,9	98,0	127,6	90,2	110,8	122,6	95,0	5,9	5,6	11,7
1965	25,5	30,2	23,6	90,1	109,8	83,4	14,8	21,0	100,0	134,6	78,0	111,7	129,2	89,9	4,3	5,6	5,8
1966	25,3	29,9	25,4	89,4	108,7	89,8	14,5	20,8	99,3	133,3	93,5	111,0	131,0	105,3	3,8	5,9	10,6
1967	25,7	29,2	28,1	90,8	106,2	99,3	14,7	19,8	99,3	126,9	115,4	112,4	124,7	121,2	3,3	2,7	11,1
1968	26,6	28,6	29,5	94,0	104,0	104,0	15,8	19,2	106,8	123,1	126,8	116,9	123,7	141,2	5,0	4,2	12,9
1969	27,1	27,4	30,1	95,8	99,6	106,4	16,4	17,7	110,8	113,5	130,9	121,8	114,5	149,7	6,1	2,7	12,5
1970	26,1	25,8	30,5	92,2	93,8	107,8	15,2	15,6	102,7	100,0	133,3	112,2	104,9	154,3	4,9	0,2	10,7
1971	25,3	26,5	26,7	89,4	96,4	94,3	14,1	16,3	95,3	104,5	100,0	106,2	109,0	128,4	3,2	2,9	4,7
1972	25,7	27,0	27,4	90,8	98,2	96,8	14,4	16,8	97,3	107,7	102,4	106,2	110,8	126,0	4,3	5,1	8,4
1973	26,0	27,3	26,8	91,9	99,3	94,7	14,7	17,3	99,3	110,9	100,8	105,6	113,9	114,3	5,7	5,2	8,0
1974	24,6	25,9	22,5	86,9	94,2	79,5	12,7	15,1	85,8	96,8	69,1	90,6	99,0	82,5	2,0	-0,4	-1,2
1975	22,6	27,0	18,5	79,9	98,2	65,4	10,2	15,4	68,9	98,7	40,7	76,9	95,2	62,4	-0,5	-0,4	3,1
1976	23,2	27,1	19,1	82,0	98,5	67,5	10,9	15,8	73,6	101,3	48,0	81,0	100,0	66,1	4,4	4,9	4,0
1977	23,7	27,6	18,3	83,7	100,4	64,7	11,2	16,3	75,7	104,5	41,5	81,5	100,8	66,2	2,6	4,3	4,4
1978	24,2	27,9	19,6	85,5	101,5	69,3	11,7	16,6	79,1	106,4	54,5	83,1	99,6	74,3	3,0	5,0	5,3
1979	24,5	27,4	20,4	86,6	99,6	72,1	11,9	15,7	80,4	100,6	57,7	84,0	94,3	74,5	3,6	2,5	5,5
1980	23,6	26,4	21,3	83,4	96,0	75,3	10,5	14,0	70,9	89,7	63,4	77,2	83,9	73,0	1,4	-0,6	2,8
1981	23,1	27,8	21,2	81,6	101,1	74,9	9,5	15,0	64,2	96,2	58,5	72,3	85,4	71,2	0,1	1,7	3,2
1982	24,2	27,2	21,5	85,5	98,9	76,0	10,5	13,8	70,9	88,5	58,5	75,5	75,0	69,9	0,9	-2,0	3,1
1983	25,3	27,2	21,9	89,4	98,9	77,4	11,5	14,2	77,7	91,0	60,2	79,7	84,8	69,7	1,8	3,4	2,3
1984	26,3	29,0	23,3	92,9	105,5	82,3	12,6	16,8	85,1	107,7	71,5	84,1	96,6	79,7	2,4	6,0	3,9
1985	27,0	28,9	25,4	95,4	105,1	89,8	13,3	17,0	89,9	109,0	87,8	87,1	99,1	92,1	2,5	3,3	4,4
1986	27,9	28,2	26,2	98,5	102,5	92,6	14,3	16,1	96,6	103,2	93,5	93,1	97,2	95,9	2,9	2,9	2,9
1987	27,9	28,4	26,4	98,5	103,3	93,3	14,3	16,4	96,6	105,1	91,9	94,6	94,9	96,9	2,8	2,7	4,2
1988	28,5	29,0	27,5	100,7	105,5	97,2	15,0	17,1	101,4	109,6	100,8	99,4	96,4	104,8	4,1	3,8	6,2
1989	29,1	28,9	28,0	102,8	105,1	98,9	15,7	17,0	106,1	109,0	100,0	102,3	103,9	103,8	3,5	3,3	4,8
1990	28,6	28,1	28,0	101,1	102,2	98,9	15,2	16,4	102,7	105,1	99,2	100,4	102,9	103,0	3,0	1,2	5,1
1991	28,2	27,5	28,3	100,0	100,0	100,0	14,6	15,6	100,0	100,0	100,0	100,0	100,0	100,0	1,5	-1,0	3,8
1992	28,1	27,2	28,2	99,6	98,9	99,6	14,5	15,3	99,3	98,1	94,3	100,1	104,7	95,7	0,9	2,8	1,0
1993	28,5	27,2	28,0	101,1	98,9	98,9	14,6	15,6	100,0	100,0	91,1	98,3	108,7	91,1	-0,6	2,4	0,3
1994	29,8	28,1	27,1	105,7	102,2	95,8	16,1	16,3	110,3	104,5	82,1	106,3	112,0	85,3	2,9	3,7	0,6
1995	30,5	28,4	26,7	108,2	103,3	94,3	16,7	16,8	114,4	107,7	76,4	109,0	112,6	80,1	2,4	2,4	1,5
1996	31,0	28,6	28,0	109,9	104,0	98,9	17,3	17,2	118,5	110,3	87,0	112,7	116,8	87,8	1,7	2,8	3,9
1997 ⁴	31,4	28,6	27,6	111,3	104,0	97,5	17,8	17,5	121,9	112,2	80,5	117,9	121,1	81,9	2,6	3,8	1,0
1998 ⁴	31,7	27,7	27,3	112,4	100,7	96,5	18,3	16,9	125,3	108,3	74,0	122,1	119,6	77,7	2,8	2,5	0,4
1999 ⁴	32,1	27,0	27,7	113,8	98,2	97,9	18,9	16,3	129,5	104,5	75,6	125,2	117,6	78,4	3,0	2,1	1,5

¹ 1998 Source: European Commission DG II

² Net operating surplus (after deductions) per unit of GDP at factor cost

³ Net operating surplus per unit of fixed capital

⁴ Commission forecasts

⁵ Including western Germany to 1990

APPENDIX 2

Recent ESC Opinions on Employment

Social policy and economic performance

Rapporteur: Mrs KONITZER

OJ No. C 287 of 22 September 1997

European Employment Council

Rapporteur: Mrs VAN DEN BURG, co-rapporteurs: Mr LÖW and Mr PEZZINI

OJ No. C 355 of 21 November 1997

Commission Communication - Guidelines for member states' employment policies 1998

Rapporteur: Mrs VAN DEN BURG

OJ No. C 19 of 21 January 1998

Green Paper - Partnership for a new organisation of work

Rapporteur: Mr MERIANO, co-rapporteur: Mrs ENGELEN-KEFER

OJ No. C 73 of 9 March 1998

Communication from the Commission on modernising and improving social protection in the European Union

Rapporteur: Miss MADDOCKS, co-rapporteur: Mr CHEVALIER

OJ No. C 73 of 9 March 1998

Commission Communication concerning the development of the social dialogue at Community level

Rapporteur: Mr VAN DIJK

OJ No. C 89 of 19 March 1997

Communication from the Commission on the social and labour market dimension of the information society "People First - The Next Steps"

Rapporteur: Mr PELLARINI

OJ No. C 129 of 27 April 1998

White Paper on sectors and activities excluded from the Working Time Directive

Rapporteur: Mr KONZ

OJ No. C 157 of 25 May 1998

Proposal for a Council Decision on measures of financial assistance for innovative and job-creating small and medium-sized enterprises (SMEs) - The growth and employment initiative

Rapporteur: Mr PEZZINI

OJ No. C 157 of 25 May 1998

Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions entitled "Towards a Europe of Knowledge"

Rapporteur: Mr KORYFIDIS

OJ No. C 157 of 25 May 1998

Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions entitled "Growth and Employment in the stability-oriented framework of EMU - Economic policy reflections in view of the forthcoming 1998 Broad Guidelines"

Rapporteur: Mr de BIGAULT du GRANRUT

CES 646/98

Communication from the Commission on environment and employment
(building a sustainable Europe)

Rapporteur: Mr PELLARINI

CES 787/98

Communication from the Commission on the Implementation of the First Action Plan on Innovation in Europe: Innovation in the Service of Growth and Employment

Rapporteur: Mrs SIRKEININ

CES 796/98

Communication from the Commission to the Council: Fostering entrepreneurship in Europe

Rapporteur-general: Mr LUSTENHOUWER

CES 803/98

Europe as an economic entity - a political challenge

Rapporteur: Mr NYBERG

CES 973/98

Social action programme 1998-2000

Rapporteur: Mr Meriano

Co-rapporteur: Mrs ENGELEN-KEFER

CES 886/98 fin

Territorial employment pacts

Rapporteur: Mr MASUCCI

CES 165/98 fin

Employment and the euro

Rapporteur: Mr GEUENICH

CES 711/98 fin

OPINION
of the Economic and Social Committee
on
Social Policy and Economic Performance

On 26/27 February 1997, the Economic and Social Committee, acting under Rule 23(3) of its Rules of Procedure, decided to draw up an own-initiative opinion on

Social policy and economic performance.

The Section for Economic, Financial and Monetary Questions and the Section for Social, Family, Educational and Cultural Affairs, which were jointly responsible for preparing the Committee's work on the subject, adopted their opinion on 14 May 1997. The rapporteur was Mrs KONITZER.

At its 346th plenary session (meeting of 29 May 1997), the Committee adopted the following opinion by 83 votes in favour, with 30 against and 11 abstentions:

1. Introduction

1.1 Until now, social policy (in its widest sense) has not been adequately integrated with macro and structural policies in a coherent policy mix. The reason for this is, in the eyes of the Economic and Social Committee, that, in the past, too little consideration was given to the ways in which social policy - and the social security schemes that spring from it - can help underpin economic performance. This opinion, on the other hand, assumes a fruitful interaction between social policy and economic performance. The white paper itself states that "the educational system, labour laws, works contracts, contractual negotiation systems and the social security system form the pillars of the various 'national employment environments'".¹

1.2 This opinion is based on the results of the conference on social policy and economic performance held under the Dutch presidency in Amsterdam from 23 to 25 January 1997. The conference undertook an in-depth analysis of the extent to which there can be a positive interplay between social policy and economic performance. The Economic and Social Committee feels the time has come to use this analysis as the basis for an agenda of specific reforms. This is the aim of the present opinion. The opinion seeks neither to pre-empt the findings of forthcoming discussions nor to prejudice policy reforms, but rather to form a base for structured dialogue.

1.3 The following section begins with a general assessment of the premise that social policy and economic performance can be mutually beneficial; this obviously has political and institutional repercussions, not least for employment.

2. The interdependence of social policy and economic performance: policy implications

2.1 Social policy and economic performance

2.1.1 Investments in the future, occupational mobility and technical innovation are crucial elements of a successful, dynamic economy. However, structural change also has adverse consequences. Many individuals will feel that economic change puts them at risk and this creates either a fear of or the reality of, greater insecurity. This is where social security comes in; founded on solidarity, it spreads risks, making life less hazardous for the individual. Sound social security schemes are thus a *sine qua non* of dynamic economic development. They can pave the way for smooth structural change, and provide trade and industry with an enhanced basis for innovation.

¹ European Commission, "Growth, competitiveness and employment", page 16.

Vocational training, qualifications and adequate protection against the impact of technical change, and against the hazards to the individual which are inherent in any forward-looking economic policy, are factors which have a positive impact on growth. Investment in human resources must go hand in hand with investment in the production process.

2.1.2 Social security also engenders a higher level of social cohesion, equal opportunities and tolerance. This too has an impact on growth, since policies framed for the longer term tend to be easier to put through, even if they are unpopular at the moment of initial impact. Together with a good, well differentiated social infrastructure, social security forms the basis for the peaceful resolution of conflicts of interest, providing a stable framework for long-term corporate policy. On the other hand, absence of social security has a direct cost in the form of exclusion and poverty, which, although difficult to quantify, undoubtedly undermine prosperity.

2.1.3 Thus, social cohesion has a positive external effect on labour productivity. This external effect is becoming increasingly relevant, as the human resources factor becomes ever more important in a knowledge-driven economy. In macroeconomic terms, increased labour productivity, at a given wage level, makes replacement of labour by capital less attractive. This boosts employment.

2.1.4 A modern system of social security can also be the basis for a favourable innovation climate. Innovations - i.e. technical progress - particularly in how work is organized, are directly affected not only by "hard" macroeconomic fundamentals but also by "soft" factors such as social cohesion and social infrastructure².

2.2 Economic performance and social security

2.2.1 A high level of economic performance releases adequate financial resources for proper social security and gives the bodies which administer it a secure future on which to build. The improvement of economic performance not only secures the financial basis for social policy, but also means that fewer people will find themselves in need of social assistance in the first place.

2.2.2 High growth rates based on sustainable development and sound competitiveness have a direct and positive impact on employment and help alleviate the burden of taxes and charges on the labour factor. People then become less reluctant to pay taxes or social security contributions and social cohesion is maintained.

2.2.3 A high level of economic performance, coupled with high labour productivity, together with other factors, is also a fundamental element in ensuring, that as far as possible, the possible negative impact of social security on incentive is kept low. A proper level of unemployment benefit which promotes employability is one way of boosting incentive to seek work.

2.3 Combining social and economic progress and implementing essential institutional reforms

2.3.1 In the light of these general considerations, the Economic and Social Committee stresses that it is possible to establish a positive link between social policy and economic performance. Policies must therefore be pursued which allow both

² The Commission Green Paper on Innovation differentiates between innovation in processes, products or services, and innovation in labour organization. The third part of Chapter II of the Green Paper speaks of a "climate of innovation".

economic and social elements to thrive. The Economic and Social Committee backs the idea of making social policy an integral part of a coherent, macroeconomic policy mix at both national and European level.

2.3.2 As the Economic and Social Committee recognizes, shortcomings remain in terms of both policy content and institutional organization.

2.3.3 As far as content is concerned, too little recognition has been given to the macroeconomic role of social policy, and the idea that social security in the widest sense of the term is merely a cost factor which the Member States and Europe can only "afford" when the economy is booming, continues to hold sway. The Economic and Social Committee feels that the adoption of an integrated approach holds out more hope of success. The Committee therefore expressly welcomes the conference on social policy and economic performance organized under the Dutch presidency of the Council and endorses the basic analysis of the general situation outlined on that occasion.

2.3.4 The Economic and Social Committee believes that the time has now come to use this analysis as the basis for an agenda for discussing specific reform projects. The social partners should be closely involved in this discussion, and in the decision-making procedures concerning the reforms. Given the radical changes now taking place in the way people live together in society, and against the backdrop of steadily rising unemployment, the Committee recognizes the urgent need to modernize and give fresh impetus to the ongoing development of the European social model. A whole range of economic and social factors from both inside and outside Europe is reason enough for political action. It is just as inappropriate to respond to changing circumstances by lowering the overall level of social protection as it is to cling blindly to outmoded structures. What is needed is the dynamic further development of the European social model. This could include the best practices from Member States which have provided the climate for increased employment and economic growth.

2.3.5 That said, however, the Economic and Social Committee recognizes that, as things stand, economic and social policies are implemented at different "levels"; "duties" lie with the economic system, "remedies" one level down with the social system. This state of affairs is also reflected in institutional structures. These too must be subject to review. With the crisis on the jobs front showing no sign of abating, essential institutional changes should focus on the promotion of employment as a priority objective, with job creation incorporated consistently into all policy areas. There should be more interinstitutional coordination and cooperation, especially in respect of macroeconomic and social policies. This should work on a horizontal basis - i.e. in terms of relations among the different European institutions - and vertically in terms of relations between the European institutions and the Member States. The Economic and Social Committee therefore welcomes the offer of cooperation made by Mr Borstlap, chairman of the newly established Committee on Employment and the Labour Market, at the ESC plenary session on 19 March 1997.

2.3.6 The Economic and Social Committee sees its role as a forum in which strategies for policy development and institutional reform can be drawn up, coordinated and appraised. The Economic and Social Committee brings together at European level representatives from economic and social circles in the Member States. It is thus the one European body which, since the signing of the Treaties of Rome, has had experience in conducting and organizing economic and social dialogue at European level.

2.3.7 In the following section the Economic and Social Committee makes specific proposals for future institutional cooperation.

3. Institutional cooperation

3.1 A dynamic, social and competitive European economy cannot be achieved without interdependent social policy and economic performance, dialogue and participation; these are the motor for change. Flexibility is also needed to meet the challenge of new risks, and social consensus is a sine qua non of sustainable growth - with employment levels to match. These factors also highlight the need for enhanced, more intense cooperation among the bodies and players involved.

3.2 The Economic and Social Committee recognizes that implementation remains incomplete. There is no shortage of credible studies on the current situation, but the local, national and European levels have been slow taking practical action on any of them. The Economic and Social Committee would also call on the European Council to ensure that all Member States live up to their European responsibilities and both back and speedily implement Commission President Jacques Santer's proposal for a confidence pact on employment³.

3.3 Against the backdrop of the analysis outlined in this opinion, the Economic and Social Committee calls for concerted action on employment on the part of the Social Council and the Council for Economic, Financial and Monetary Questions. To prepare the ground for these policies, the directors-general involved should initiate dialogue both among themselves and with the advisory committees of these councils, on the basis of the results of the Amsterdam conference held from 23 to 25 January 1997 and the agenda for development projects outlined in this opinion.

3.4 The Economic and Social Committee would take the opportunity of endorsing the newly established Committee for Employment and the Labour Market, set up to back the Social Council, and the Committee for Economic Issues set up as part of the Council for Economic, Financial and Monetary Questions. The Economic and Social Committee, the EU's socio-economic forum, is looking forward to effective co-operation. The Economic and Social Committee feels that players at European level can profit from the Committee's experience, its closeness to the citizen and its pursuit of a Europe which can perform well on both a social and economic front.

3.5 The Economic and Social Committee intends to set up an internal study group made up of members of various sections in order to adapt to the new dimension assumed by the dialogue mentioned in point 2.3.6. This study group will actively seek to cooperate with the institutions concerned and should in particular consider the following questions: globalization and effects on low-productivity work; funding of social policy; competitiveness and social policy and balance between flexibility and social protection.

Brussels, 29 May 1997.

The President
of the
Economic and Social Committee

Tom JENKINS

The Secretary-General
of the
Economic and Social Committee

Adriano GRAZIOSI

N.B.: Appendices overleaf.

³ cf. Opinion on Action for employment in Europe - a confidence pact, rapporteur: Mr Chevalier, co-rapporteurs: Mr Walker and Mr Schmitz (OJ No. C56, 24 February 1997).

APPENDIX
to the section opinion

The following amendment attracted more than 25% of the votes cast but was rejected during the course of the deliberations:

Point 2.3.4

In the second sentence after the word “unemployment” add the words “*in some countries*”.

Reason

Unemployment is not actually rising in the EU as a whole. It is rising in some countries but falling in others and, overall, is static.

Outcome of the vote

<i>For:</i>	<i>48</i>
<i>Against:</i>	<i>57</i>
<i>Abstentions :</i>	<i>3</i>

Excerpt from the Minutes of the joint meeting of the Section for Economic, Financial and Monetary Questions and the Section for Social, Family, Educational and Cultural Affairs held in the Committee building, Brussels, on 13 and 14 May 1997

The meeting was held on 13 May from 2.30 p.m. to 6.00 p.m. and on 14 May from 9 a.m. to 1 p.m.

Participants from the European Commission

Bernard GRAND,	DG XXI
Allan LARSSON,	director-general, DG V
John MORLEY,	DG V
Ludwig SCHUBERT,	director, DG II

Other participants

Klaus BÜNGER,	chairman of the Economic Policy Committee
Hans BORSTLAP,	chairman of the Committee on Employment and the Labour Market

Experts

MARCHLEWITZ
MARTENS

Mrs van den BURG, President of the Social Affairs Section, chaired the first part of the joint meeting held on 13 May.

1. The two sections proceeded with a general debate on "social policy and economic performance" on the basis of a draft own-initiative opinion (CES 381/97). The draft opinion was presented by the rapporteur, Mrs Konitzer.

1.1 Mrs Konitzer highlighted the need for an integrated economic and social policy approach to growth and job creation and the suggestion to set up a permanent cross-sectional study group within the ESC on the subject.

2. Statements were made by Mr Allan Larsson, director-general, DG V, on modernizing both social and economic Europe; by Mr Ludwig Schubert, director, DG II, on macro-economic and structural policies able to foster growth and employment; by Mr Bernard Grand, DG XXI, on tax trends relating to employment and fair competition; and by Mr Klaus Bünger, chairman of the Economic Policy Committee, on economic performance as a prerequisite for social protection.

3. In the general debate that followed, Mrs Konitzer, Mr Aspinall, Mr Geuenich, Mr Meriano, Mr Cal, Mr De Norre, Mr Olsson, Mr Noordwal and Mr Sklavounos spoke on the need, respectively, not to reduce social policy to a simple appendix of economic performance; to foster low tax-high growth-high-employment policies; to promote social partnership and prevent "tax dumping" distorting the

European labour market; to establish a proper coordination framework for “benchmarking”; to build up social cohesion and tackle the question of destabilizing international capital speculation; to ensure that social and economic considerations are considered equally; to introduce EU measures against distortion of competition and to develop a new social model recognizing the role and contribution of the social economy; to give precedence to economic development; to develop more the notion of human and social capital within the European model.

4. After some brief replies, Mrs van den Burg thanked all the participants and stressed the need for a cooperative framework involving the Economic Policy Committee and the Committee on Employment and the Labour Market, together with the Economic and Social Committee.

Mr Frerichs, President of the ECOFIN Section, chaired the second part of the joint meeting on the following day, 14 May.

5. Mr Hans Borstlap, chairman of the Committee on Employment and the Labour Market, made a statement highlighting the need to avoid old-fashioned and obsolete antagonisms concerning economic or social priorities and to move ahead on the basis of balance, flexibility and security, and benchmarking.

6. Mr Vogler, Mr Whitworth, Mr Lustenhouwer, Mr Burkhard, Mr Bento Gonçalves, Mr Walker, Mr Pompen, Mrs Sigmund, Mr Solari, Mrs Guillaume, Mr Hamro-Drotz and Mr Boussat spoke in the ensuing general debate, respectively, on beneficial cross-fertilization of economic and social policy formulation; the need to avoid further EU social policy regulation; lowering social costs for SMEs; achieving balance and clarity in the opinion; the challenge of relocalization and international capital transfers, and the problem of cheap imports from third countries with little or no social protection; the need for public expenditure cuts, tax competition and the targeting of benefits; the question of integrating tax and benefits; the need not to lose sight in such policy formulation of people and wellbeing; the problem of job disincentives; the assumption that good social policy can create prosperity per se; the need to recognize differing social models throughout the EU; the question of setting a social and economic policy framework if not an agenda.

**CONCLUDING THESES OF A HIGH-LEVEL CONFERENCE ON
SOCIAL POLICY AND ECONOMIC PERFORMANCE
HELD IN AMSTERDAM, JANUARY 1997**

- THESIS 1** Turning social policy into a productive factor is the challenge for the future. The question addressed in this conference is which elements are essential to this new concept of social policy.
- THESIS 2** Social policy focusing on a stable social infrastructure allows both economic growth and shared prosperity.
- THESIS 3** It is a matter of inclusion rather than exclusion.
- THESIS 4** An institutional framework adapted to a more volatile economic environment calls for an effort to re-balance the coordination mechanisms. This not only means strengthening the market mechanism, but also points to the need for regulation and consultation as necessary complements to the market mechanism. Modernising and upgrading the social infrastructure is of vital concern.
- THESIS 5** Social partners must be at the centre of this re-orientation: they should develop beyond the stage of being merely interest associations, and must internalise public objectives and be publicly addressable.
- THESIS 6** It is vital that social partners are committed to public objectives (in areas which concern them) as well as to sectional interests.
- THESIS 7** At the start of the third phase of EMU it is necessary to complement this development with a coordinated employment strategy between the member states at European level.
- THESIS 8** It is desirable to formulate minimum standards for specific areas of social policy, expressed in terms of norms related to a percentage of the average in the different members countries.
- THESIS 9** The key elements of a coordinated European employment strategy are:
- Best practices
 - Confidence-building trust
 - Avoiding a race to the bottom
 - The areas in which national competencies are lacking
- THESIS 10** The trend within the European member states reveals a steady rise in taxes on labour. This trend must be reversed. Effectively expanding the basis of taxation will require coordination of fiscal policy from Brussels.
- THESIS 11** Besides education and training, wage subsidies are also essential for workers in the lowest income segment. A substantial reduction of the non-labour wage costs in this segment is an important element of an employment strategy.
- THESIS 12** Beyond these macro-level measures, we also need a substantial investment at the micro level in personal support for the unemployed, to help them return to the labour market.

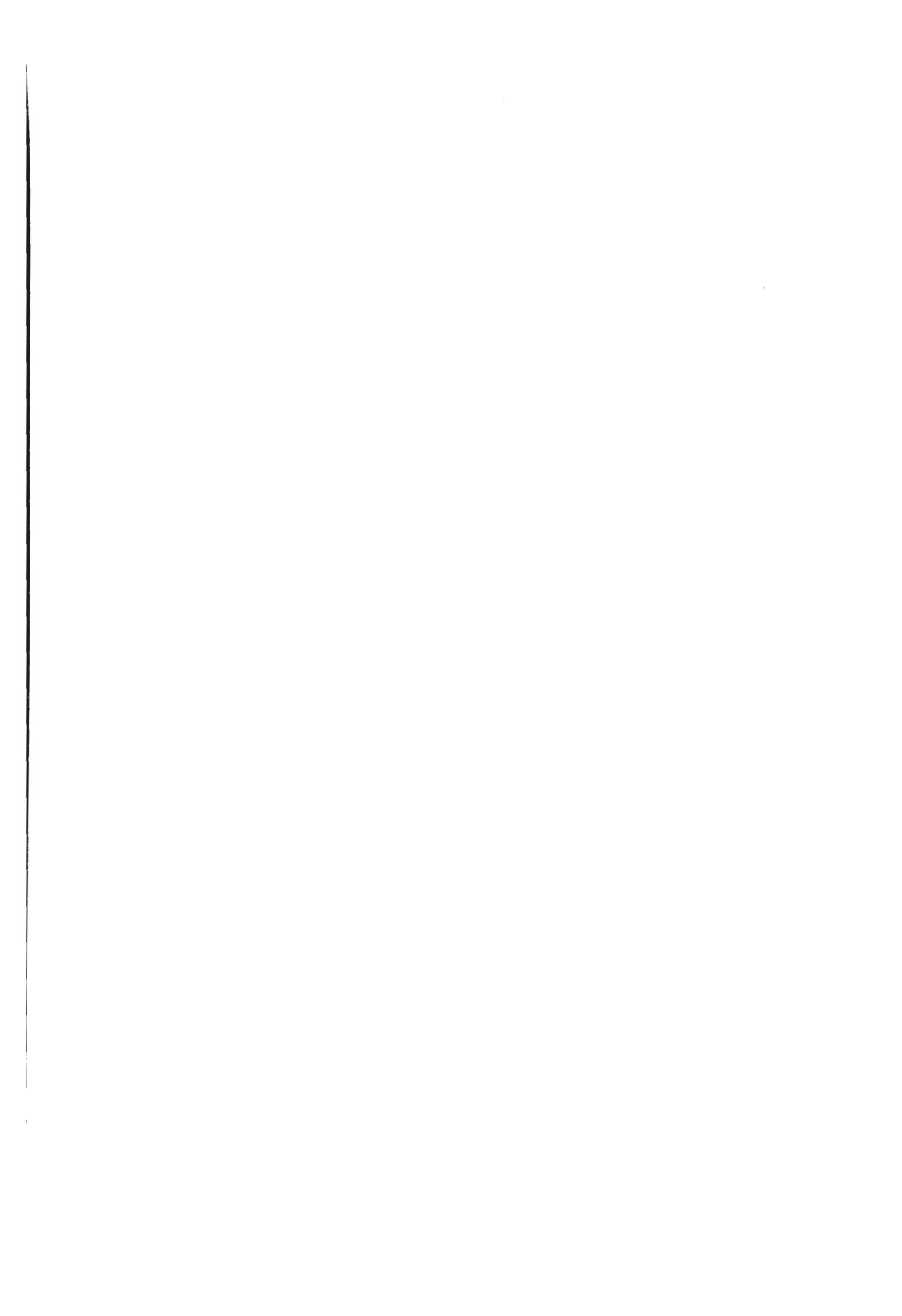
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The European Economic and Social Committee

Directorate for Communications • Specialized Department for Information and Visits

Rue Ravenstein 2 B-1000 Brussels • Tel.: 546 90 11 / 546 92 13

Fax: 546 98 22 • Internet: <http://www.esc.eu.int>

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