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ACTION FOR EMPLOYMENT IN EUROPE

A CONFIDENCE PACT

INTRODUCTION

01. Unemployment has been endemic in Europe since the 1970s. Moreover, the rate of structural employment is increasing regularly; at the end of each recession the level is higher. Since 1991, aggregate employment has fallen by over 4% in Europe. A reaction is called for. The persistence of unemployment is undermining European society and placing millions of men and women in precarious situations. A climate of confidence must be restored. It is a prior condition for the recovery of investment and consumption.

To combat unemployment, Europe must work to achieve stronger growth and target it on future-oriented industries. It also needs to work for more job-intensive growth. There is nothing new in this. It was at the root of the strategy proposed in 1993 in the Commission's White Paper on Growth, Competitiveness and Employment and was further developed by successive European Councils. The aim of this strategy is to increase both the efficiency and competitiveness of the European economy and to improve the operation of the labour market. It is still relevant and must continue to serve as a reference for common action.

The time has come for a first progress report. What stage have the actors reached in their commitments? What has functioned well? What has not worked? What must be done to improve action on the 1993 White Paper's strategy? These are the questions this paper sets out to answer.

02. The idea in proposing a European Pact of Confidence for Employment is to attain a three-fold objective. First, full mobilization of all the actors in a comprehensive strategy. All must be made to face their responsibilities - national, regional and local authorities, the social partners and the Community institutions. The European Union (even less the Commission) can not solve the problem of unemployment alone. But the Union must define the general framework for the fight for jobs and launch a concerted drive to seek the commitment of one and all.
03. The Pact also sets out to incite the actors to make better use of the multiplier effect. Europe has many assets. Thanks to its democratic structures, its strong economy, its people's educational achievements and its tradition of social dialogue. Thanks also to the integration process, which has yielded undeniable political and economic benefits. But its potential has not yet been used to optimum effect. This is especially true in the fight for jobs. Given the high degree of economic interdependence in Europe, sustained coordinated action will give more value added than the sum of individual measures in dispersed order.

In macro-economic terms, convergence is as much an imperative as an opportunity. We have seen in the past the damage inflicted on an economy by deficient coordination.

The same applies to the internal market and infrastructure, where the persistence of excessively nationally-oriented attitudes is depriving the European economy of the value added that a more concerted approach would offer. The trans-European networks are a shining example. The fact that an ecu spent in one Member State is at the same time an ecu spent for the benefit of a neighbouring State linked to the same network is often underestimated. The synergy which could be created by genuine private sector-public sector partnership is also underestimated.

As for labour markets, fuller lessons should be learnt from the joint examination of national multiannual programmes. The interaction between national measures and their repercussions in the European context must be grasped more thoroughly, notably when tax measures are adjusted to cut labour costs.

04. **A third issue at stake in the Pact is to incorporate the fight against unemployment in a medium and long-term view of society. There is no miracle cure for unemployment. But the people are looking to their Governments to anticipate the changes that are heralding tomorrow's society - new lifestyles, new expectations concerning the environment, technological change, demographic shifts, and the globalization of the economy.**

A medium and long-term view, then, is vital. But it must be a coherent, all-embracing view. Often specific measures are taken which, however laudable in themselves, are ineffectual or socially unacceptable. Take flexibility on the labour market, for example. If designed by one side alone, it may be seen as an instrument used by the strong against the weak. But the perception changes if flexibility is coupled with security and ways are sought, for instance, of reconciling business needs with the workers' needs.

05. **The point of the Pact is not to create new European Community powers, nor to increase its expenditure, nor to bring in new criteria for EMU. It is to launch a collective enterprise involving the public authorities and the social partners alike and defining their respective commitments in a coordinated comprehensive strategy. This operates on the macro-economic level (Chapter 1) and in the internal market (Chapter 2); we must engender a climate propitious to growth. But that is not enough. If jobs are to be created, employment systems must be revitalized and ways and means of mounting an active employment policy must be devised (Chapters 3 and 4).**

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ENGENDERING A PROPITIOUS MACRO-ECONOMIC CLIMATE

- 1.1. Growth is essential for job-creation. But not just any kind of growth. Sustainable growth based on monetary stability and sound financial policies is what is needed. It must be pulled by demand and pushed by productive investment. And it must be job-intensive. Public deficits must be reduced in order to bring down interest rates, and wages policy must be restrained and indirect labour costs lowered.
- 1.2. Economic and Monetary Union itself and the path chosen to arrive at a single currency are powerful instruments for achieving sustainable job-intensive growth. The healthy macro-economic climate the EMU implies does not destroy jobs; on the contrary, it removes the uncertainties holding back investment in the future. The discipline involved in meeting the convergence criteria lends credibility to programmes to bring the economy under control. We must unceasingly repeat that the adaptations that are needed today are the price society must pay for past errors. When a country is devoting 20% of its budget expenditure to debt servicing, something has to be done, with or without EMU. The best way out of the debt position is to pursue a policy of stability making it possible to bring interest rates down. **The single currency, then, is the future generations' best friend.**
- 1.3. There is a wide-ranging consensus today between political circles and the social partners on the path to be followed. The macro-economic strategy pursued since the beginning of the decade is starting to bear fruit. Budget deficits are gradually being brought down to more manageable levels. Interest rates are falling throughout Europe, which is evidence of the credibility of the process. Wage restraint, giving increases in real incomes smaller than the rise in productivity (+1% on average, as against +2% in the past five years), is behind the restoration of profitability and has helped bring inflation under control in most of the Member States. And there is more than a grain of truth in the claim that low inflation is the best social policy.

We must press resolutely ahead on the path thus mapped out, and stay on course. But at the same time we need to explore a number of avenues for improving and strengthening the strategy.
- 1.4. Current endeavours are part of a medium-term strategy. Markets need a clear framework within which to function and a predictable policy. Hence the importance of the determination repeatedly declared by the Council and the European Council to introduce the single currency on schedule and on the agreed terms.

The line followed has begun to bear fruit, and the business world is recovering its confidence in Economic and Monetary Union.

The Madrid European Council set an irreversible timetable for attaining EMU. The Community institutions and the national authorities must, however, make a greater effort to communicate and explain. The information campaign on the Euro launched by the Commission with the Member States is directed towards this end.

1.5. In the Member States, the consolidation of public finances must be continued and indeed intensified. The average budget deficit fell from 6.3% in 1993 to 5% in 1995, an encouraging result though still not enough. This, of course, is a matter for national endeavours. The Commission, confirming its recommendations on the broad lines of economic policies, believes that the following principles should guide measures to consolidate public finances:

- spending cuts are preferable to tax increases. Virtually 50% of GNP in the EU is redistributed or accounted for by public spending; the tax burden is between 13 and 15 points heavier than in the USA or Japan;
- public spending cuts must have the effect of selective restructuring which preserves spending that encourages intangible investment in human capital, R&D, innovation and infrastructure on which competitiveness depends (between 1990 and 1995, the share of public investment expenditure fell by an average 15%). Conversely, certain forms of State aid should be abandoned if they preserve distortions of competition or unearned privileges that hamper job-creation. Likewise, without jeopardizing forms of welfare assistance that are indispensable means of combating exclusion, passive expenditure to compensate for joblessness should be converted into positive measures;
- between 1980 and 1993, taxation on labour rose by 20% whereas taxation on other factors of production fell by 10%. This tendency works to the detriment of employment and should be corrected. Indirect labour costs, notably those on low-income jobs, should also be reduced.

1.6. Virtually all the Member States have presented convergence programmes in preparation for EMU. Although there was agreement in the Council, they have not updated them. Four considerations militate in favour of updating:

- the economic situation has changed;
- the date for the decision on the transition to the third stage of EMU is now known (beginning of 1998);

- convergence programmes will still be needed after the beginning of the third stage, both for the 'ins' and for the 'outs';
- the coherence between national convergence measures and promotion of employment should be brought out more sharply.

The Member States should rapidly present updated and reinforced convergence programmes, possibly incorporating self-correcting mechanisms, at the earliest opportunity. This would boost the credibility of the macro-economic framework and the efficiency of Community coordination. Two improvements to the multilateral surveillance procedure of Article 103 might be envisaged:

- the Commission and the Council should evaluate the coherence of convergence programmes at Union level at the earliest possible stage so as to enhance the potential of the European economy as a whole;
- the Council could issue more specific recommendations regarding the broad lines of economic policy.

1.7. Wage restraint since the early nineties has made an undoubted contribution to curbing inflation and restoring a high level of profitability.

A realistic attitude by the social partners is a crucial element in building up the confidence that will help bring interest rates down and thus boost investment. But it must be taken within a comprehensive strategy directed towards boosting firms' competitiveness and promoting employment. Allowance for qualifications and sectoral and geographical mobility in wages and salaries would be helpful here, though there is no escaping the issue of fair distribution of productivity increases.

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A PROPITIOUS MACRO-ECONOMIC CLIMATE

- stay on course for a stable and sound macro-economic policy (public authorities and social partners);
- give better explanations of the beneficial impact of EMU on a macro-economic strategy propitious for employment (Community institutions and Member States);
- accentuate the budgetary consolidation effort in compliance with the following recommendations:
 - . prefer spending cuts to tax increases;
 - . preserve expenditure on investment in human capital, innovation and infrastructure;
 - . reorient passive spending (unemployment compensation) towards active measures;
 - . shift the balance of taxation in favour of labour;
- update and reinforce Member States' convergence programmes;
- reinforce the multilateral surveillance procedure (Commission and Council);
- pursue an incomes policy conducive to competitiveness and employment (social partners).

HARNESSING THE FULL POTENTIAL OF THE INTERNAL MARKET

- 2.1. Between 1986 and 1990, growth in the European Union averaged 3.3% a year, creating 10 million jobs. The launching of the plan for a huge internal market unquestionably contributed to achieving this result. The opening up of frontiers gave a boost to Europe's economy and at the same time enhanced Europe's attractiveness to investors.

The effect of this strategy was to transform the economic landscape in Europe from top to bottom, sometimes at the cost of painful restructuring. Europe must adapt to a new global environment in which technological progress is annihilating distance. It can do it: progress over the past ten years has been impressive. But the adjustment process still has a long way to go.

The process of building the internal market is still incomplete or uneven. Too many of the building sites have been open for too long. There are still too many obstacles of all kinds to business operations. And it has to be acknowledged that the benefits accruing from the internal market are not distributed evenly. SMEs have more difficulty exploiting its full potential than major businesses. Liberalization, we would say, is not an end in itself but a means towards increased cooperation and prosperity in Europe, improved confidence of consumers and the quality of services for users. This is why the Commission stressed the idea of universal services and general economic interest in its opinion on the IGC.

- 2.2. **The Commission believes the time is ripe for seizing the initiative again and carrying through, to completion, the task which began with the Single European Act. It therefore proposes to move on four fronts:**
- 1) **to complete the internal market and implement it more effectively;**
 - 2) **to enhance the overall competitive environment in Europe;**
 - 3) **to help small and medium-sized enterprises;**
 - 4) **to open up wider access to the world market.**

COMPLETING THE INTERNAL MARKET AND IMPLEMENTING IT MORE EFFECTIVELY

- 2.3. The vast majority of the measures put forward in the 1985 White Paper have since been adopted by the Council, with all sides exerting themselves as never before to achieve this incontrovertible success. Eleven proposals are still waiting for a Council decision.

Each of these proposals will contribute in a real sense to making the European economy competitive. They urgently need to be adopted; their psychological and economic impact would be considerable.

The Commission expects the Council to adopt by the end of the year three particularly important measures which have been held up for years:

- **the European company statute. According to the Ciampi Group, the lack of such a statute costs the European economy ECU 30 billion a year;**
- **a legal framework for biotechnology inventions; this is vital if investment in this area of the future is to be encouraged;**
- **the internal market in electricity.**

2.4. Merely adopting these directives is not enough. They also need to be incorporated into national legislation and implemented effectively. The fact is that all too many of the measures set out in the 1985 White Paper have still not been adequately transposed within the Member States. The situation is particularly alarming in some key areas:

- public procurement (ten Member States have not yet implemented all the relevant directives);
- investment services (ten Member States);
- insurance (seven Member States);
- intellectual property (five Member States);
- company law (three Member States).

The Commission requests the Member States concerned to assume their responsibilities and lay the requisite bills before their respective parliaments by the end of 1996.

2.5. The market in services is our best hope for high-quality job creation. However, there are too many restrictions on the development of high value-added services, such as financial or audiovisual services : monopolies, restricted access to limited resources, obstacles to the taking up of certain professions, inflexible rules in the area of distribution, restrictions on advertising or, sometimes, even hindrances at frontiers.

The Commission will draw up a comprehensive communication on employment and services for the Dublin European Council, with specific proposals and a timetable for the elimination of existing restrictions.

2.6. Administrative and regulatory constraints cost far too much in Europe. Some studies suggest the cost comes to more than ECU 100 billion a year, particularly disadvantaging SMEs. Both the Community's approach and the work of national authorities in this area need to be reviewed. Too often, the latter impose rules which go beyond what Community directives require. Too often, especially in the area of norms and standards, they hedge themselves around with too many precautions rather than allowing mutual recognition to come into play.

The Commission has just launched a pilot project called SLIM to simplify legislation in four areas: it stands for **Simpler Legislation for the Internal Market**. This initiative will later have to be extended to other areas.

- 2.7. The Commission has instructed a high-level group chaired by Simone Veil to examine the remaining obstacles to the free movement of workers and individuals. Once this group has submitted its report in February 1997, **the Commission will issue a White Paper setting out its proposals for eliminating whatever legislative, administrative and practical obstacles have been found.**
- 2.8. Taxation policy plays an increasingly important role in the strategy for employment. A tax environment which stimulates enterprise and job creation needs to be created. The Commission is very gratified at the favourable reception given to its background paper advocating a comprehensive approach to the question and the establishment of a high-level group headed by the Commission.

The European Council could give a political stimulus to this initiative in order that guidelines for greater coordination of taxation policies in Europe can be worked out by the end of the year. **In particular, something should be done to halt the present drift towards shifting the burden of statutory contributions and charges onto labour.**

ENHANCING THE COMPETITIVE ENVIRONMENT IN EUROPE

- 2.9. If the Single Market is to work, there must be a clear legislative and regulatory framework. But that is not enough. We must also improve the competitive environment in Europe, which means investing in infrastructure, creating an efficient scientific and technological base, encouraging innovation and pushing ahead with the information society.
- 2.10. The European Council has repeatedly stressed the contribution the Trans-European Networks (TENs) make to the Single Market and the European economy. The major cross-border networks are a potent symbol of the European Union's aspiration to unite its peoples and their economies. Fourteen priority projects in the transport sphere were identified at Essen, and substantial progress has already been made. In many cases, the groundwork has started. Energy and telecommunications projects are also going ahead. The Commission believes the time has come for removing the last remaining obstacles, whether financial or technical, to the construction of the TENs.

The Commission has already made proposals for providing the additional financing expected from the Community. A decision must be taken on these proposals once and for all.

The Commission also proposes that together with the EIB a fresh look be taken at the Bank's role in financing the networks. Already, since 1993, the EIB has made loans of ECU 20 billion towards the networks. Lastly, the Commission is very firmly in favour of a considerable increase in the number of public sector-private sector partnerships. It will set up a high-level group to press for progress on this.

- 2.11. There is no doubt that research and innovation are factors for competitiveness and growth. Europe possesses some very valuable assets, but is lagging behind Japan and the United States. It does not make enough use of the potential represented by cooperation at Community level. There must be more encouragement for coordination between Member States and the Union and the conditions for genuine public sector-private sector partnership should be established. The Commission's decision to set up Task Forces is a move in this direction.

The Commission would like to develop the role these Task Forces play in stimulating action, not least in the area of financing specific projects. Such financing ought to be tailored more closely to the special features of the projects (risk, closeness to the market and effects on employment).

- 2.12. Innovation is vital, both for countries and for companies. To preserve growth, competitiveness and jobs, new ideas must be turned quickly into technical and commercial successes.

Europe ranks behind its main competitors in this respect. Despite an excellent scientific base, it shows less aptitude than others for turning its skills into new products and market share, especially in high technology areas. While Europe's trade balance improves overall, its high technology sectors are still lagging behind to an alarming degree. Similarly, the balance of payments in respect of technology is around \$20 billion in the red. This worrying trend is likely to put the brakes on job development in the most promising sectors, those which reflect the changing needs of society. Europe, for example, accounts for 41% of the world information services market - software and data processing services - but only 16% of world production.

The Commission considers that Europe must react vigorously in the field of innovation. In the Green Paper on innovation it identified 13 possible lines of action.

By the end of the year it will draw up a plan for priority Community or coordinated measures on the basis of the Green Paper and the consultations with the Member States.

- 2.13. If used advisedly, the information society can be an excellent tool for progress and modernization (see also 3.17 and 3.21), though a clear regulatory framework which encourages the emergence of new services must be laid down.

Liberalization of the telecommunications sector and the accompanying universal service requirement are essential if Europe is to play its full part in the information revolution - which is why the date of 1 January 1998 must be respected, if not brought forward, and why the Council and the European Parliament must adopt the proposals for directives on interconnection, ONP (Open Network Provision) and licences by the end of the year.

At the same time, the regulatory framework for electronic trading must be completed. The Commission recently issued Green Papers on copyright, legal protection for encrypted services and commercial communications. Work on electronic payments, distance-selling of financial services and protection for privacy is under way. In due course the Commission will draw the appropriate conclusions and make proposals for completing the legal framework required for electronic trading.

HELPING SMALL AND MEDIUM-SIZED ENTERPRISES

- 2.14. Creating a legislative framework, enhancing the competitive environment and encouraging a spirit of enterprise - these are the three essential objectives if the European economy is to become more dynamic. But the best law in the world is no use if firms cannot avail themselves of it, for example because of lack of information. The most efficient network imaginable is of very little use if firms do not have easy access to it because they lack the funds or the knowhow required. The most revolutionary scientific discoveries will be no more than art for art's sake if they are not applied in business practice or society.

This is the background against which to view the steps recently taken by the Commission to define a proper policy to help SMEs, which are the ones creating the most jobs at the moment.

The new action programme proposed by the Commission must be adopted by the end of the year. This programme involves simplifying the regulatory framework, improving the financial environment and giving SMEs easier access to research, innovation and training.

The Commission would also like to see early adoption of the proposals it recently made to facilitate access by SMEs to loans (ELISE facility) and to sources of venture capital and equity.

- 2.15. The policy on State aid has a vital part to play in ensuring an environment favourable to firms, providing back-up for the requisite structural changes and encouraging job-creating investment. On the one hand it sets out to prohibit the defensive use of aid by the Member States for the purpose of artificially maintaining jobs in unviable structures, a practice which disadvantages employment elsewhere, whether in other sectors or in other Member States. On the other, it authorizes aid which contributes to the development of SMEs, encourages firms to develop new technology, save natural resources and launch new products or enables them to put through a restructuring plan which will ensure their long-term viability.

State aid comes to tens of billions of ecus a year, most of it going to large companies. It is time a very close look was taken at the effect of current policies on employment.

OPENING UP WIDER ACCESS TO WORLD MARKETS

- 2.16. The European Union is the world's largest trading power. It therefore has a direct interest in seeing trade liberalized. International trade has a positive influence on employment, on two conditions. Firstly, we must make sure that the opening up of our market goes hand in hand with a corresponding opening up of non-Community markets. Then the Union must be prepared to use the available instruments to the full to combat unfair competition, particularly in the area of intellectual property.

The Commission can see four areas for action over the next few months to make trade into a tool for employment: a strengthening of the multilateral system, market access, the defence of intellectual property and a reform of the common commercial policy.

- 2.17. The Union is a believer in the virtues of a multilateral approach based on clear and equal rules for all, the rules of the WTO. It rejects unilateral or extraterritorial measures.

The first meeting of the new WTO is to be held in Singapore in December 1996. It must be used as an opportunity for strengthening the WTO.

At the top of the list of objectives the Union should pursue comes the implementation and enforcement of the results of the Uruguay Round, whenever necessary using the strengthened WTO dispute settlement mechanism. A priority is also the completion of the work started at the Uruguay Round (telecommunications, financial services and maritime services).

The WTO must then get to grips with a number of new matters, including the links between trade and the environment, competition, investment and labour standards.

Lastly, the incorporation of China and Russia into the international economic system and the WTO must be promoted. It would be a good thing for countries of that size to enjoy the advantages of the WTO and submit to the disciplines imposed on all other parties involved in trade.

- 2.18. A multitude of tariff and non-tariff barriers in third countries impede the operations of European exporters and limits their job-creating potential. As the Commission stressed in a recent communication on this subject, the Union must make a more concerted effort to improve access to third-country markets for our firms.

To achieve this, the Commission will take systematic steps to press for the elimination of the obstacles to market access in third countries which are most harmful for our industry. It will use all means at its disposal consistent with its international obligations, and in particular the WTO dispute settlement mechanism. A comprehensive Commission data base on barriers to market access will be operational before Singapore. The identification of priority obstacles requires the involvement of industry and active cooperation with Member States. The aim will be action resulting in concrete new business opportunities for European firms.

- 2.19. Intellectual property piracy is an affliction which costs the European industry a great deal of money (for instance, up to several billions of ecus a year in the pharmaceutical industry, which is revenue lost to R&D, and almost one billion US \$ a year for phonograms). Europe already has a strong interest in intellectual property-related industries such as pharmaceuticals, design or information provision. These industries are developing rapidly, and their prospects for generating substantial employment are very high. Ensuring protection of intellectual property rights is therefore a priority area for Community trade action..

In this fight against piracy, the Commission will seek to collaborate with other partners affected by the same problem, for example the United States. It will also work in favour of a system of enforcement of copyright-protected products and services adapted to the requirements of the information society.

- 2.20. The European Union's common commercial policy must continue to be an effective weapon for championing the Member States' interests in the realm of international trade. Article 113, however, covers only goods and a small part of services, and that is a sizeable handicap, in that services are playing an increasing role in trade.

The IGC should be put to good account as a means of adjusting the common commercial policy to fit in with the changing patterns of international trade. It should also equip the Union with a means of speaking with one voice in international organizations concerned with economic questions and of acting more swiftly.

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HARNESSING THE POTENTIAL OF THE INTERNAL MARKET

Completing and implementing the internal market

- . adopt a priority package of three measures by the end of 1996 (European company statute, biotechnology inventions and electricity) (Council and Parliament)
- . secure an undertaking from the Member States that by the end of 1996 they will lay before their parliaments bills to incorporate into national law the measures adopted pursuant to the White Paper
- . draw up a White Paper on markets in services (Commission)
- . simplify legislation (the SLIM initiative)
- . remove the remaining obstacles to the free movement of individuals and workers (the Community institutions and the Member States)
- . adopt guidelines by the end of 1996 on the basis of a Commission reflection paper on taxation (European Council)

Enhancing the competitive environment in Europe

- . regulate the question of supplementary financing for TENs (Council and Parliament)
- . make proper use of the Task Forces on Research and Industry (institutions and Council)
- . draw up a plan of action to encourage further innovation (Commission)
- . adopt a clear regulatory framework for the Information Society (Community institutions)

Helping firms to take advantage of the internal market

- . adopt the new SME action plan by the end of 1996 (Council)
- . examine how best state aids policies can, while ensuring a level playing field, contribute to the creation of sustainable employment (Community institutions and Member States)

Opening up further access to world markets

- . strengthen the WTO and implement its disciplines (Council and Commission)
- . dealing vigorously with third country tariff and non-tariff barriers (Council and Commission)
- . step up action to combat intellectual piracy (Commission)
- . adjust the common commercial policy to fit in which changing patterns of international trade (Intergovernmental Conference)

SPEEDING UP THE REFORM OF EMPLOYMENT SYSTEMS

- 3.1. The White Paper approved by the Heads of State or Government in December 1993 established a common framework for the structural reforms of the labour market to be undertaken by the Member States. The Essen European Council then proceeded to set out five action priorities, with a commitment to annual monitoring at European level on the basis of multiannual national programmes.

The effect of the monitoring procedure is to build a bridge between overall macro-economic coordination and employment and unemployment prospects.

- 3.2. The monitoring procedure should be:

- reinforced by Council and Commission recommendations to inspire, for instance, the implementation of the Structural Funds;
- definitively institutionalized at the Intergovernmental Conference.

- 3.3. The initial analysis of the Member States' multiannual programmes presented to the Madrid European Council confirmed that all the Member States have embarked on the major - sometimes painful - reforms of their employment systems. But is that enough? What measures have proved their worth, what others have encountered difficulties, and what yet others have failed to attain their employment objectives?

- 3.4. The Commission's response is inspired by a two-fold diagnosis:

- the need to convert measures that compensate for joblessness into active support for reintegration in the labour market is widely acknowledged. But the requisite administrative reforms and behavioural changes have yet to emerge;
- Governments and social partners have not yet succeeded in opening up the major employment projects of the future.

This diagnosis received massive confirmation during the tour of the capitals undertaken by the Commission President in the first three months of 1996. It also reflects the findings of the Round Table on Employment attended by a wide range of representatives of the social partners at both European and national level. The Commission therefore feels justified in making the following recommendations, even though they essentially concern matters for which the national authorities are responsible. In voicing these recommendations the Commission wishes to publicize good practices, encourage the pursuit of bold reforms, facilitate the involvement of governments, administrations, social partners and, where appropriate, representatives of the civil society and voluntary organizations.

ACTIVATING NATIONAL EMPLOYMENT SYSTEMS

- 3.5. Employment protection systems in most Member States were devised to compensate for loss of income in the event of joblessness, be it caused by unemployment, by retirement or by disability. At Union level, the outcome is that two thirds of expenditure on labour-market measures - ECU 200 billion or so - is devoted to supporting the unemployed and those who retire early. Compensation measures along these lines have the merit of alleviating poverty; many people, indeed, are dependent on them. But they are no longer sufficient. What active employment policies should be implemented while still preserving the high level of social protection that is one of the hallmarks of the European model of society? This is the core issue addressed by the Commission paper on the future of social protection adopted in autumn 1995.
- 3.6. Recent governmental efforts have had a triple focus: development of vocational training for job-seekers, stronger incentives to return to work (including lower amounts and shorter duration of unemployment benefits), and a pro-active approach by employment services to companies' real needs, notably through flexibility in forms of recruitment.

But structural unemployment persists and is even worsening in some countries. It is the new entrants to the labour market - young people and women - who are suffering most. Consequently, after the examination of the first national multiannual programmes, three commitments were proposed for both the Community and the national levels - to secure access to employment for young people, to promote equal opportunities for women and men as regards access to employment and terms of employment, and to prevent long-term unemployment.

Consideration of the most fruitful of the Member States' measures reveals that what these commitments need is not so much a new set of industry-specific schemes as a thorough reform of the administration of national employment systems.

A comprehensive medium-term approach should be reflected in the next multiannual programmes. Monitoring them in the run-up to the Dublin European Council should offer the opportunity to take stock of progress.

Reforming administrative systems

- 3.7. The Commission would ask Member States to pursue resolutely the reform of the administration of national employment systems to make them more comprehensible, more coherent and more efficient, through:
- simplification of the wide range of recruitment and business-formation support schemes. Two possibilities: one-stop shops for all recruitment procedures, and re-employment vouchers equivalent to unemployment benefits;

- provision by placement services of personalized support for job-seekers and reintegration process culminating in actual return to work. This means, especially for the more vulnerable categories, active partnership between the social partners, voluntary organizations and the entire range of public and private training facilities.

Encouraging local mobilization

- 3.8. The diversity of unemployment situations, the specific needs that arise and the potential that is available in one place or another, and the complexity of the instruments with which employment systems operate all combine to make the local level more and more the appropriate one for activating employment policies. This is the level where partners can combine to combat unemployment with full respect for local needs and assets.

Local development and employment initiatives are the incarnation of this new approach to job-creation matching the new needs of society in Europe, including in the environment field.

- 3.9. To harness more fully the potential of local capacity to operate active employment policies, the Commission recommends as priorities, with due respect for features specific to individual countries:

- the decentralization of the various components of the employment system (training, payment of benefits, checks, search for openings, placements);
- a renewed commitment by national Governments to the local employment initiatives, notably by enriching financial instruments (vouchers, local savings funds) approved nationally.

Promoting the employability of young people

- 3.10. To promote the employability of unskilled young people, an integrated approach to training, social integration and guidance involving all the actors concerned is necessary.

There are two priorities:

- a joint initiative by the social partners for the integration of young people, including a better interaction between the beginning of working life and innovative forms of organization of working time (career breaks, gradual retirement, occupational guidance);
- the development of instruments based on programmes such as Youthstart and Leonardo, offering brighter prospects to young people with no occupational skills.

Better integration of tax and social security systems

- 3.11. To ensure that the reform of employment systems achieves maximum impact, the Commission recommends that greater coherence be achieved between direct taxation and replacement income. The point is to avert the exclusion trap by offering a real advantage from a return to work while preserving a safety net for the jobless. The extensive debate at European level on the future of social protection prompted by the recent paper on the subject will be the perfect opportunity to examine this issue in greater detail.

LAUNCHING MAJOR PROJECTS ON THE FUTURE OF WORK

- 3.12. In the long term, the problems of structural unemployment in Europe go beyond the reform of national employment systems. A new concept of the content and role of work in our societies must be devised. This will entail exploring the room for manoeuvre offered by better use of time, both by individuals and by companies.

The European Pact of Confidence for Employment should speed up the launching of two major projects in which governments and the social partners will be heavily involved:

- the first concerns the organization of work in firms, diversification of individual working times and statuses to facilitate a new balance between flexibility and security;
- the second is the transformation of the link between working life, education and training throughout active life.

During the Commission President's tour of the capitals, and again at the Round Table on Employment on 28 and 29 April, the actors all expressed their readiness to explore these avenues. Action is now called for.

New forms of work organization

- 3.13. Work in tomorrow's world demands flexibility and security for both individuals and firms. This is the perfect example of a question to be tackled by the social partners. It is for them to enable firms to be adaptable, as they must be if they are to be competitive. It is for them to put this in a context of stability called flexisecurity, without which flexibility would be counterproductive and for companies would act as a brake on investment in human capital and for individuals would be a destabilizing source of insecurity. The macro-economic side-effect would be a durable loss of consumer confidence when, it must be remembered, consumer demand accounts for two thirds of demand in the internal market.

Flexibility in working time, if carefully organized, can create jobs, not only through job-sharing but also through new forms of demand for services generated by greater freedom to manage personal life.

The Commission believes that priority should be given to exploring the avenues described in the four following points.

- 3.14. Europe-level standardization of *'atypical' forms of work*. Around 50% of employed workers in the Union are currently concerned, and in some Member States as many as 80% of newly-created jobs are in these categories. The legislative and contractual frameworks must be adapted to take account of them so that they enjoy the same protection as conventional situations and are equally free from discrimination.

The Commission considers that the social partners have a responsibility here. Above and beyond the initiatives already taken nationally, they should enter into negotiations to draw up a European contractual framework to support the national legislative framework. The consultations with the social partners launched by the Commission in April on flexible working time and security for employees offer a real opportunity to extend and strengthen collective bargaining in Europe.

- 3.15. Reorganization of working time: proceeding from the agreement on parental leave, there should be a further search for new ways and means of reconciling individual working time and a firm's operating time. This is a vast area, covering part-time working, the changeover to annual working time, flexible retirement arrangements and the use of the time thus released for the development of training or sabbaticals.

The Commission will launch an extensive European debate on the organization of work and working time before the end of the year by putting out a Green Paper on the subject. Parliament is also working on an important report.

- 3.16. Reorganization of social security schemes: social security schemes must be adapted to take account of the new forms of work, the development of atypical forms of work and the diversification of individual statuses.

The Commission believes that the wide-ranging debate on the future of social protection which it has launched should culminate in common ideas.

- 3.17. The organization of work in connection with the Information Society: in particular, distance-working, health and safety, and industrial relations.

There will be a White Paper on the social and societal aspects of the Information Society in the autumn.

- 3.18. More generally, the Council should look into these questions in a more systematic and more operational way. The manner in which the questions are approached at European level with a view to maximizing exchanges of experience and good practice should be covered in the Pact.

Education and training as keys to the door of employment

- 3.19. The labour market in the Union is developing into a skills market. Yet education and training systems are finding it a difficult and slow process to cater for the need for new skills.

To resolve this supply and demand mismatch, a broad consensus has been reached on three ideas:

- continuous access to skills with new forms of validation;
- anticipation of tomorrow's needs through access to the information society;
- a better response to market demands, especially as regards the integration of young people, through the promotion of alternating training/work and through apprenticeship.

- 3.20. Paper qualifications are no longer an adequate accreditation of skills acquired. Something else is needed.

In December the Commission will be presenting an assessment of the Member States' implementation on the Council Recommendation of June 1993 on access to continuing training. It will then make proposals designed to facilitate, at European level, lifelong access, valorization and validation of skills.

The social partners have done a lot of good work together on training. They might use it to develop a reference framework for various levels (national, industrial, the firm), particularly as regards access to skills and their recognition.

- 3.21. The new information technologies, as powerful tools for communication and interaction, are the keys which will open the door to tomorrow's skills. Two policy objectives need to be pursued: guaranteeing universal access to these tools so that they can be used at all places of teaching and learning, and promoting the development of European multimedia and audiovisual teaching materials.

In September the Commission will be presenting an action plan on learning in the Information Society to coordinate existing instruments and measures (education and training, research, trans-European telecoms networks, Structural Funds) and focusing on a limited number of large-scale experiments involving an extensive population.

- 3.22. Training that matches firms' needs and is available to all must be developed, notably through alternating training/work schemes. Young people could then acquire a solid basic training coupled with experience of enterprise cultures.

The Commission advocates action on two fronts to integrate young people:

- **developing links between schools and firms;**
- **developing an apprentices' Erasmus scheme on the basis of the Leonardo programme in 1996 and, in 1997, beginning discussions with governments and the social partners to devise a system of European articles of apprenticeship.**

SPEEDING UP THE REFORM OF EMPLOYMENT SYSTEMS

- strengthen the monitoring procedure and institutionalize it at the IGC

activate national employment systems

reform of national employment administration systems (Member States)

- simplify recruitment and company-formation support schemes: one-stop shops and re-employment vouchers
- personalized support for job-seekers by placement services

mobilization of local actors (Commission, Member States, local authorities)

- decentralize employment systems
- promote local initiatives for development and employment

employability of young people

- joint initiative by social partners on integration of young people (social partners)
- development of schemes based on Youthstart and Leonardo (Commission, Member States)

greater coherence between direct taxation and replacement income

- debate and common policy on the future of social protection (institutions, Member States, social partners)

major projects on the future of work

new forms of work organization

- commitment by social partners to establishing a Europe contractual framework for organization of work and flexibility (social partners)
- structured debate on organization of work and working time (institutions)
- Green Paper on social and societal aspects of information society (Commission)

education and training as keys to the door of employment

- proposal on lifelong access to and validation of skills
- development by social partners of a reference framework for access to skills (social partners)
- action plan on learning in the Information Society (Commission)
- development of an Erasmus apprenticeship scheme (Commission)
- development of a system of European articles of apprenticeship (Commission, Council, social partners)

EUROPEAN STRUCTURAL POLICIES IN THE SERVICE OF EMPLOYMENT

- 4.1. European structural policies must be directed as a matter of priority towards the creation of new jobs and new activities. Member States and the regions concerned still have to take the decisions needed for the commitment of nearly three quarters of the amounts initially programmed (ECU 170 billion for the period from 1994 to 1999). There is thus a great deal of room for manoeuvre.

Structural policies are an essential political lever for boosting the employment impact in compliance with the general principles underlying the reform of the Structural Funds. This requires a special supplementary effort by States, regions and local authorities and by the social partners. Three quarters of the Union's structural resources are concentrated on regions where two thirds of its unemployed live. This clearly justifies an exceptional mobilization effort by the political decision-makers.

Financial margin for manoeuvre on three fronts

- 4.2. First: as a result of the application of the deflator to the full package of structural programmes and objectives for 1996-99, there is an additional ECU 5.5 billion available.

The Commission's proposal is accordingly that in each Member State these additional resources constitute a special employment-support reserve, to be assigned to high-profile priority measures and not added *pro rata* to amounts already allocated since 1994.

- 4.3. Second: over ECU 8 billion for the second period (1997-99) for industrial regions undergoing conversion (Objective 2) is available in full for the new programmes to be presented by the Member States and regions concerned.

A special effort must be made to have the new programmes for 1997-99 adopted on the basis of the guidelines issued by the Commission on 30 April. It must be made by the Commission, the Member States and the regions or areas eligible for Objective 2 which must reinforce conversion measures so as to preserve existing jobs and create new ones.

- 4.4. Third: a mid-term review of objectives 1, 3, 4 and 5b is scheduled for early 1997. Changes to programmes are conceivable in the light either of progress in the attainment of targets initially set or of an intermediate assessment or of political decisions to alter the initial priorities.

The changes to objective 1, 3, 4 and 5b programmes flowing from the mid-term review should be made in the light of an assessment of their employment impact. Measures undertaken under objective 4 and the ADAPT programme will play a pilot role. The Commission calls on the Member States and their regional and local authorities to make the appropriate arrangements at once to ensure that the mid-term review mobilizes local actors in an employment drive.

Priorities in the service of employment

Utilization of the additional financial resources available should proceed along the following lines as set out in the communication on structural assistance and employment of 20 March 1996.

4.5. Developing SMEs

There should be a special effort in favour of the formation of SMEs and one-man firms. What is needed now is to make wider use of innovatory measures that have been proved to work, especially those involving financial engineering - notably access to risk capital. The development of SMEs is also helped by the research and technological innovation effort, as in the case of environmental technology, and especially access to new markets linked to environment-friendly products.

The Community financial instruments directed towards SMEs (EIB, EIF, budget support instruments) must in particular be mobilized for this purpose. Constant efforts are needed to adapt them to changing circumstances and to strengthen them.

There is a need for much closer partnership with the EIB in the matter of the political priority given to supporting SMEs by the structural policies; this would make it easier than it is at present to provide support for the creation of new SMEs.

4.6. Anticipating industrial change and change in patterns of work

Anticipating industrial change means planning now for tomorrow's patterns of work. Structural policies can support the efforts made by firms to improve the forward management of employment and investment in human resources. There is also a need to promote compatibility between family life and working life and generally to secure equal opportunities.

In this context, support for the most vulnerable categories and for innovatory measures enjoys priority both under objective 4 and under ADAPT. In the objective 1, 2 and 5b regions, measures should focus on research and development, innovation, technology transfer and workers' skills.

4.7. Establishing a propitious framework for local initiatives for development and employment (LIDE)

The difficulties encountered in implementing innovatory activities for employment are not so much financial as organizational. The new LIDE approach is not confined to one-off measures for limited geographical areas but targets local development activities based on common development and employment objectives.

The Commission calls on the Member States and the regional and local authorities to use the financial resources available to give effect to this approach (public-private partnership in financing, establishment of new trades, provision of an integrated supply of services, including environment services).

Territorial pacts for stronger partnership

- 4.8. Reforms of the employment system and innovatory measures by firms themselves will depend for their success on mobilization of all public and private actors at the appropriate territorial level. This much is clear from successful experiments run in traditionally decentralized countries and promising experiments in others, as in the case of Andalusia (Spain), Deux-Sèvres (France), the Modena region (Italy), as in the context of the LEADER community initiative, and a wide range of urban centres suffering from serious social handicaps.

The aim must be, without setting up new structures, to generate and boost political momentum at territorial level focusing on realistic economic and job-creation objectives. The important thing is to mobilize all those concerned by business formation and job creation in political reflection and proposal-making forums. Several forms can be imagined: either a systematic approach covering the entire country, initiated by national authorities, or experimental approaches based on the selection by each Member State of the most suitable areas or regions, or purely local initiatives.

The Florence European Council should give the political go-ahead for the process of selecting pilot regions or towns prepared to take part in a territorial employment pact. The aim would be to identify, by the time of the Dublin European Council, a significant number of towns, regions or rural areas in each Member State that could serve as examples of the value of territorial mobilization.

1997 would be devoted to following up the practical commitments of the various partners, using some of the financial resources available for the structural policies. Arrangements would be made to develop European networking of experience acquired locally, without prejudice to existing networks.

The Committee of the Regions is called on to play a full part in the territorial pacts scheme.

EUROPEAN STRUCTURAL POLICIES IN THE SERVICE OF EMPLOYMENT

Increasing the employment impact of structural policies using the financial margin for manoeuvre

- Commitment by Member States to allocate the additional resources provided by the deflator effect (ECU 5.5 billion) to special support for employment
- Commitment by Member States to give priority to employment in allocating the new programmable resources (ECU 8 billion) for objective 2 for 1997-99 (industrial regions undergoing conversion); the Commission will decide on new programmes on that basis
- July 1996: commitment by Member States to a mid-term review of objective 1, 3, 4 and 5b structural action programmes in the light of an assessment of their employment impact; the decision on the changes to the programmes to be taken early in 1997; the Commission will decide on changes to the programmes on the basis of the new employment impact

Selecting priorities in the service of employment

- special consideration for innovatory measures for SMEs and stronger partnership between the Structural Funds and the EIB
- more thorough anticipation of industrial change and changing work patterns, with priority for the most vulnerable categories and innovatory measures
- promote local initiatives for development and employment

The Commission will be particularly attentive to ensuring that these priorities are respected and that cooperation is established with the EIB in the new or revised programmes.

Promoting territorial pacts

- Political go-ahead for pacts at the appropriate territorial level following a process of selection in each Member State of a significant number of pilot towns, regions or rural areas prepared to take part in them; confirmation by the Dublin European Council of first territorial pacts presented by the Commission
- Involvement of the Committee of the Regions in the territorial pacts approach

CONCLUSION

- 5.1. "Action is better than resignation, and the search for perfection is a poor excuse for not actually doing anything": these words by Robert Schuman are as valid today as ever:

The unemployment statistics are terrible. The worst reaction of all is to lack courage. It is often argued that the solution will not be found at Union level. Those who say this are both right and wrong. Right because employment depends on industry and commerce and because the environment in which they operate is in many respects defined by national, regional or even local authorities. Wrong because Europe also plays a crucial role not only in establishing the macro-economic and regulatory framework that is propitious to job-creation but also in promoting coordination and cooperation between national policies. **The Union really must treat employment as a matter of common interest.**

- 5.2. It is in this spirit that the Commission has taken the initiative of proposing a European Pact of Confidence for Employment. Lack of confidence is sapping our energy and curbing investment for the future. The best way of combating the general malaise is to prove by action that Europe is on the march. Proving that action for employment is part of a medium- and long-term strategy enjoying universal support will help to restore confidence in Europe. The bases for this strategy are well known: they are set out in the White Paper on Growth, Competitiveness and Employment approved by the Essen European Council and refined over the years at successive European Councils. **The Pact confirms the strategy based on a sound macro-economic policy and structural measures for competitiveness and employment.**

- 5.3. Defining a strategy is necessary but is not sufficient. What is also needed is a general mobilization of all the actors - Community institutions, national, regional and local authorities and the social partners. That is why the Commission proposes calling on all to bear their practical, operational responsibilities and setting clear objectives for all to attain within specified time frames. **The Pact will thus consist of the concrete commitments described in this paper.** Their cumulative impact will offer the best chance of reversing the unemployment trend.

- 5.4. The Member States, for instance, must adapt and reinforce their convergence programmes as part of a more closely coordinated approach at Union level. It is important that public spending be cut and that public finance be reorganized with priority being given to directing resources at investment and employment.

The Community institutions, but also the Member States, will give a new impetus to the internal market if they commit themselves to removing anachronistic barriers. In this context the Commission particularly wished to stress the need to abide by commitments already given as regards both the transposal of directives and the complementary financing of trans-European networks. The credibility of the institutions and of political decision-makers depends on this.

It will be for national authorities to reorganize employment systems so that firms and job-seekers have access to simple services tailored to their individual needs. Labour markets also need modernizing with support from education, training, research and innovation so as to anticipate rather than undergo the changes occurring in society and technology. This is where the social partners' contribution will be vital.

Finally the Commission, acting in cooperation with the Member States' authorities, will endeavour to see that the Structural Funds are used more effectively to promote employment. To this end it is proposing that territorial employment pacts be set up.

- 5.5. The general framework for the European Pact of Confidence for Employment must be set at the highest level. That will be crucial to its success. **The Florence European Council should launch a vast mobilization for employment on the basis of the strategy outlined in this paper.**

The Heads of State or Government should take the opportunity to take the first decisions that depend on them. They might also call on all the appropriate bodies to attain certain objectives before the Dublin European Council. And they could call on the social partners to assume their responsibilities in a number of respects. This would generate a **dynamic, sustained process based on a coherent, agreed strategy culminating in visible, practical commitments.**

- 5.6. The Pact proposed by the Commission flows straight from the speech made by Robert Schuman on 9 May 1950, when, presenting his founding declaration, he said:

'What we have to do is give our peoples confidence in themselves, not leave them petrified by the perils they face, but rather pool the resources of our western civilization and raise barriers to hold back devastating eruptions, not in panic but in accordance with a constructive plan.'

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