Opinion of the Economic and Social Committee on 'The macroeconomic dimension of employment policy'

(1999/C 368/13)

On 27 May 1999, the Economic and Social Committee decided, under Rule 23(2) of its Rules of Procedure, to draw up an own-initiative opinion on 'The macroeconomic dimension of employment policy.'

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 29 September 1999. The rapporteur was Mr Vasco Cal.

At its 367th plenary session of 20 and 21 October 1999 (meeting of 20 October), the Economic and Social Committee adopted the following opinion by 76 votes to two with four abstentions.

1. The Economic and Social Committee notes with satisfaction that the recommendation it made in its last opinion on the preparation of the Broad guidelines of the economic policies of the Member States and of the Community [1], namely: the launching of a macroeconomic dialogue involving the Council, the Commission, the European Central Bank and the social partners at European level, to improve coordination between wage trends, fiscal policy and monetary policy, in order to encourage growth and job creation, is to be acted on this autumn. The Committee is prepared to assist the main players in this macroeconomic dialogue by providing back-up, in accordance with the institutional role assigned to it by the Treaties.

2. This macroeconomic dialogue will pave the way for an approach integrating all policies affecting employment. The fight against unemployment must involve coordinating macroeconomic policies as well as implementing labour market policies. Economic policies, research policy, social policy and fiscal policy must all be geared towards the demands of employment.

3. The Committee's concerns and observations on Community economic growth (which is not yet strong enough) and employment (which is still too high overall) remain as expressed in the opinion mentioned in paragraph 1. The present opinion will focus on the key points.

4. The Committee is increasingly convinced that the stability and growth policy (reducing budget deficits, aiming for price stability and raising real salaries in line with productivity, while providing a sufficiently high return on investment to secure higher growth) is the only viable one for the Community; 90 % of the EU's wealth is generated by its internal market. This stability and growth policy must, therefore, be continued over the coming years. At this point in the current business cycle and in view of the overriding considerations of economic and social cohesion, the EU's medium- and long-term objectives must remain those of balancing budgets and reducing public debt.

5. The Member States must, of course, ensure that budgetary streamlining is not secured at the expense of productive investment — as has been the case in certain Member States over recent years — as this could put paid to the economic recovery that the European Union is undoubtedly experiencing owing to its largely sound economic foundations. Prudence is required but also action. The economic climate has proved more clement than the spring forecasts suggested, and positive openings are emerging; the current situation no longer justifies pessimism, but rather the opposite.

5.1. The Committee is convinced that the European Union can draw on the economic, technological and skills-related resources necessary to equip it to combat external threats. Now that the main decisions on implementing the euro have been taken, the Community should learn to rely on a largely internal demand structure. 'As an economic entity, Europe has great growth potential, and the Broad Economic Policy Guidelines should propose the measures necessary to realise this potential' [1].

5.2. The Committee feels that the European Union must have a medium-term growth target of at least 3,5 % in order to create enough jobs to reduce the current level of unemployment to 3 or 4 %, over the next 10 years or so, and to raise the employment level to around 70 %, as proposed by the Commission in the autumn of 1997 in its first draft employment policy guidelines. The challenges facing each country vary, however, as some of the objectives have already been achieved by certain countries; this highlights the need to conduct macroeconomic dialogue at national level as well.

[1] Committee opinion of 27 May 1999 on the '1999 Annual Economic Report — The EU economy at the arrival of the euro: promoting growth, employment and stability', OJ C 209, 22.7.1999, paragraph 4.6.

5.2.1. Medium-term growth must be underpinned by a sustained increase in real investment (by about 7 % per annum so as to move from the current 19 % to 22-23 % of GDP) in order to generate the jobs needed and to prevent the emergence of inflationary pressures as a result of a lack of productive capacity. Long-term interest rates and the profitability of enterprises are currently favourable conditions. Still to be developed is a macroeconomic policy which would permit sustainable growth and appropriate expansion of demand. This policy must be buttressed by economic reforms in accordance with the processes initiated by the Luxembourg and Cardiff Summits — reforms which seek to improve the competitiveness and operation of the labour market and of markets in goods, services and capital.

5.2.2. In a number of Member States, public investment has suffered as a result of those countries' efforts to meet the convergence criteria for entry to the third stage of EMU. The Committee would therefore urge that public spending be reorganised in order to provide more incentives for investment. In particular, governments should encourage a partnership between the public and private sectors as regards investment. Moreover, Community level initiatives, such as those relating to the trans-European networks, could usefully be put into practice.

6. The recovery, still hesitant, should be encouraged by measures to stimulate investment and boost private consumer confidence. Increased investment boosts employment prospects and the confidence of the public, producers and consumers alike. An injection of around 0,5 % of GNP could help to consolidate recovery. It takes more than a year for the effects of investment to work through to production.

7. In view of the challenges the information and learning society poses for Europe, companies' efforts to defend their competitive edge on increasingly globalised markets should be backed by more vigorous investment policies, especially in technology and skills. Meanwhile, in sectors that are not directly concerned by globalisation, investment can be usefully channelled towards boosting capacity to meet domestic demand and, more generally, creating jobs. The new Objective 3, in combination with the other development measures financed by the Structural Funds, may provide an important stimulus for the skills development policies of the Member States. The importance of basic and continuing training must also be stressed. Employment services must enhance employability by supporting and advising young people and the unemployed with regard to their training, to enable them to demonstrate their aptitude for a given job to full effect. Both sides of industry could help by drafting blueprints on this area and thus revitalising employment services.

8. The Committee feels that everything possible should be done to support domestic demand and improve the general climate for productive investment and new businesses. Bearing in mind financial constraints and the redistributive role of the budget, a reduction of the tax burden on companies and also households could stimulate investment and boost the confidence of entrepreneurs and consumers. The Committee has for several years been calling for the authorisation, under certain conditions, in the Member States which so wish, of a reduction in VAT rates on products and services with a high labour content. The Committee is pleased that the Commission has presented a draft directive to this end, on which the Committee has issued a largely favourable opinion [1].

9. A common monetary policy within the euro area, which also obliges the other four countries to conduct almost exactly the same policy, places a large burden on budgetary policy (taxes and spending) in order to support the monetary policy while taking account of the differing business cycle situations in the Member States. This is perhaps the largest challenge after the creation of the common monetary policy. It must be emphasised that the necessary coordination of budgetary policy does not mean that the same policy must be performed in all the Member States.

10. The Committee would stress that the main driving force behind job creation is growth. The employment policy measures advocated in Luxembourg, as supplemented by the structural programme (services and capital markets) launched in Cardiff, should accompany the appropriate macroeconomic policy mix, embracing budgetary, monetary and incomes policy, in order to create a climate of confidence to stimulate consumption and investment and thus to boost employment in a durable way.

11. The Committee reiterates its call for wage rises to reflect not only inflation (which is still very low) but also productivity gains and the need to secure company profitability (generally very good in the Community), while increasing purchasing power. The rise in consumer demand and in public and private investment must give the economy fresh impetus.

12. Member States' structural policies and research and development programmes must support efforts to create jobs, while placing them within a long-term, sustainable perspective.

(1) Opinion of 26 May 1999 on the Proposal for a Council Directive amending Directive 77/388/EEC as regards the possibility of applying on an experimental basis a reduced VAT rate on labour-intensive services, OJ C 209, 22.7.1999.

13. The Committee notes that, in recent months, banks in certain countries have reacted to rumours of rising inflation by raising mortgage costs disproportionately (from 4,6 % to near 6 %). However, these increases have not been matched by higher interest rates on savings accounts, which are vitally important to household budgets throughout the European Union.

14. The Committee would once more draw attention to the systemic risks arising in part from suppliers' credit (interest rate risk), the advent of increasingly sophisticated financial products and the speed with which purchase orders, orders to sell and other financial transactions are carried out. It welcomes the recent measures taken by the Bank for International Settlements, designed to establish more stringent and, in particular, more effective prudential rules for the financial structure of banks (importance of equity capital), for the internal and external audit of the capital flows of financial institutions, and for market rules (transparency) to be observed by parties to financial transactions. In the Committee's view, the rules eventually agreed on should apply to all financial operators. As the EU provides over 60 % of the funds allocated to developing countries, the Commission should take the necessary action before March 2000 to ensure that the European Union's specific interests are taken into account in the decisions of the Basle Committee.

15. The new waves of economic concentration (cooperation, mergers and joint-ventures between major companies) may be necessary to sharpen the competitive edge of our industrial infrastructure. However, the ensuing company restructuring must never be conducted at the expense of the workers. Mass redundancies do have an impact on public confidence, demand and thus the operation and growth of the economy as a whole, which in turn affects major financial and industrial conglomerates.

Conclusion

16. The Committee calls for the continuation of the stability and growth policy for employment. The main players in the October macroeconomic dialogue, namely the governments and the Commission (budget and structural policies), the European Central Bank (monetary policy) and the social partners (wage and labour market policy), should continue to coordinate their efforts to build up consumer and investor confidence, and so stimulate demand, which, along with structural reforms designed to sharpen the competitive edge of European companies, remains the main locomotive for growth and job creation.

17. The Committee welcomes the stability policy of the European Central Bank. The ECB's decision of 8 April 1999 to cut interest rates lent definite support to a stability policy geared to growth and job creation. The ECB has shouldered the responsibilities assigned to it by the Treaty.

Brussels, 20 October 1999.

The President

of the Economic and Social Committee

Beatrice RANGONI MACHIAVELLI