1996 annual economic Report

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OBJECTIVE: This economic report contains the Commission's views regarding the economic situation and economic policy issues in the Community. It concentrates in particular on the structural and macro-economic policies initiated and approved at Community level, the focus of its attention being the employment situation in Europe, which is the Union's main social, economic and political objective. SUBSTANCE: According to the report the main challenge facing the Community continues to be job creation and a reduction in unemployment. To achieve this objective, policy makers must: revive the recovery by introducing national and Community-coordinated measures aimed at restoring confidence, support the upswing and transform it into a strong, sustained growth process supported by employment-creating investment coupled with the necessary progress towards nominal convergence. This should lead to a reduction in unemployment and enable the Community to make a successful transition to EMU in 1999. At the same time the report highlights the disappointing level of growth in 1995, which was characterized by a net slow-down of activity (GDP growth in the region of 2 1/2% in 1995 instead of the 3% forecast for 1995 and 1996) together with an increase in unemployment and limited budget rationalization. Consequently, the Community entered 1996 in a less confident mood. However, the report points out that, on the basis of certain fundamental parameters, such pessimism is not justified, particularly in view of the fact that the profitability of investment is improving, inflation is at a historical low and nominal convergence is increasing. Confidence-building measures are necessary at both national and Community level (in particular the European confidence pact for employment, the establishment of trans-European networks, an increase in resources for research, the implementation of an action plan for SMEs and the introduction of a comprehensive programme for stability and employment). The report stresses in particular that achieving a relaxation of economic policy will depend to a large extent on a credible budgetary consolidation process accompanied by wage restraint. To achieve the dual objective of reducing unemployment and moving to a single currency, the Community must ensure that macro-economic policies are accompanied by structural initiatives intended to: - create new conditions for a tension-free macro-economic growth process by means of measures aimed at improving the functioning of goods and services markets and increasing the flexibility of the labour market, - enhance the endogenous growth forces by actions geared towards promoting innovation, strengthening competition and improving human capital, - increase the employment-intensity of growth through a widening of the wage cost scale (especially by reducing indirect labour costs at the lower end and reorganizing working conditions). These structural initiatives, for which the individual Member States will be responsible, must be accompanied by Community initiatives (in particular the employment-related ones decided upon in Essen).