1997 annual economic Report. Growth, employment and convergence on the road of EMU.

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OBJECTIVE: This report assesses the Community's economic situation in 1996 and outlines the economic trends and prospects for 1997-1998. It concentrates in particular on the policies associated with growth, employment and convergence in the light of progress towards economic and monetary union (EMU). SUBSTANCE: According to this report substantial progress in preparation for EMU has been made in the Union. On the institutional front the Community has achieved substantial progress with preparations for the Euro. Following the set-back to economic growth in the second half of 1995 and in early 1996 the Community economy now appears to be back on a more favourable track: activity has recovered in all Member States and acceleration of growth in the Community in 1997. This trend will contribute to some reduction in unemployment although overall unemployment levels remain high (10.7% of the labour force in the 15 countries in 1996). With regard to macroeconomic policies the report states that in 1996 a large majority of the Member States took significant measures to reduce their budget deficits to 3% of GDP or below. The Commission considers that the efforts to improve the budgetary situation based on reduction of expenditure rather than higher taxes have had a significant impact on the fall in interest rates. These efforts should allow in the short term for investment to be relaunched on the basis of sound economic growth in 1997 and 1998. Unfortunately this growth is not accompanied by significant performance with regard to employment, which remains a major challenge for the Community. According to the report the unsatisfactory job performance is caused by macroeconomic obstacles. It stresses that the current investment rate would not allow growth of more than 2 1/4 % a year. The current level of unemployment requires a significantly higher growth rate. It therefore suggest a massive increase in investment in production which could give rise to a growth rate of about 3 to 3.5% which would be sufficient to relaunch employment. While it may seem a priori that technological change and globalization of the economy are curbing employment, the report considers that these two factors are not the fundamental causes of current unemployment. On the contrary, it considers that it should be possible to use these two elements to improve growth and transform employment. To do this requires: - efficiently functioning goods and services markets allowing a rapid adjustment in prices (in this area action is still needed with regard to the liberalization of energy and telecom markets and competition), - greater investment in education and training of skilled and non-skilled labour. To return to a level of growth which will create jobs, the report puts forward several solutions: - conclusion of wage agreements between social partners which take much greater account of qualifications, regions and sectors, - reduction of non-wage labour costs, government revenue losses being compensated for by a stricter control of increases in overall government spending or increases in other taxes (e.g. environmental levies), - introduction of 'temporary entry-wages' for the low-skilled, youth or long-term unemployed, - more flexibility in working time arrangements tailored to the specific needs of companies and workers, with greater use of voluntary part-time work, - development of local employment initiatives. The organization of work must also be modernized, with increased geographical and professional mobility and productivity-related labour cost differentiation.