Broad guidelines of the economic policies of the Member States and the Community for 1998

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OBJECTIVE: to present broad guidelines for the economic policies of the Member States and the Community for 1998 and set two main objectives: high employment levels and the success of the euro.
CONTENT: in these first broad guidelines for the economic policies of the European Union following the creation of the single currency, the Commission has concentrated on defining the two main priorities for 1998: high employment and the success of the euro and stresses the need to implement policies for monetary stability, achieve a sustainable reduction in public debt levels and safeguard appropriate wage developments by strengthening dialogue between the social partners. The Commission also stresses the need for closer, operational coordination between the economic policies of the countries in the euro zone and to consolidate the "culture of stability" in Europe. Consequently, it has broken new ground by making provision for specific recommendations for each Member State which will allow the policies of the countries participating in the euro to be more closely coordinated and the countries not participating from the outset to be better prepared. Given the 2 major objectives of high employment and the success of the euro, the broad guidelines for economic policies for 1998 are based on the following three elements: 1) monetary policies geared towards stability: the policies of the Member States participating in the euro must be compatible with the objective of price stability and must prevent inflation differentials from developing. In the euro zone, where inflation is below 2%, policies must also ensure that price convergence is maintained in order to avoid problems of competitiveness. In other countries, especially Greece, these stability policies should be strengthened; 2) sustained efforts to reduce public debt levels: most Member States need to finish consolidating planned convergence measures (it is at this level that the Commission addresses specific recommendations to each Member State, irrespective of whether or not it has joined EMU). As far as public debt levels are concerned, the Commission feels that the average debt of the European Union should be less than 2% of GDP by 1998, although if current policies and the recommendations for each Member State are pursued, there may be an additional reduction in 1999 (average debt of less than 1.5% forecast); 3) a reasonable approach to wage developments by the social partners in order to achieve a "policy mix" geared towards growth and stability: this policy should allow low inflation to be maintained, thereby safeguarding purchasing power, and a more equitable distribution of the fruits of growth. As far as structural policies for growth and employment are concerned, the Commission recommends two major objectives: 1) modernising the product and services markets: with the advent of the euro, there is an even more urgent need to eliminate structural defects, meaning that Member States need to be more resolute in introducing flexibility into their economies. The reforms recommended in this respect concern: - completing the single market (by reducing the percentage of directives not transposed); - strengthening competition (especially in countries in which state aid, expressed as a percentage of GDP, is higher than the Community average and where large amounts are granted in ad hoc rescue and reconstruction aid); - reforming the regulatory framework which may slow down productivity and European competitiveness' - improving the working of the financial markets (abolishing legal and financial obstacles to market integration at European level, improving access to the markets); 2) improving the functioning of the labour market: emphasis should be placed on a strategy which promotes the supply of suitably trained and qualified manpower. There must also be greater incentives for research and job creation. One way in which this can be achieved is by reforming the taxation and benefits systems. The possibility of reducing tax, especially on labour, needs to be explored in countries in which the tax and national insurance burden on labour is above the Community average (Belgium, France, Austria, Sweden etc.). Welfare systems should also be reformed in order to encourage job acceptance and prevent passive guaranteed-income systems which act as a disincentive to work. Finally, as far as changing working hours is concerned, the Commission considers that general, mandatory

reductions in working hours may have an adverse impact and should therefore be avoided. On the other hand, employment could be boosted by specific measures negotiated by the social partners to reduce working hours.