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

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In adopting the report by Mrs Christa Randzio-Plath (PES, D) on the Commission's Annual Economic Report for 1997 - Growth, employment and convergence on the road to EMU, the European Parliament makes the point that the most pressing problem facing the Community is still unemployment. It does not regard the prospects for growth in EU as being sufficient to combat unemployment and calls on the Member States to take measures to restore consumer confidence and boost demand. Pointing to the rise in mass unemployment in most EU Member States, Parliament believes that the modest economic upturn forecast for 1997 will not, by itself, be sufficient to solve the problem of unemployment as a whole. It points out that stimulating growth cannot be the sole strand of a policy to cut unemployment. This type of recovery does not automatically coincide with higher standards of living and the limits to unsustainable growth must be taken into account. Parliament identifies the chief causes of unemployment as being: - too low a level of investment by private-sector business; - insufficient innovative activity; - a lack of effective coordination of fiscal and monetary policy at national and European level; - high real interest rates as a result of increasing volatility on the financial markets; - weak domestic demand and inadequate household demand; - a lack of creativity and willingness to take risks; - a lack of training and skills; - the lack of labour-market adaptation and the high level of tax and quasi-fiscal contributions; - financial speculation which is damaging to productive investment; - over-regulation. Parliament considers budget consolidation to be necessary but questions the Commission's assertion that its impact is likely to be offset by a re-balancing of the policy mix and an increase in confidence. It stresses that, as long as government expenditure does not rise, it is preferable to reduce the deficit through stronger economic growth rather than cuts in public spending in essential areas such as ecological conversion and education. Whilst budget consolidation is certainly necessary, Parliament regrets that the ratio of public investment to GDP has fallen in recent years from 3.5% to under 2.5%. It therefore calls for public investment of the type which brings adequate social and economic returns to be relaunched. To combat unemployment, Parliament calls for effforts to reduce it to be made an integral part of all policies and believes that the coordination of economic, structural, fiscal, monetary and income policy at EU level must be improved by setting up an EU-wide "form of economic government". It appeals in particular for every effort on the part of the Member States to promote employment to be encouraged and for an integrated employment strategy to be devised on the basis of macro-economic and structural reform policies. The Essen decisions and the Employment Pact must be implemented in full. Investment is needed in the transport, environment, energy and communications network infrastructures as well as in training and skills. Parliament calls for an extension of Community financial instruments via the EIB and for the introduction of Community bonds and it considers it absolutely essential to open up the venture capital and credit markets to SMEs, which are the main source of jobs in the Community. Research must also be encouraged, notably by means of tax concessions and easier access to investment. Parliament also stresses that the burden on labour (particularly unskilled labour) causes business to invest in capital rather than in human resources. That being so, it does not support the Commission's proposal for greater wage differentials between regions since they could result in even more relocations. Parliament points to exchange rate uncertainties as a brake on investment and points out that they can only be removed with the introduction of economic and monetary union. It goes on to call for a reduction in real interest rates to facilitate private-sector investment. It welcomes the setting up of an employment and labour market committee and underlines the need to include a chapter on employment in the Treaty on European Union. It also proposes a series of other measures to encourage job-creation: - life-long training geared to changes in labour-market demand; - encouraging self-employment and the creation of small business by simplifying administrative and tax formalities; - reducing and/or reorganizing working hours; - supporting the development of new sources of

jobs (environment, the arts and the home-care sector); - devising appropriate socio-economic indicators to monitor job-market trends. Parliament calls for a medium-term fiscal policy which takes into account the effects of cyclical changes whilst still being compatible with the convergence criteria. Finally, though Parliament condemns the use of fiscal policy for competitive ends within the Union, it calls for a strategy which takes account of the increasing globalization of the economy at the same time as avoiding social and environmental dumping.