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Brussels, 1 March 2001

OPINION

of the

Economic and Social Committee

on

Comparative macro-economic performance studies

CES 238/2001 DE/Ho/JKB/ss

On 2 March 2000, the Economic and Social Committee, acting under Rule 23(3) of its Rules of Procedure, decided to draw up an opinion on the

Intensification of country-by-country comparative macro-economic performance studies focusing on the economy and employment.

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 8 February 2001. The rapporteur was **Mrs Konitzer**.

At its 379th plenary session, held on 28 February and 1 March 2001 (meeting of 1 March), the Economic and Social Committee adopted the following opinion by 91 votes to three with one abstention.

1. Starting point

1.1 **The economic conditions for increased growth and employment** in Europe have shown a clear improvement in recent years. **On the one hand**, this is due to the ongoing endeavours to make structural improvements to the operation of the markets in goods and services and the labour and capital markets. **On the other hand**, the macro-economic conditions for growth and employment, in particular, have also been decisively strengthened. The reduction of government deficits, the achievement of lower rates of inflation, and a macro-economic wage trend which has facilitated a reduction in the rate of inflation and a significant improvement in the profitability of job-creating investment, have all helped to create monetary conditions which are favourable to growth and employment. It is essential to sustain the progress achieved in the 1990s. Steps must therefore be taken to ensure that the slight and, in principle, temporary increase in the rate of inflation - brought about by the hike in the price of oil and exchange rate trends - does not have a spin-off effect on internal costs in the EU.

1.2 **The achievement of economic and monetary union (EMU) has made a substantial contribution to progress in the above-mentioned fields**. Those EU Member States which have not yet signed up to EMU have also benefited to some extent from this achievement as they, too, have successfully pursued the goal of attaining convergence. In the future, too, EMU will prevent international pressures from causing internal currency upheavals; over the last thirty years such currency upheavals have frequently disrupted or interrupted the process of growth. A major macro-economic obstacle to growth has thus been removed. EMU also helps to lessen the **risk of conflict between budgetary policy, wage policy and monetary policy,** and it creates **the stable framework needed for healthy macro-economic policies and developments**. In future it will thus be easier to avoid macro-economic errors which have in the past had a very damaging effect time and again on growth and employment. EMU thus provides a new opportunity to pursue a healthy macro-economic policy.

1.3 If this opportunity is to be fully exploited, however, all major economic and social groups will have to acquire a **greater understanding of macro-economic orders of magnitude and relationships** so that they can engage in an objective dialogue more easily and thereby achieve **a larger measure of agreement on the appropriate macro-economic action and policies**. The learning

process required for this purpose needs an economic policy approach on which agreement can be reached and an empirical survey based on as many data as possible.

A large number of Commission documents, in particular those drawn up in the wake of the White Paper on Growth, Competitiveness and Employment (and especially its chapter on macro-economic aspects) and many Council documents such as the annual "Broad guidelines of the economic policies of the Member State and of the Community", provide a rich **source of material for a basic approach to economic policy** on which a large measure of agreement can be reached[1].

However, **the empirical and as highly quantified as possible illustration of macro-economic variables** is less developed. **The best way to illustrate such variables is to compare different periods and different countries**. An analysis of long series of figures and a comparison between the situation in the EU and the USA and between individual EU Member States does in fact reveal significant differences not only with regard to employment and unemployment but also in respect of major macro-economic parameters which determine growth and employment. In this context it can also be demonstrated how **institutional factors** influence macro-economic policy and macro-economic development in individual countries. A number of benefits can be achieved by comparing and analysing these factors: the issues can be more readily understood; objective dialogue can be promoted; and, under certain circumstances, **reference or target variables can also be worked out** (benchmarking).

1.4 Efforts to achieve a **better understanding of macro-economic trends and a greater agreement on macro-economic policies** are therefore important for ensuring that the improved basic conditions for increased growth and employment are fully exploited. It will only be possible to resolve the employment problem facing the EU in a reasonable medium to longer-term timeframe if **the current cyclical upturn** can **be transformed into a sustained period of higher growth**, despite increased oil prices. Such a development is also necessary if the ambitious goals set by the Lisbon European Council are to be achieved[2].

1.5 It is, of course, not possible for this opinion to be extended and made into a comprehensive study in which detailed country-by-country comparisons of macro-economic parameters are presented and assessed. However, the opinion can and will set out **key macro-economic orders of magnitude and relationships** (Chapter 2) and discuss the **major contributions to be made by economic players** (Chapter 3), thereby giving the Commission and the Committee the opportunity to reconsider these matters in greater detail at a later date in studies and opinions. The ESC has decided to draw up this opinion for two reasons: firstly, it wishes to promote **an objective dialogue** on macro-economic issues **between all socio-economic groups** which goes beyond the institutionalised macro-economic dialogue (Cologne Process); and secondly, it wishes to make **its views** on these crucial issues **known to the Commission and the Council**.

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1 The ESC adopted an opinion in February 2001 on the 2000 broad economic policy guidelines (CES 240/2001).

2 Looking ahead to the Lisbon European Council, the ESC drew up an Opinion entitled "Employment, economic reform and social cohesion - Towards a Europe of innovation and knowledge" (OJ C 117 of 26 April 2000, page 62).

2. Key orders of magnitude and relationships

2.1 Framework and instruments

The purpose of the orders of magnitude and relationships set out in this chapter is to facilitate an objective dialogue on macro-economic matters between the various socio-economic groups. These data, which are largely based on earlier Commission analyses, should be reconsidered, taken further and examined in greater detail in future Commission studies and ESC opinions. (One example which may be quoted here is the appendix on Ireland accompanying the ESC's opinion on the economic situation in the EU in 1999[3].)

2.2 Manpower reserve

2.2.1 Observations on employment and unemployment indices

The rate of unemployment is the simplest and most frequently used yardstick for gauging the employment situation in a given country. However, even if Eurostat's harmonised definition is used, this yardstick is of limited value for making comparisons over time and between countries. One of the reasons for this is the varying levels of undeclared work, part-time working and particular forms of subsidised employment. It is, therefore not only important to note the breakdown of unemployment according to, for example, age, gender, level of education, duration, etc., but the analysis should also include the trend in the participation rate, employment rate and working time, in particular part-time work, and migratory movements. The trend in the employment rate expressed in full-time equivalents is a particularly important indication of the overall situation. If, for example, a fall in unemployment is accompanied by a marked increase in the employment rate, it may be assumed that the employment situation in the country concerned has undergone a healthy improvement and cannot be attributed either to a fall in the participation rate caused by the discouragement of potential workers or to a redistribution of work. In the 1990s such a positive trend was observed above all in Ireland and also, to a lesser extent, in countries like Denmark. More detailed analyses of the relations between these factors may be found, in particular, in the European Commission's employment reports.

2.2.2 Size of the manpower reserve

Closer analysis of the trend in the employment and unemployment indices clearly indicates that the EU's manpower reserve considerably exceeds the level of unemployment recorded in statistics. Whenever growth produces new jobs, this leads to a tremendous surge of people on to the labour market who were not previously included in the unemployment statistics. This means that the participation rate (the percentage of the population of employable age represented by economically active persons[4]) increases with the employment rate (percentage of the population of employable age represented by persons in gainful employment), and the incentive to immigrate is also increased.

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3 OJ C 140 of 18.5.2000, page 44.

4 Economically active persons = persons in gainful employment plus unemployed persons.

On the basis of the above observations and taking account of plausible figures for the employment rates (broken down by age and gender), the Commission estimates the manpower reserve of the current EU-15 at some 30-35 million persons. This figure is approximately twice the number of unemployed persons and it is almost equivalent to the total employment in Germany at present. If jobs are to be created within ten years for the people making up this manpower reserve, employment will have to increase by between 1.8% and 2% per year; the corresponding increases for a fifteen-year period would still be between 1.2% and 1.4% per year. Whilst these orders of magnitude are considerable, it is perfectly possible for them to be achieved. The expected enlargement of the EU and the possibility of increased migration across the internal and external frontiers of the EU further underlines the need to create jobs for the persons making up the EU's extensive manpower reserve as quickly and as far as possible.

2.2.3 **Is this manpower reserve available for employment?**

The objection is sometimes raised that, because the persons concerned are not sufficiently well trained, it will not be possible to create jobs for all the persons making up the manpower reserve. The skill level of the workforce, lifelong learning, together with the mobility of the workforce and its readiness to take up available jobs are all important issues of labour market policy. Tax systems and social security contributions may also have a bearing, either positive or negative, on the availability of manpower. The ESC has repeatedly given its views on all these matters[5]. In the case of the present opinion, however, the primary consideration is to pinpoint the chief bottlenecks in the process of macro-economic growth. The following observations may be made in the light of a study published by the Commission back in 1995 (European Economy No. 59, Study No. 3 - see especially graph 3):

New entrants onto the labour market (young people and the "latent" manpower reserve) generally have an adequate basic training which, however, will have to be built on once they take up employment. The chief bottleneck is not the level of skills but the shortage of new jobs, as a result of which many people cannot undergo further training at the workplace to keep abreast of economic and technical developments.

The majority of unemployed persons still clearly form part of the labour market. Here, too, the problem is not primarily one of "employability" but rather the fact that there are not enough jobs available for everyone. This problem not only affects the relatively small number of cyclically unemployed who will be able to find jobs once there is an economic upturn: in this case, workers are available and jobs do physically exist. A shortage of jobs is also the problem facing a large proportion of the victims of "non-cyclical" unemployment; many of these persons were in employment a few months ago; it would be possible for them to find lasting employment once again (perhaps after a small amount of retraining) if enough new jobs were to be created.

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5 The ESC regularly sets out its views on issues relating to the labour market and EU employment strategy; attention may be drawn here to the following documents: CES 1322/2000; CES 1188/2000, in particular point 3.1.2.2; OJ C 29 of 22.7.1999 (p. 60); OJ C 368 of 20.12.1999 (p. 31); OJ C 19 of 21.1.1998 (p. 108); and OJ C 355 of 21.11.1997 (p. 64).

Even the approximately 4 to 5% of economically active persons comprising the long-term unemployed in the EU must not necessarily be "written off". It is true that neither of the two criteria are met in this case: there are not enough actual jobs and some of the workers also do not have the requisite skills. Experience has, however, shown that if growth generates sufficient jobs, retraining and other measures can enable many long-term unemployed persons to find employment again.

The abovementioned points do not set out a case against vocational training and further training, which is essential if the EU's human resources are to be strengthened over the next few years. These measures will improve not only overall economic productivity and competitiveness but also the career prospects of individuals. These measures - some of which are expensive - will, however, only achieve their full effect if the economy can generate, in the course of a prolonged period of economic growth, the number of jobs required to mop up the EU's employment potential. Training measures must therefore go hand in hand with the creation of jobs, as part of a long-term process.

2.2.4 **Where can the new jobs be created?**

It is also often argued that it is impossible for the EU to absorb its manpower reserve as jobs are constantly being lost as a result of technical progress and globalisation. This claim is too sweeping and not conducive to a constructive consideration of the issue.

What is right is that, within the growth process, technical progress and globalisation lead to ongoing structural change. Considerable pressure is brought to bear to step up competitiveness, increase productivity and reduce workforces. In sectors with high productivity gains, strong international and intra-Community competition is leading to a reduction in relative prices (and, in a number of cases, also in absolute prices). These sectors frequently shed labour, and employment is increasing only in (a) a number of particularly innovatory areas which need to build up their workforces (e.g. the manufacture and distribution of new electronic products, such as computers and mobile phones) or (b) cases where aggregate growth is so strong that traditional industrial sectors, too, (e.g. motor vehicle manufacture) are able to employ more people. However, the fall in relative prices undoubtedly strengthens the competitiveness of these sectors and a large part of their productivity gains is passed on to the other sectors of the economy via the price mechanism. This extensive transfer of purchasing power brought about by market forces makes it possible for relative prices to increase in sectors where productivity gains are lower and there is less pressure of competition but where demand is rising as part of the growth process. As a result a large number of jobs become profitable and can thus be created in these sectors (e.g. a large number of personal services, restaurants, etc. and also services linked to new products and media).

This is a long-term, macro-structural process which can be statistically proven. The prerequisite is that the price mechanism works well. This condition is largely met as a result of the opening-up of markets. If the process is to provide sufficient jobs, a number of further conditions do, however, need to be fulfilled, namely:

– the process of structural change at sectoral level must be able to proceed as unhindered as possible and must be socially acceptable;

– overall economic growth must be high enough to ensure that more jobs are created than are destroyed at sectoral level and that the balance is sufficiently large to cut unemployment.

The two latter conditions are mutually dependent. The greater the number of jobs created through growth, the smaller the pain caused by structural change at sectoral level and the more palatable such change can be in social terms.

In the course of this process, new jobs are created both in areas using and applying new technologies in products and also, above all, in high-value and correspondingly well-paid service industries which are becoming profitable and finding markets as a result of both the operation of the relative price mechanism and also the growing employment and incomes in the economy as a whole (cf. the ESC's Opinion on New knowledge - new jobs)[6].

The more effectively the above mechanism based on growth and changes in relative prices operates, the less pressure will be exerted by market forces to open the wage scale downwards, which would result in jobs being created above all in service industries with low rates of productivity and low wage levels. This occurred on a large scale in the USA in the 1970s and 1980s (but to a lesser extent in the 1990s), and also explains the low growth in aggregate productivity in the USA in the 1970s and 1980s.

2.2.5 **Possible social and economic effects of integrating the manpower reserve into the labour market**

The manpower reserve could be integrated into the labour market as part of a medium to long-term process lasting about ten (to fifteen) years[7]. This process must, however, get under way during the current economic upturn.

Integration of the manpower reserve into the labour market would mean, by definition, a return to full employment (Lisbon European Council) or to the "high level of employment" set as a goal in Article 2 of the EC Treaty. There would therefore be a low unemployment rate and a high employment rate.

Even though it may not be possible fully to achieve the low **rates of unemployment** of the period 1960 to 1973 (EUR 15: 2.4%; Germany: 0.7%) since we may now have a higher level of frictional unemployment, it would nonetheless seem legitimate to regard rates of the order of 3% as achievable (Netherlands - 2000: 2.4%!). The **employment rate** could gradually increase from the current level of between 61% to 62% to a level of 70% to 75%, which is comparable with the figure for the USA and Japan. This increase would be mainly attributable to a higher number of women in gainful

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6 OJ C 14 of 16.1.2001

7 To simplify matters, this scenario applies to the present EU-15. It would also apply, mutatis mutandis, to an enlarged EU.

employment and to a general increase in the numbers of persons in gainful employment in the 50-55 and under 30 age groups.

Such an increase in the number of persons in gainful employment and in the possibility of finding a job would greatly reduce the **threat of social exclusion** facing large groups of the population. There would also be a marked improvement in the **situation of social security schemes**[8]:

- unemployment insurance: there would be an increase in the number of persons paying contributions and a sharp decline in the number of persons receiving benefits;

- sickness insurance: there would be an increase in the number of persons paying contributions, whilst the number of persons in receipt of benefits would probably remain unchanged;

- pensions insurance: an increase in the number of persons paying contributions would probably be accompanied by a slower increase in the number of persons receiving pensions (because of a drop in the number of persons taking early retirement).

It would be very interesting to carry out comparative studies, in particular, into the impact on pension-insurance schemes of a sharp increase in the employment rate.

Integration of the manpower reserve into the labour market will, of course, also have a decisive effect on **growth** and **prosperity** in the EU. If, against the background of a more or less stable overall population, employment increases by 30 to 35 million - i.e. well over 20% of the current level of employment or almost 10 percentage points measured in terms of the overall population of the EU - this will result in a considerable jump in GDP, which would then probably be well above US GDP. Prosperity, measured in terms of per capita GDP, would also move closer towards the US figure[9].

2.3 **Macro-economic prerequisites for sustainable growth in GDP and employment**

2.3.1 **Simple relationships between growth, productivity and employment**

The EU's manpower reserve is therefore a major potential source of growth and prosperity. In order to unlock this potential, GDP must, over a prolonged period, grow at a faster rate than productivity per gainfully employed person**. Growth in employment implies a growth in GDP over and above the growth in productivity**. If growth in employment is accompanied by a fall in the level of unemployment **and** an increase in the employment rate (measured in terms of the number of persons in full-time employment), per capita GDP will increase at a faster rate than productivity per gainfully employed person. A return to full employment would therefore enable the EU to tap into the major reserve of prosperity which the USA, for example, has already exhausted to a large extent. There

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8 The ESC has recently expressed its views on the subject of demographic trends (see doc. No. CES 930/99) and older workers (CES 782/2000).

9 The extent to which relative levels of prosperity can change as a result of sharp growth in GDP and employment is demonstrated by the example of Ireland: per capita GDP in purchasing power standard (PPS): 1986: 65.3; 2000: 114.3 (EU 15 = 100).

are also significant differences within the EU in this respect which should be analysed (cf. the situation in countries such as Luxembourg, Ireland and Spain). The differences are even greater if the comparison is extended to the applicant states.

Productivity growth remains the source of competitiveness and prosperity. It is ultimately based on economically incorporated technical progress (together with the requisite training of the workforce) and on the substitution of capital for labour. The concept of "productivity" is however extremely complex and is often used imprecisely. A distinction should be drawn between, for example, the level of productivity and the trend in productivity per gainfully employed person or man hour, etc. There are significant differences in this respect between the USA and the EU and between EU Member States. It would be interesting to investigate why levels of productivity differ and why productivity growth has speeded up in the USA in recent years and slowed down in the EU.

Whilst a faster increase in productivity would be welcome, it would only help to **resolve the employment problem** if it were matched by a still faster increase in GDP. High growth in employment is required if (1) there is a sharp rate of increase in the population of employable age (USA) and/or (2) there is a large manpower reserve which needs to be integrated into the economic process (EU). The economic determinants for growth in productivity and employment are different. Further analysis and information is required.

The provision of additional **capital widening investment for creating jobs** is particularly important for promoting growth in employment. If adequate investment is to be made, the rate of return needs to be sufficiently high **and** there needs to be a favourable trend in demand (without inflationary pressures). In this respect it should also be borne in mind that capital widening investment also incorporates technical progress; observations have clearly shown (EU: 1986-1990; IRL: 1994-2000) that capital widening investment speeds up the rate of growth of total factor productivity whilst, at the same time, reducing the substitution of capital for labour.

2.3.2 **An illustrative reference scenario for the next five years (2001-2005)**

Growth and employment cannot be brought about by decree. Politicians can and should, however, create favourable conditions. It would be useful, in this context, to have an **idea** about how **growth could and should develop in order to enable the manpower reserve to be exploited gradually** without giving rise to inflationary pressures.

Supply side: The current annual rate of growth in GDP in Euroland and the EU as a whole is approximately 3.5%. Productive potential is growing at an annual rate of some 2.5%, whilst spare productive capacity is decreasing by approximately 1 percentage point of GDP[10]. A sustained

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10 It should also be pointed out in this context that it is very difficult to measure the growth in productive potential using statistics. Various observations (such as those made in the USA in the 1990s) and plausibility studies (relating to the "new economy", the development of the service sector, improved level of adaptability of the economy, increased productivity of capital, etc.) point to the fact that the level of growth in productive potential is perhaps higher than has generally been assumed. This would allow for a higher rate of growth of GDP without inflationary pressures. It would, in the ESC's view, be particularly interesting to carry out comparative studies in this field.

annual growth rate of 3%-3.5% for GDP would nonetheless appear to be possible if investment in plant and machinery were to increase by some 7%-8% per year (EU-11 2000: 8.1%). If this trend continues, the growth in productive potential will increase by some 0.2 to 0.3 percentage points per year; i.e. productive potential will grow by 3.5% per year within five years at the latest. Sustained growth of 3.5% can then be achieved without fuelling inflation. In the intervening period growth of between 3% and 3.5% per year is possible, provided that capacity margins can be exploited and provided that budgetary policy and wage policy does not result in a cost-driven increase in inflation. With productivity growing at about 2% per year, the above scenario would lead to an annual increase in employment of some (1% to 1.5%) 1.3% per year (perhaps rising later to 1.5% or more per year). This would be a good start towards reintegrating the manpower reserve into the labour market over a period of ten to fifteen years.

Demand side : Such growth can of course only be achieved if it is supported by a corresponding increase in demand without this leading to inflationary pressures. Such a scenario appears to be perfectly possible and plausible. Following the international crisis in 1998 and 1999, export-driven demand in the year 2000 has stimulated the economy to a certain extent (rate of exchange for the euro, growth in non-EU countries); this stimulus was, however, in part blunted by the loss of purchasing power caused by the oil price hike. Over the next few years the impact on demand of net exports could however be neutral. Under these circumstances growth would be supported by an increase in consumer demand (as a result of the increase in real wages **plus** an increase in employment) and investment activity, which is itself an important factor in determining demand.

In this way **a dynamic equilibrium** could be achieved, based on an annual increase in GDP of between 3% to 3.5%, an annual increase in private consumption of between 2.7% and 3% and a 7%-8% annual increase in investment in plant and machinery.

In such a scenario government deficits would, other things being equal, be transformed into a moderate surplus, the investment ratio would rise appreciably and the external trade balance would be safeguarded (cf. developments in Ireland over the last ten to fifteen years). As long as the rate of inflation does not increase as a result of demand overheating or costs rising too rapidly, there would be no reason to introduce a restrictive monetary policy to stem the process of growth.

2.3.3 **Obstacles to growth need to be overcome or, where possible, avoided**

Whilst the reference scenario outlined above borders on the minimum requirements for resolving the unemployment problem in the EU, it would, however, appear to be somewhat optimistic, bearing in mind the results obtained in the Community in the 1990s. Despite this, there are a number of reasons for considering that it would be plausible to achieve such a scenario, assuming that an appropriate economic policy is pursued and that the key players, and in particular the social partners, behave accordingly. At the beginning of this opinion attention was drawn to the sharp improvement in the economic conditions for increased growth and employment in Europe. The analysis of past figures, however, also support the hypothesis that the European economy could spontaneously grow by more than 3% per year if certain obstacles to growth were overcome.

A growth rate of GDP (3.3% per year), employment (1.3% per year) and investment in equipment (7.3% per year) bordering on the figures set out in the reference scenario was achieved in the period 1986-1990. In the periods of economic recovery in 1994/95, 1997/98 and 1999/2000, too, investment in plant and machinery grew by 7%, 8% or 9% per year in response to an increased growth rate for GDP of the order of 3% per annum or above.

It was mainly macro-economic events which interrupted the periods of growth and recovery, namely:

– inadequate growth in productive potential in comparison to the trend in productivity, aggravated by mistakes in macro-economic policy, led to capacity bottlenecks and higher rates of inflation (1989-91);

– a stability conflict (1988-92) between monetary policy, budgetary policy (1989-91 - method of financing German reunification) and wage trends (1990-92) brought on a recession (1992-93);

– a lack of confidence in budgetary consolidation in a number of countries aggravated or caused intra-community currency upheavals (in 1995 and also in the 1970s and 1980s).

Growth and employment in the EU have also recently been curbed, however, by other events outside the EU, such as the Asian crisis in 1999 and (perhaps) the oil price hike in 2000.

The opportunities for either avoiding or overcoming macro-economic obstacles to growth have increased considerably as a result of EMU in Europe (see points 1.1 and 1.2 above).

The important thing for the future is:

– to avoid bottlenecks in productive capacity with their attendant inflationary pressures (corporate investment, profitability, public investment);

– to avoid skill shortages on the labour market (need to promote the training of human resources: wherever possible this training should be market-oriented and bad investments should be avoided);

– to monitor the way in which balance is achieved between **savings and investment** (higher rate of investment - higher rate of savings; a stable level of private savings makes it necessary to increase the level of public savings and public capital formation); stability pact; the need to avoid pressure on the current account balance and long-term interest rates;

– to reconcile employment, growth and protection of the environment;

– to avoid new threats to stability which trigger new monetary policy restrictions (short-term objective: to prevent the oil price trend from having knock-on effects; ongoing tasks: to secure an appropriate wage trend in the EMU, stability and employment pact, macro-economic dialogue).

Difficult problems remain to be solved in all of the above areas but the requisite conditions needed for finding solutions have showed a marked improvement.

3. The contributions to be made by economic players

3.1 Macro-economic conditions for growth and employment and macro-economic policy players

The question of whether the macro-economic **policy-mix pursued in the monetary union as a whole** is conducive to growth and employment basically depends on the interaction between, on the one hand, the common monetary policy and, on the other hand, the average budget and wage trends in the monetary union's member countries. Three separate groups of players are generally identified on the basis of their responsibility for these three major policymaking variables.

1. the Central Bank, and the European System of Central Banks, which are responsible for monetary policy;
2. the governments of the countries participating in monetary union, which are responsible for budgetary policy;
3. the social partners, which are responsible for wage/incomes policy.

The EU-level dialogue being held under the "Cologne Process" between these three groups of players (together with the Commission, in its capacity as the representative of the interests of the EU) builds on the successful efforts made in a number of Member States to achieve consensus between the social partners and the government on key economic policy issues (e.g. the economic miracle being experienced in Ireland since the mid-1980s would have been inconceivable without such a consensus!).

This EU-level macro-economic dialogue is designed above all to help improve the interaction between the three major macro-economic policy-making variables.

Generally speaking, the more the stability objective of monetary policy is underpinned by an appropriate budgetary and wage policy, the more monetary conditions - including the exchange rate and long-term interest rate - can develop in support of growth and employment.

This, of course, considerably simplifies matters: inflation rates do not have to be the same in all countries and regions of the monetary union. On the contrary, market forces make differences necessary within particular limits. An appraisal of the impact of or need for divergencies between countries (and regions) of the monetary union provides considerable material for comparative country-by-country studies.

Putting the macro-economic players in three groups (which are not homogeneous) also represents a certain simplification. Although the three groups are responsible for trends in the three major macro-economic policymaking variables, the conditions for growth and employment also depend on the overall economic and social climate which is, in turn, shaped by all the economic and social

groups concerned. This is particularly true when it comes to overcoming the deeply-rooted growth pessimism in the EU (a pessimism which has existed for 25 years and which can virtually be regarded as a barrier to growth and employment in itself). As the representative of all of these groups, the ESC could play a special role in this field.

Consequently, this chapter will contain proposals for more detailed country-by-country comparative studies in respect of the three major macro-economic policy variables and the problem of growth pessimism.

3.2 **The classic areas of macro-economic policy**

The three sub-sections below (3.2.1 to 3.2.3) suggest a number of aspects which could be addressed in the comparative studies and the public debate.

3.2.1 **Monetary policy and trends**

Studies in this field should, of course, respect the independence of the Central Bank. There is, however, no conflict between respecting this independent status and conducting an objective and well-informed debate on how the Central Bank can best ensure stability and how it can best support the general economic objectives of the EU (see Article 105(1) of the EC Treaty), without prejudice to the objective of ensuring stability.

Examples of possible subjects for study and discussion:

a) Comparison between EU and US monetary policy in the pre- and post-EMU introduction phases in the economic cycle;

b) Has an appropriate reference value been set for the development of the euro money supply, in the light of the development in productive potential and surplus productive capacity?

c) How are overall monetary conditions developing and what divergent trends are apparent in the countries participating in monetary union; how should these trends be assessed?

d) How is the Central Bank to react to budgetary or wage trends in the EMU as a whole and in individual countries? Should and could the Bank seek to bring its influence to bear on the way in which the oil price hike impacts upon wage and budgetary trends?

e) What differences in inflation rates occur between EMU member countries and which criteria can be used to assess whether such differences are the result of necessary developments in the market economy (cf. for example, Ireland and the Netherlands)?

3.2.2 **Budgetary policy and developments in the field of public finance**

This field provides ample scope for comparative macro-economic studies. Both studies setting out straightforward factual information on trends and orders of magnitude and studies describing policy options and the quantitative implications of such options would make a major contribution towards bring objectivity to the economic policy dialogue.

Examples of possible subjects for study and discussion are set out below:

a) How have the budgetary deficits in the individual countries been reduced since the early 1990s: cuts in expenditure; increases in taxes and duties; mechanical effects such as reduction in the interest burden brought about by EMU itself; cyclical increases in tax revenue? How should these developments be assessed?

b) In the course of the consolidation process there was a clear drop in the proportion of GDP represented by public investment; what are the statistical problems in this field? How should public investment develop if the EU embarks on a period of sustained growth which is sufficient to resolve the employment problem in the medium to long-term?

c) The Stability and Growth Pact provides for almost zero budget deficits or slight surpluses in the Member States in the next few years. Will this target be sufficient in the medium to longer-term if the EU embarks on a period of much higher, investment-driven growth which will require a significant rise in the rate of investment (in the 1990s the rate of investment in the USA rose by 4 percentage points of GDP, whilst in Ireland it increased by 10 percentage points).

   It should be borne in mind in this context that (a) the proportion of GDP represented by private savings (private households and enterprises) is traditionally very stable in the EU (approximately 21% of GDP) and (b) the EU is highly likely to avoid having a significant and lasting current account deficit (current account balance in the US in 2000: -4.1% of GDP; in the EU-15: +0.1% of GDP).

d) What have been the reasons in the EU and in the Member States for the sharp increase in social insurance contributions and benefits, measured as a percentage of GDP, since the beginning of the 1970s: more generous benefits, a decline in the number of persons paying contributions or an increase in the number of persons receiving benefits in relation to the total number of persons of employable age? If the EU were to achieve, in the medium to longer term, the employment levels laid down by the Lisbon European Council as reference figures, what impact would this have, other things being equal, on the level of social insurance contributions and benefits, as a percentage of GDP?

e) Reforms - some of which are extensive - are taking place in the field of public finance in virtually all EU Member States; these reforms concern the structure of income and expenditure and the proportion of GDP represented by the public sector. How can these reforms be summarised? Are they compatible with the "broad economic policy guidelines"?
   What are the arguments for and against greater coordination of these reforms at EU level?

3.2.3 **Wage policy and trends in wages and wage costs**

Overall wage costs, as defined in national accounts, (i.e. including all social insurance contributions) in the EU make up some 50% of GDP; as a macro-economic variable, overall wage costs are therefore approximately of the same order of importance as the budgets of public authorities. Wage trends are, however, also an important factor in determining aggregate demand and, in particular, private consumer demand. The trend in overall wage costs is essentially determined by independent social partners, albeit with differences between countries. It is in the general interest to monitor and assess the development of these variables in view of their macro-economic importance and the interdependence between these variables and monetary and budgetary policy, inflation, growth and employment. In the joint opinions which they have adopted over the last ten to fifteen years, the European social partners have reached a high level of agreement on how wages should develop in the overall economic context. The recommendations set out in the broad economic policy guidelines of the Community have also been generally respected, but the economic debate has often been marked by a lack of understanding of the facts, orders of magnitude and relationships and of the problems which exist.

Examples of possible subjects for fact sheets and specific analyses:

a) Concise factual description of macro-economic wage adjustment in the EU and the Member States between the 1960s and the early 1980s (reaction to oil price hikes, the slow-down in productivity increases and currency upheavals); similar presentations in respect of: the adjustment to lower rates of inflation; the effect of higher ancillary wage costs on net wages; the increase in profit margins; and the sharp rise in profitability in the 1980s and 1990s. Measured as a percentage of GDP, the macro-economic wage adjustment was even more significant than the process of budgetary consolidation in the 1990s (EU-15: 5-10 percentage points of GDP; Ireland : 15-20 percentage points of GDP).

b) Comparative analysis of the trend in profitability in the EU, the EU Member States, the USA and Japan in the period 1960-2000; analysis of the determining factors (real unit labour costs, capital productivity), and of convergence within the EU (exceptions: Ireland and Luxembourg) and vis-à-vis the US; discussion of the arguments for and against a further significant rise in profitability in the EU.

c) Presentation, supported by figures, of a simple diagram for assessing macro-economic wage trends in the EMU (impact of per capita wages and nominal unit wage costs on prices, impact of changes in real wages (together with changes in the level of employment and the rate of savings) on consumer demand; impact of relative nominal unit wage costs on competitiveness; and impact of real unit wage costs on profitability).

d) What divergences in macro-economic wage trends between the countries participating in monetary union are possible and economically justified? (Examples: differences in productivity; the need to adjust the level of prices and costs in some individual EMU countries; the need to catch up in real terms; and the relative price of services (IRL)). What are the possible consequences of unjustified divergences in wage trends?

e) Investigation of the impact of wage bargaining systems and the way in which the social partners are organised (social partnership) on macro-economic wage trends; progress made in the discussion on the need for a greater wage differentiation according to regions, skills and, possibly, sectors. Examples from the EU and the USA.

3.3 **Overcoming the general pessimism as regards growth and employment**

In its capacity as the body representing all the key economic and social groups, the ESC could make an important contribution in its own right to resolving this problem.

The origins of growth pessimism should be considered:

- a well-founded growth pessimism: until such time as this or that fundamental problem has been solved, adequate growth is not possible (Is this still true? - Hardly!);

- a naive growth pessimism: why should the EU be able to achieve over the next 10 years something that has been beyond its grasp over the previous 25 years? (Is this a rational attitude to take?);

- scepticism towards growth on environmental grounds.

How can this pessimism be overcome?

- by recognising that the most important obstacles have been overcome;

- by recognising the opportunities now present for society as a whole and for individual economic and social groups (tasks of the individual groups: SMEs, development of the service sector, etc.).

- If the scepticism towards growth on environmental grounds is to be overcome, it is particularly important that Agenda 21 (Rio) be implemented in a firm and credible way; furthermore, future growth, based on services and the use of new technology, will be less harmful to the environment than traditional growth based on industrial output.

4. **Recommendations of the ESC**

Within the EU setup, the ESC is the forum where the interests of the various economic and social groups are expressed and, wherever possible, reconciled to achieve a consensus. Since the ESC represents not only employers and workers but also, in its Group III, a broad range of civil society, it is in a position to play an extensive integrating role.

The ESC channels information in two directions: (1) it represents the interests of its members vis-à-vis the EU institutions, such as the Commission, Council and the European Parliament, and, at the same time, (2) it relays information to its own organisations and associations on issues, debates and joint ideas at EU level.

This opinion sets out a large number of proposals for "comparative macro-economic performance studies" as part of the overall approach to economic policy. If such studies are carried out, this would generate a better understanding of macro-economic relationships and orders of magnitude, bring greater objectivity to the dialogue between and within the various groups and achieve a larger measure of agreement on the appropriate macro-economic action and policy (see point 1.3 above).

Progress in this direction would not only further enhance the quality and impact of ESC opinions but would also have a favourable effect on the overall climate for implementing a sound macro-economic policy in the EU.

The ESC will in future endeavour to take greater account of these aspects in its opinions on general economic policy and macro-economic policy. It urges the Commission to regularly seek the opinion of the ESC on all key economic policy documents in time for its opinion to be forwarded to the Council too.

The ESC plans to hold regular discussions with the Commission about which "comparative macro-economic performance studies" are to be given special priority in the work programmes of the Commission departments concerned.

The ESC also intends to arrange hearings with experts and hold seminars on these matters which should be attended by not only representatives of the Commission, the European Parliament and the Council but also by high-ranking experts advising the social partners and top academics.

The ESC believes that, if macro-economic issues are debated both in public and by professional bodies, this will improve the chances of achieving lasting growth, greater prosperity and, ultimately full employment, within the stability framework provided by the EMU; this would in turn have a wide-ranging positive impact on both social policy and policy in general.

Brussels, 1 March 2001

The President of the Economic and Social Committee	The Secretary-General of the Economic and Social Committee
Göke Frerichs	**Patrick Venturini**