

**COMMISSION PROPOSALS FOR EMPLOYMENT GUIDELINES AND  
RECOMMENDATIONS AND FOR BROAD ECONOMIC POLICY GUIDELINES**

**UNICE POSITION**

**Executive summary**

UNICE has noted the Commission proposals for the 2004 guidelines package comprising the employment guidelines, the recommendations for Member States' employment policies and the Broad Economic Policy Guidelines (BEPG).

UNICE broadly agrees with the Commission proposals for Broad Economic Policy Guidelines and supports in particular those aimed at fostering trust and reducing costs for enterprises:

- ensuring sound fiscal policies, with good quality and cost efficiency in expenditures;
- promoting labour market reactivity by allowing wage developments that better reflect productivity, loosening up rigid labour market regulations, and reducing non-wage labour costs;
- simplifying the regulatory framework for business activity;
- calling for pensions reforms to ensure the sustainability of pension systems.

Nevertheless, the Commission should have stressed more strongly the urgency of structural reforms geared notably towards improving labour reactivity, fostering entrepreneurship and reducing excessive regulation.

Regarding the proposals for employment guidelines, UNICE agrees that the number of guidelines should remain limited. Nevertheless, while it understands and accepts the choice for stability, it regrets that the content of the guidelines adopted in 2003 and reconfirmed this year lacks significant elements on fostering entrepreneurship and job creation and improving labour productivity. These deficiencies should be offset by Member States implementing the recommendations of the Employment Task Force which contain important measures aimed at boosting employment creation.

Regarding the employment recommendations, UNICE welcomes incorporation of the above-mentioned Task Force ideas into the Commission proposals. Nevertheless the following elements are missing from the draft recommendations and should be added:

- Member States should take measures to reduce obstacles to recruitment and to promote the expansion of newly created companies;
- Member States should take measures to reduce non-wage labour costs, not only focused on low-skilled or people at risk of unemployment, but also applying to skilled labour,
- Member States should better take account of social partners' opinions in the employment process so that their impact on the final National Action Plans on employment can be improved.

European employers also call for sustained EU level monitoring of implementation by Member States of the recommendations made to them.

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**I. Introduction**

1. UNICE has noted the Commission's package of proposals published on 7 April 2004 comprising the employment guidelines, the recommendations for Member States' employment policies and the Broad Economic Policy Guidelines (BEPG).
2. On the employment side, the Commission proposes that:
  - the employment guidelines adopted in 2003 should remain unchanged;
  - the employment recommendations should be made sharper and more focused. There are four common recommendations to all 25 Member States, reflecting the four priority areas identified by the Employment Task Force Report. The individual recommendations to the old and new Member States incorporate to a large extent the country-specific recommendations identified by the Task Force Report.
3. On the economic side of the package, the Commission proposes that:
  - the general BEPG should remain unchanged and should be applicable to all 25 Member States,
  - a separate section contains the country-specific guidelines for the new member states,
  - revised individual recommendations are made for France, Germany, Greece, Italy, the Netherlands, Portugal and the UK to indicate the need for fiscal policy adjustments. For the other old EU countries, the country-specific recommendations from 2003 remain valid until 2005.

**II. General assessment of the proposed package**

4. Regarding the economic side of the package (broad economic policy guidelines), UNICE is in broad agreement. Nevertheless, the Commission should have put more emphasis on the urgency of structural reforms. This notably includes improving labour reactivity, fostering entrepreneurship and tackling excessive regulation. Even if recovery has started, it is uncertain due, to a large extent, to doubts about Europe's ability to embark on a virtuous circle of growth-supporting policies and structural reforms reinforcing each other.

5. Regarding the employment side of the package, UNICE:
- strongly believes that the employment guidelines lack significant elements on increasing demand for labour (fostering entrepreneurship and job creation) and improving labour productivity;
  - welcomes incorporation of the ideas of the Employment Task Force Report in the Recommendations which form an integral part of the European Employment Strategy; nevertheless, it regrets that important elements concerning labour demand, such as the reduction of obstacles to recruitment and of non-wage labour costs are missing from the proposed Recommendations; moreover, the draft Recommendations do not reflect the sense of focus on priority areas conveyed in the Task Force Report.
  - calls on the EU level to pursue the monitoring of the reforms undertaken by Member States with as a strong emphasis on those priority areas identified in the Task Force Report .
6. When drafting recommendations for Member States' macroeconomic policies and employment policies, the synergy and coherence between the two sides of the package should be improved.

### **III. Comments on Broad Economic Policy Guidelines**

7. Recovery has started. The Commission Spring Forecasts for the EU are very close to those published by UNICE in its Economic Outlook of March 2004. Both documents expect an average growth rate of 2% in 2004 and around 2.3% in 2005.
8. UNICE welcomes the growth prospects that enlargement offers. Real GDP growth averages 3.6% in the new Member States in 2003, compared with 0.8% in the current Member States. However, there is a strong need for reforms to speed up the transition of the new Member States' economies.
9. Nevertheless, the improvement in economic growth is very limited and remains uncertain due to a large extent to a worrying lack of consumer confidence. While it is true that the terrorist threat has a bearing in this respect, uncertainty about structural reforms is a key explanatory variable for this lack of confidence. It is therefore important that, beyond cyclical budget and monetary measures, governments overcome their inertia in implementing structural reforms in labour, financial and product markets. Governments should better explain the benefits that citizens could reap from reforms to improve consumer confidence and consumption. The reforms should indeed lead to greater productivity, growth rate and job creation.
10. The risk of relocation for EU-15 growth prospects is also a source of concern. This could affect not only low-skilled but also highly sophisticated activities. However, the fear should not be overestimated. Reallocation of resources is a natural adjustment process towards global efficiency. In fact, this is more worrying when it reflects a weakening competitive advantage in Europe, resulting from the slow pace of reform implementation in increasingly competitive global markets.

11. UNICE broadly agrees with the Commission proposals for Broad Economic Policy Guidelines. It welcomes the focus placed on the new Member States in these guidelines. Nevertheless, in the light of the analysis above, the Commission should have stressed more strongly the urgency of structural reforms.
12. UNICE supports in particular those BEPG aimed at fostering trust and reducing cost for enterprises:
- Ensuring sound fiscal policies in line with the Stability and Growth Pact is essential. Public deficits in several countries are worrisome since they will have detrimental effects on sustainable growth: future tax increases, bad signals to financial markets, additional constraints on the ECB's monetary policy, increased uncertainty, etc. Sound fiscal policy equally means good quality and cost efficiency in expenditures. Budget consolidation should avoid being translated into tax increases but should take the form of expenditure retrenchment. Furthermore, budget consolidation could have a positive impact, even in the short run, when it is combined with structural reforms on factor and product markets.
  - Promoting labour market reactivity is essential, e.g. by allowing wages to better reflect productivity differences on local labour markets. Wage moderation should be defended to prevent nominal wages from growing faster than productivity. Labour costs should also be monitored in the new Member States, particularly regarding the low productivity per worker in these countries. While Europe is already suffering from productivity weakness, productivity in the new Member States is almost half of that of old Member States. Furthermore, it is important to reduce the non-wage costs of labour and to loosen up rigid labour market regulations.
  - Simplifications of the regulatory framework of business activity leading to a clear, lean, stable and transparent system will assist in making entrepreneurial activity more flexible and competitive.
  - Ageing population urgently calls for pensions reforms. Household uncertainty about the sustainability of pension systems is hurting private consumption and growth.

#### **IV. Comments on the employment guidelines and recommendations**

##### Commission overall approach

13. European employers agree with the Commission that:
- Both employment and productivity growth must accelerate strongly if Europe is to meet its 2010 employment objectives. A narrow approach to labour market reforms will not suffice. Sound macroeconomic policies, structural reforms in goods, services and capital markets and progress on all fronts of the Lisbon agenda, (notably in terms of research and innovation, education and training and the reform of social protection systems including pension arrangements) are needed.
  - sharper and more focused recommendations and more intensive monitoring of reforms should bring about a more hard-hitting European employment strategy.

### Proposals for Employment Guidelines

14. Last year UNICE welcomed the simplification and the focus on a limited number of priorities of the employment guidelines and the fact that they would be valid for three years. Nevertheless it was disappointed by the content. Firstly, because they lacked significant elements on fostering entrepreneurship and job creation notably regarding the reduction of tax pressure on labour and improving labour productivity such as measures to remove rigidities in labour law and promote flexible forms of work. Secondly, because they contained too many quantified targets at EU level which could impose a purely quantitative implementation of the policies and result in a misleading comparison of national situations.
15. UNICE agrees that the number of guidelines should remain limited. Nevertheless, while it understands and accepts the choice for stability of the employment guidelines, it reiterates its disappointment with their content.
16. Finally, European employers insist that, in view of the increased diversity in national situations in an enlarged European Union, in the future, the guidelines should remain focused, limited in number and should not contain overly prescriptive EU targets.

### Proposals for Employment Recommendations

17. The deficiencies highlighted above are partly corrected by incorporation of the ideas of the Employment Task Force Report in the Recommendations made under the European employment strategy (EES). They contain important measures aimed both at boosting employment creation and encouraging people to take up available jobs. However, UNICE believes that the Commission has failed to value the Employment Task Force recommendations at their full potential. The following important elements of the Task Force recommendations regarding labour demand are missing from the Commission proposals for recommendations:
  - the measures to reduce obstacles to recruitment and to allow expansion of newly created companies (simplification of the complexity of personnel rules and regulations such as recruitment formalities, administrative procedures and conditions for dismissals) and to reduce non-wage labour costs are missing from the common recommendations,
  - in the country-specific recommendations the call to reduce the administrative burden on business is missing in the case of Greece, the call for simplification of the administrative and regulatory framework for business is missing in the case of Spain and Portugal and the reduction of non-wage labour costs is not taken over for Austria and Sweden.

These elements should therefore be added to the employment recommendations.

18. Moreover, UNICE stresses that the following measures are lacking from both employment recommendations and from the Employment Task Force ideas and should be added: reduction of non-wage labour costs should not only focus on low-skilled or categories of people at risk of unemployment, but should also apply to

skilled labour, since this is determinant for the competitiveness of a knowledge-based economy.

19. Regarding the involvement of social partners in the employment process, UNICE welcomes the progress achieved. In the framework of the European social dialogue work programme, the European social partners prepared a joint report on the involvement of the social partners in the preparation of the national action plans on employment (NAPs) and on their actions to implement the employment guidelines. In this document, the national social partners reported that they were usually consulted but, in most countries, the impact of social partner consultation on the final NAP could be improved. This should be reflected in the employment recommendations and Member States should address this in their 2004 NAPs. Close involvement of social partners should be promoted in the new Member States.

#### Implementation of recommendations and follow-up

20. European employers are concerned that, so far, many Member States have not taken sufficient account of the recommendations made to them under the EES. They therefore call for sustained monitoring of the implementation of the recommendations made to the Member States. Moreover, UNICE insists that Member States should correct the imbalance towards labour supply measures and strengthen the measures geared towards entrepreneurship and job creation.

#### **IV. Conclusion**

21. UNICE is in broad agreement with the economic side of the package and supports in particular those BEPG which can help to restore confidence and reduce costs for business (i.e. implementing sound fiscal policies in line with the Stability and Growth Pact, promoting labour market reactivity, tackling excessive regulation, ensuring the financial sustainability of pension systems). Nevertheless, the Commission should have stressed more strongly the urgency of structural reforms. This is key for ensuring sustained economic growth.
22. Regarding the employment side of the package, UNICE strongly believes that the employment guidelines lack significant elements for fostering entrepreneurship and job creation and improving labour productivity. It welcomes incorporation of the ideas of the Employment Task Force Report in the employment Recommendations. Nevertheless, important elements such as the reduction of obstacles to recruitment and non-wage labour costs are missing and should therefore be added. European employers call for intensive monitoring of the reforms undertaken by Member States with a strong emphasis on the priority areas identified in the Task Force Report.

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