Council recommendation on the broad guidelines of the economic policies (22 December 1993)

Caption: On 22 December 1993, prior to transition to the second phase of Economic and Monetary Union (EMU), the Council adopts various guidelines concerning the economic policies of the Twelve.

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Council recommendation of 22 December 1993 on the broad guidelines of the economic policies of the Member States and of the Community

(94/7/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 103 (2) thereof,

Having regard to the recommendation from the Commission,

Having regard to the conclusions of the European Council of 10 and 11 December 1993,

HEREBY RECOMMENDS:

Article 103 of the Treaty on European Union provides the framework for economic policy coordination from the start of Stage II of the process towards Economic and Monetary Union. The economic policy guidelines adopted under that Article will constitute the reference for the conduct of the economic policies in the Community and in the Member States.

Main objectives

There are signs that the recession is bottoming out in the European Union. Output indicators and business surveys in a number of countries are showing signs of improved confidence and prospects. Long-term interest rates have declined substantially and most European central banks have lowered their leading rates. However, unemployment continues to increase in most Member States. Against this background, the broad guidelines for economic policies in 1994 should aim, as a priority, for the return of a sustainable and non-inflationary economic growth.

The Community should set itself the objective of, in the short term, reversing the trend and then, before the end of the century, significantly reducing the number of unemployed, at present standing at the unacceptable level of 17 million. A decrease in unemployment is imperative to reduce the negative economic and social consequences arising from this wastage of human resources. Higher employment creation is also necessary to achieve a more active society where all those wishing to join in the production process are given a chance to do so and where the weight of the factors leading to social exclusion is substantially reduced.

This employment objective should be obtained by a non-inflationary, strong and employment-creating growth, lasting over many years and respecting the environment. Higher growth is essential not only in relation to employment creation but also to enable the Community to reap the benefits of the internal market, to improve its economic and social cohesion and to meet its growing commitments in relation to the rest of the world. Since growth cannot be artificially generated, it must be brought about essentially by the effect of market forces and by the dynamism of the internal market, open to the outside world. The conclusion of the GATT negotiations on a global, durable and balanced basis and the Community's openness to new markets has a vital role to play in this respect.

Achieving a higher growth rate also requires a strengthening of economic convergence among Member States. Convergence will set in place the conditions for stronger job-creation and will allow the Community to reap the full benefits of the internal market. It will also make possible a successful transition to EMU.

In this respect the task of economic policy-makers is to allow market forces to display their full potential by:

(i) providing a stable and coherent macro-economic framework;

(ii) removing the macro- and micro-economic obstacles to growth.

In the present situation the challenge is a dual one. Firstly, to act decisively to improve the conditions for growth consistent with the commitment to the creation of high employment in the medium-term. Secondly, to create the economic and social conditions which will permit stronger, sustainable and more employment-creating growth in the medium to longer term.

The recovery process will require a restoration of confidence through a rebalancing of the current macro-economic policy mix combined with credible structural measures. The sooner current and expected pay and budgetary trends incorporate the price stability objective, the sooner interest rates can be further reduced substantially on a sound basis. For lower interest rates, achieved on this basis, represent an important element to boost short-term prospects in the Community. Given the severity of the present situation, however, and the size of the budgetary adjustment to be undertaken in many countries, the recovery process may well be modest and hesitant. Therefore, the full realization of the initiatives agreed at the European Council meetings in Edinburgh and Copenhagen is of paramount importance.

In the medium-term, policies and behaviour must remain consistent with stability. They must help to overcome rigidities and to put an end to the damaging reduction of national saving resulting from high budget deficits, thereby strengthening the investment conditions and the growth potential of the Community so that many years of stronger and more employment-creating growth become possible.

Economic policy guidelines

In order to create the conditions to realize the Community's economic objectives, in particular the increase of employment and the reduction in unemployment, the Council adopts the following broad economic policy guidelines:

Price and exchange-rate stability

The Community will aim to keep a stable macro-economic framework. A rate of inflation of no more than 2 to 3 % should be reached in most Member States by 1996 as a step towards price stability in the Community.

All policies and behaviour should be consistent with this objective. Those Member States who have already reached this level of inflation should ensure that policy measures are consistent with the maintenance of this performance. For the other Member States, determined action is needed to provide the basis for lower short-term and long-term interest rates, for example involving action related to budgetary consolidation, wage evolution and inflationary price developments in the services sector.

If these measures are implemented with sufficient speed, conditions would be established for both nominal and real interest rates to come down as inflation expectations are reduced. The setting up of the EMI will represent an additional factor of stability and cooperation, given the important role it will play in strengthening arrangements for the coordination of Member States' monetary policies and in monitoring the functioning of the European Monetary System.

The high degree of integration and the reaping of the benefits of the internal market demand that the Community continues to aim for exchange-rate stability built on common efforts to make progress on convergence and to create sound economic fundamentals in all Member States of the Community.

The Community reaffirms its commitment to the EMU process and timetable as agreed in the Treaty on European Union. To this end it will intensify its efforts at achieving economic convergence.

Sound public finances

The restoration of confidence requires that in 1994 Member States prevent any further deterioration in their budgetary situations and carry forward the process of deficit reduction. In those Member States facing more worrying fiscal positions, confidence will benefit from an immediate strong pursuit of the consolidation process. This holds true especially for Member States with very high and rising public debt ratios. The consolidation process should intensify in those Member States with high budget deficits and which are expected to face a relatively favourable economic situation in 1994. In other Member States tight control of budgets will be necessary in 1994 but the emphasis should mainly be on credible medium term consolidation strategies with measures to be already announced now which will take effect in future years as the recovery strengthens. At the Community level, the limits on EC spending and revenue agreed at the Edinburgh Council must be respected.

In 1995, Member States should continue action to make their public finance positions sustainable again. Under the expected growth path for the years ahead, this means action towards reducing budget deficits to the reference value indicated in the Treaty on European Union (3 % of GDP). Most Member States have the potential to reach this goal by 1996, with the others needing more time. This action will contribute to meeting the criterion relating to public debt provided for in the Treaty.

The measures used to stabilize public budgets will give priority to reductions in current expenditure and to improving the efficiency of the tax system, for example, by strengthening action against tax evasion. All Member States need to re-orient public expenditure to more productive uses and to increased investment in particular.

In the long term, Member States' budgetary policies will be directed towards contributing to higher national savings and investment. This will entail much lower budget deficits (perhaps close to balance by the year 2000).

Creating more employment

Member States and the Community will take resolute action to improve the functioning of their economies, aiming specifically at improving competitiveness and the Community's capacity to create jobs.

Because of the institutional, legislative and contractual peculiarities of each Member State, the Community's action must focus on defining objectives, while leaving Member States free to choose the means appropriate to their situation within a general framework defined in common. With this in mind, the Council considers that, in order to strengthen the capacity of the European economy to create jobs, Member States should draw on suggestions from the Commission White Paper.

Pay, investment and employment

Member States set themselves the objective of a significant increase in the share of investment in GDP. Meeting this objective is essential in order to increase the Community's potential for sustainable non-inflationary growth of the European economy in the medium and long term. Moreover, the recovery in private investment will, in the short term, help to stimulate demand.

Recovery in investment will be possible if society is prepared today to make the efforts which will bring more prosperity and more jobs tomorrow. That calls, amongst other things, for pay developments consistent with the improvement in the profitability of investment and in the competitiveness of European undertakings on world markets. That process will also contribute to promoting job-creation in the immediate term.

In the short term, the need to create news jobs will not permit real pay growth in most countries and may result in real pay reductions in certain sectors of the economy. However, pay movements should provide for an appropriate differentiation according to the situation in Member States, industrial sectors and firms, as well as vocational qualifications and work experience.

To this end, Governments and the social partners will use all instruments which national procedures provide to ensure that pay trends in their countries adapt rapidly to the objective concerning inflation.

Pay moderation in the public sector is also important, on the one hand to take the pressure off public finance and to accelerate promotion of public investment and on the other to set an example for the private sector.

Schemes promoting new forms of labour organization on a sound economic basis may be introduced through negotiation in a decentralized way (at sector or enterprise level).

Reducing the indirect cost of labour

Where appropriate, Member States must intensify their efforts to bring about a significant reduction in the indirect cost of labour. Such reduction would enable a better balance to be achieved between the costs of the various production factors. Failing that, the labour factor, in particular low-skill labour, would suffer excessively.

Action to be undertaken in this field has a twofold objective:

- it should promote job-creation in services responding to new society needs, the development of which is currently discouraged by the high level of the indirect cost of labour,

- combined with pay moderation, it should also save jobs in the sector exposed to international competition by curbing the replacement of labour by capital and the relocation of activity.

In order to encourage the process in the right direction, Member States are invited to examine to what extent an adaptation of the financing mechanisms of their social protection system, along with saving measures, could further contribute to the promotion of employment. However changes in the systems should not increase Member States' indebtedness. The question will be re-examined at Community level on the basis of reports which Member States are invited to present. Fiscal measures possibly relating, *inter alia*, to the environment could be one of the means of offsetting a drop in social contributions, within a general context of stabilizing all statutory contributions and reducing the tax burden.

Active policies towards employment

Meeting the objective will also depend on adjusting employment policies to the changing economic environment.

Member States are invited to:

- improve educational and job-training systems so that those who enter the labour market have the possibility of developing professionally and at the same time have skills that are useful to undertakings,

- help reintegrate the long-term unemployed in the labour market,

- improve the functioning of local placement services,

- remove excessive rigidities which prevent the labour market from functioning effectively,

- improve labour mobility,

- promote liberalization measures aimed at sheltered sectors, including, where appropriate, the services industry.

Completing the international market

The existence of a large export-oriented internal market is a major asset of the European economy, and it must be fully exploited. The full incorporation of Community legislation into national law, simplification and reduction of the legislation, the creation of a fiscal, administrative and financial environment favourable to small and medium-sized enterprises, the application of the competition rules and the control of State aids are essential elements in the completion of the internal market.

Likewise, the capital market must be made more efficient in order to encourage a flow of savings into productive job-creating investments.

The trans-European networks are also an essential element for the effective operation of the internal market and the reinforcement of economic competitiveness. The Council will make full and rapid use of the new possibilities offered by the Treaty (Article 129b).

The economic policy guidelines laid out above will constitute the reference for all future multilateral surveillance exercises. The implementation of the guidelines will be monitored in accordance with the procedures laid down in the Treaty. The Council will also assess the implementation of those guidelines in their assessment of Member States' convergence programmes.

Done at Brussels, 22 December 1993.

For the Council
The President
J.-M. DEHOUSSE