

ANNEX I - RESOLUTION OF THE EUROPEAN COUNCIL ON THE EUROPEAN EMPLOYMENT PACT

Closer cooperation to boost employment and economic reforms in Europe

At its meeting in Cologne on 3 and 4 June 1999 the European Council

recalling the conclusions of the Vienna European Council, in particular concerning the drawing up of a European Employment Pact,

recalling the Luxembourg European Council Resolution on Economic Policy Coordination in Stage three of EMU,

recalling the Amsterdam European Council Resolutions on the Stability and Growth Pact and on Growth and Employment,

recalling the conclusions of the special meeting of the Luxembourg European Council on employment,

recalling the conclusions of the Cardiff European Council regarding economic reforms and sound public finances as the basis for growth, prosperity and employment

and in approving the Presidency's report "European Employment Pact: Closer cooperation to boost employment and economic reforms in Europe" of 31 May 1999, including the supplement "Youth and Europe - our Future",

has adopted the following Resolution :

I. More employment is the highest priority

1. The European Council considers high employment the key to greater economic welfare, social justice and cohesion. The fight against unemployment which is far too high is, therefore, the most important objective of our economic and social policy. Achieving higher employment in the Single Market depends on improving the underlying macro-economic conditions, on the employability and qualifications of the work-force, on well functioning labour markets and on efficient, competitive markets for goods, services and capital at the level of the Member States and of the Community. The introduction of the euro has brought a significant improvement in the conditions for more growth and employment. In order to make full use of this potential and to achieve more dynamic growth and higher employment while maintaining price stability, the strategy to boost investment and innovation must be reinforced. To this end, the European Council is committed to step up efforts in the Member States and to cooperate more closely in the European Union. These are the objectives served by the European Employment Pact, which the European Council views as the foundation and the framework of a sustained process for more growth and employment and which is in accordance with the Broad Economic Policy Guidelines, the main economic policy coordination instrument in the Community. With this policy approach the Union is at the same time making a positive contribution to solving the problems of the world economy.
2. To the coordinated employment strategy and economic reforms, the Macroeconomic Dialogue is added as the third pillar of the European Employment Pact. This new element is intended to improve the conditions for a cooperative macro-economic policy mix geared to growth and employment while maintaining price stability. With these three pillars of the European Employment Pact, which support and mutually reinforce one another, the Union is anchoring its policy for

more employment in a comprehensive strategy for strengthening a dynamic development of our economies.

3. In the Broad Economic Policy Guidelines, the Member States and the Community agree annually on the main elements of their economic policy; in the Employment Guidelines the Member States and the Community agree annually on the main elements of the coordinated employment strategy; in the Cardiff reports on economic reform the Member States and the Community refer to the economic reforms which have been launched and indicate the direction of future efforts at reform. These well established procedures provide the right context in which to give the European Employment Pact additional content adapted to continually changing requirements.

II. Coordinated employment strategy and economic reforms well underway

4. The European Council reaffirms its commitment to the coordinated employment strategy (the Luxembourg process) and to economic reform (the Cardiff process). Improving employability, in particular for those at a disadvantage in the labour market, and helping unemployed people to acquire the knowledge and skills they need, developing entrepreneurship, encouraging the adaptability of businesses and their employees and improving equal opportunities for women and men are the key elements in this strategy. The European Council considers structural reforms of labour, product and capital markets to be essential in order to ensure that European businesses can compete successfully in world markets and that growth potential of the European economies can be fully exploited. In this connection, the European Council also wishes to stress the importance of a continuing dialogue between Council, Commission and the social partners on the coordinated employment strategy in the Standing Committee on Employment.

III. Macroeconomic Dialogue for the promotion of growth and employment

5. In order to bring about strong growth in employment while maintaining price stability, fiscal policy, monetary policy and wage development must interact in a mutually supportive way. The European Council calls upon all those who decide on or influence economic and employment policy to contribute to more employment on the basis of strong, non-inflationary growth, respecting, at the same time, their independence and autonomy in their own areas of responsibility. In a macroeconomic dialogue based on mutual trust, information and opinions should be exchanged in an appropriate manner concerning the question of how to design macroeconomic policy in order to increase and make full use of the potential for growth and employment.

6. The European Council deems it necessary, in addition to the Luxembourg and the Cardiff processes, to set up a regular Macroeconomic Dialogue (the Cologne process) within the framework of the ECOFIN Council in cooperation with the Labour and Social Affairs Council and with the participation of representatives of both formations of the Council, the Commission, the European Central Bank and the social partners. This Dialogue should take place and should be prepared at technical level as described in the Presidency's report on the European Employment Pact.

7. The European Council welcomes the declaration of the European social partners on the European Employment Pact. The European Council also welcomes the willingness of the social partners and of the monetary authorities to take part in the Macroeconomic Dialogue.

REPORT TO THE EUROPEAN COUNCIL ON THE EUROPEAN EMPLOYMENT PACT

Closer cooperation to boost employment and economic reforms in Europe

I. Introduction

Higher employment is Europe's top priority. Without a high level of employment there is ultimately no social justice or cohesion. In order to improve the employment situation in the Community on a lasting basis, we need to create the conditions for strong, continuing and non-inflationary growth. The removal of impediments to growth means at the same time removing impediments to employment. The introduction of the euro creates the potential for more welfare and growth. This potential must be used.

With the Luxembourg process, the European Union has made common cause of the fight against unemployment. Our renewed efforts are bearing first fruit. The employment situation in the European Community has improved considerably as a result of faster growth in 1998, and unemployment has declined. Taking the average for the year, however, the unemployment rate was still 10% of the civilian labour force. We must, therefore, not allow our joint efforts to flag; on the contrary, we must intensify them by a comprehensive approach supportive of strong internal growth. The goal of the European Employment Pact is to pave the way for a reduction in unemployment and for sustained job-creating growth by achieving growth rates which substantially exceed increases of labour productivity and labour supply.

As the Vienna European Council noted, a policy for more employment has to be embedded in a comprehensive approach encompassing macroeconomic policies directed towards growth and stability, the further development and implementation of the Employment Guidelines and of decisive structural reforms promoting efficiency and competitiveness. The Cologne European Council should agree on a strategy that meets these objectives and win over all economic policymakers in favour of participation in a European Employment Pact.

II. The approach

The European Employment Pact should help to achieve a high level of employment across Europe while preserving price stability. This involves reviewing not only concepts but also individual policy measures in order to ascertain whether they are supportive of job creation or maintaining the competitiveness of existing jobs. Moreover, there must be efficient interaction between national and European employment policies. The task of creating the conditions for more employment and growth, which is primarily a matter for Member States, must be based on a European strategy of structural reforms and a balanced macroeconomic policy mix. This is the way to make the best use of the framework for stronger economic growth set in place by European Economic and Monetary Union. This must be taken into account when Community policies and measures are adopted and implemented. In particular the support given through structural funds and the cohesion fund, which have been reformed in the framework of Agenda 2000, will have to support employment creation. The Commission communication under Article 127 of the EC Treaty, as amended by the Treaty of Amsterdam, contains important elements in this respect. The Commission's report "Europe as an economic entity" could also contribute, as an important working document, to the European Employment Pact.

The European Employment Pact must take account of three objectives in order to promote strong non-inflationary and job-creating growth:

- mutually supportive interaction to the greatest possible extent between wage developments, fiscal policy and monetary policy;

- the further development and even better implementation of the coordinated employment strategy within the framework of the Luxembourg process;
- strengthening of the structural reforms in order to improve competitiveness and the functioning of the markets for goods, services, and capital in accordance with the Cardiff process.

Each of these three policy areas has significance for a coherent, sustainable and successful employment strategy on which we must work together with the social partners. The fields of activity are complementary and self-reinforcing; however, not one of them can replace either of the other two:

Firstly, it is important to make the best possible use of existing production and employment potential. At the same time, it is necessary to achieve a high level of investment so as to permit durably higher rates of growth and more jobs via the expansion of productive capacities. This requires making full use of the employment potential offered by an increase of female participation in the labour force, by a better inclusion of low-skilled workers, and by a macro- and microeconomic environment in which additional investment in real and human capital pays off.

Secondly, we must work together to implement appropriate labour market and training policies so that demand for labour is matched as closely as possible by supply.

Thirdly, strong innovation, research, training and further training, modern infrastructure, structural reforms and a favourable economic environment for innovative enterprises all help to bring about a high level of employment with high added value.

Thus it is necessary to set in place on a permanent basis conditions for a macroeconomic policy mix tailored to growth and employment while maintaining price stability and, at the same time, to promote innovation and productivity by carrying out structural reforms on the markets for goods, services and labour.

In particular, with the introduction of a single currency and a single monetary policy, new interactions between the national level and the EU level have materialised. The purpose of the European Employment Pact is to ensure that these levels work together in a consistent manner so as to boost employment while maintaining stability and to link together a cooperative macroeconomic policy mix, including a macroeconomic dialogue (Cologne process), the coordinated employment strategy and economic reforms (Luxembourg and Cardiff processes). At the same time, the single currency has increased the weight and the responsibility of Europe in the world economy. Europe must continue its efforts to achieve an open trading and financial system and must remain competitive at international level.

The necessary instruments and procedures must be used extensively for implementing the European Employment Pact. In this way, it can be ensured that the efforts at national and European level are closely dovetailed and are consistent with the treatment of corresponding issues in a broader international context. Valuable experience has already been gained from the Luxembourg process and the Cardiff process. These processes have to be continued and reinforced so that structural impediments to growth and employment are overcome in the whole Community.

However, it is equally important that the conditions for a smooth interaction of macroeconomic instruments should be improved by stepping up the exchange of information and opinions between the economic policy actors concerned. In this connection, more intensive cooperation in the interests of more growth and employment in Europe must be undertaken

without jeopardising either the independence of the European Central Bank or that of national central banks,

without questioning the autonomy of the social partners in collective bargaining,
while taking account of different systems of wage determination, the responsibility for which lies on different levels,
while complying with the Stability and Growth Pact,
and while observing the principle of subsidiarity.

III. The individual policy areas

1. Cooperative macroeconomic policy mix - the Cologne process

In order to achieve strong employment growth while maintaining price stability, it is vital that the macroeconomic instruments should interact in a smooth fashion. Such a policy mix provides an important basis for job-creating investment. The macroeconomic policy areas are independent as regards the decisions taken in each of them but they do influence one another.

In the interests of an effective and balanced policy mix, it is important that the different areas be organised in the following way:

Fiscal policy is required to respect the objectives of the Stability and Growth Pact which implies bringing budgets securely to close to balance or to a surplus over the medium term. Beyond that, public budgets should also be restructured towards higher investment and with a view to meeting forthcoming challenges such as population ageing. At the same time, it must not lose sight of macroeconomic developments.

Wages must keep to a sustainable path, with wage developments that are consistent with price stability and job creation.

The primary objective of monetary policy is to maintain price stability. For this, it is crucial that monetary policy be underpinned by fiscal policies and wage developments of the type described above. Without prejudice to the objective of price stability, monetary policy will support the general economic policies in the Community with a view to contributing to sustainable and non-inflationary growth and a high level of employment.

The Broad Economic Policy Guidelines are the central instrument for economic policy coordination in the EU. The Guidelines can provide a suitable framework for describing how the interaction between the macroeconomic decision-makers in Europe can be improved in a manner conducive to growth and employment. In the euro-area, the dialogue taking place in the Euro-11-Group also contributes to achieving a balanced policy mix. In a broader international setting, matters to do with a consistent employment strategy and its global economic correlations can be discussed inter alia in the Group of Seven (G 7) and at Economic Summits.

For a consistent policy mix to be implemented successfully, it is helpful to have a fruitful macroeconomic dialogue between social partners, fiscal and employment policymakers and monetary policymakers within existing institutions. In the course of this dialogue, the starting position and future prospects could be discussed on the basis of statistical data and analyses, and ideas could be exchanged as to how, while retaining their respective responsibilities and preserving their independence, those involved consider that a policy mix can be achieved that is conducive to growth and employment under conditions of price stability. It is the central concern of the European Employment Pact to establish such a macroeconomic dialogue on firm foundations and to make it effective. In this sense, the European Employment Pact should be understood as a sustained ongoing process.

As regards implementation of the macroeconomic dialogue, see point IV.

2. Coordinated employment strategy of the Luxembourg process

The coordination of the employment policies of the Member States within the framework of the Employment Guidelines and the National Action Plans, including supporting and supplementing measures in the area of vocational training, makes an important contribution to higher employment. Improving employability, developing entrepreneurship, encouraging the adaptability of businesses and their employees, and improving equal opportunities for women and men form the four pillars of this strategy.

Preventive strategies, as opposed to purely passive measures, help to improve the functioning of labour markets and the employability of the labour force. As part of the European Employment Pact, therefore, lifelong learning should be expanded through continuing skills and competence development in working life, investment in manpower skills should be promoted, including through use of the European Social Fund, and a contribution should be made to preventing and reducing youth unemployment. The fast pace at which the information society is developing and the continued growth of the service sector call for special efforts to improve the skills of the labour force. Low-skilled groups require particular attention as regards education.

In implementing the Employment Guidelines and in presenting the National Action Plans and evaluating them in the Joint Employment Report, even more prominence will be given to identifying and exchanging best practice. Where appropriate, supplementary verifiable quantitative objectives on a national level could be set in the National Action Plans. In order for an evaluation to be meaningful, appropriate indicators must also be defined. Any potential for creating new jobs through progress in work organisation and shorter working time should be examined within the framework of the coordinated employment strategy.

Particular significance in connection with a coherent employment strategy attaches to the review of tax and social benefits system with a view to lowering the burden on labour. On the one hand, it is important here to examine how the burden imposed in particular on low-skilled and low-paid workers could be limited. On the other, in view of the progressive ageing of the population, retirement provision should be placed on a basis characterised by responsibility towards future generations.

At around 20%, youth unemployment is more than twice as high as unemployment generally. Further efforts to reduce youth unemployment are indispensable. The German Presidency has, therefore, presented the memorandum "Youth and Europe - Our Future" with a view to improving the occupational prospects of young people in Europe. This memorandum is intended to help identify best practice, improve the supply of cross-border training programmes, practical vocational training and pre-vocational training, and step up cross-border work and training placement measures. Young people should be able to prepare themselves better for the increasingly integrated labour market in Europe. It must also be investigated how to promote the development of new services and new jobs, especially for young people.

Furthermore, under the European Employment Pact, emphasis is to be placed on measures which help avoid long-term unemployment and introduce more flexible arrangements for the participation of older employees in work. This includes improving the information and work placement activities of all employment services.

The goal of active and preventive promotion of employment includes the disabled. The Council has noted in a Resolution the Commission's intention to make, in the framework of a coherent global policy, a proposal for a legal instrument covering equal employment opportunities for people with disabilities.

In order to improve employment trends in Europe, it is important to ensure that competitiveness, flexibility of employment and social protection of employees are in a balanced relationship with one another. To this end, it is desirable to develop further a

core of minimum social standards, in accordance with the provisions of the EC Treaty relating to the improvement of living and working conditions.

With their agreements on parental leave, part-time work and, finally, fixed-term employment contracts, the social partners have made contributions which the Council has already put into practice or intends to put into practice by means of directives. The social partners should continue along this road, taking, in doing so, full account of the impact of new regulations on job creation and employment.

The social partners at European and national level play an important role in the continued development and implementation of the Employment Guidelines. The reformed Standing Committee on Employment provides a suitable forum for cooperation between the Council, the Commission and the social partners. As well as the Labour and Social Affairs Council, the Employment and Labour Market Committee should also work closely with the social partners.

3. Economic reforms - the Cardiff process

A lasting increase in employment requires a sustained growth process. In order to exploit growth potential fully, an improved macroeconomic dialogue and the coordinated employment strategy initiated as part of the Luxembourg process must be supplemented by economic reforms of the kind launched by the Cardiff process. These reforms are aimed at improving competitiveness and the functioning of the markets in goods, services and capital. They are laid down in the national structural reform reports and are the subject of the Commission's Cardiff I and Cardiff II reports which are based on Member States' contributions and intensive work within the Economic Policy Committee as well as in the Internal Market Horizontal Working Group. At issue are the further development and deepening of the European single market and how to make structural reforms as conducive as possible to employment and growth.

In its conclusions of 25 February 1999, the Internal Market Council pointed out the concrete need for action in order further to improve the competitive climate in Europe, to dismantle the remaining impediments to trade between Member States, to increase the performance of the service sector including tourism and to make the economic environment for small and medium-sized enterprises more conducive to growth and employment. Of special importance here are efficient goods and services markets, efficient capital markets and an adequate supply of risk capital, an effective competition policy and the further reduction of state aids which result in undesirable competitive distortions.

Intensive use must be made of the structural reform reports in the Cardiff process in order to identify best practice and to adopt it wherever this is possible and seems likely to be successful. Efforts to prune superfluous regulations must be systematically pursued at national and European level so as to minimise the burden on employment-intensive small firms and to facilitate business start-ups.

In Europe, the emergence of the information society should be actively pushed forward. This entails, for example, greater use of computers in schools and a more rapid dissemination of information technologies among small firms. While respecting subsidiarity, a European initiative for the information society should ensure that the potential for employment which exists in this area is exploited as widely as possible. The development of electronic commerce must not be hindered by unnecessary bureaucratic rules. National efforts to exploit the potential offered by information and communications technology should be increased, in particular by improving training opportunities ranging from basic knowledge to lifelong learning.

The European infrastructure is to be further improved by Trans-European Networks - in particular, the priority projects in the transport field as well as the development of projects in telecommunications and information technology to improve innovation and

competition - and the assistance provided by the European Investment Bank. Furthermore, the innovative potential for improving the ability to react to industrial transformation processes through increased research efforts must be strengthened.

IV. Implementing the Macroeconomic Dialogue - the Cologne process

The European Employment Pact combines the macroeconomic policy mix, the coordinated employment strategy of the Luxembourg process and the economic reforms of the Cardiff process into a economic policy triad.

Both the Luxembourg process and the Cardiff process along with the preparation of the Broad Economic Policy Guidelines take place in established institutions and on the basis of established procedures. Within this framework, new priorities can be set for the European Employment Pact.

By contrast, to improve the interaction between wage developments, fiscal policy and monetary policy in the interests of growth and employment a Macroeconomic Dialogue is required to step up our efforts within the established institutional framework. Two tasks come to the fore:

Firstly, we must analyse macroeconomic developments and prospects in depth so that the Dialogue, backed by comprehensive information, can be as effective as possible.

Secondly, we must find a suitable forum in which, with the participation of the Commission and while maintaining their respective responsibilities and preserving their independence, the social partners, Council representatives and monetary policymakers can exchange ideas on how they think a policy mix can be achieved which promotes growth and employment while safeguarding price stability.

A two-stage approach is being adopted for the Macroeconomic Dialogue bearing in mind that the number of participants should be such as to ensure efficient functioning of the different fora:

Current developments and the preconditions for a smoothly operating policy mix will first be discussed at technical level. To this end, a working party will be set up in the framework of the Economic Policy Committee in collaboration with the Employment and Labour Market Committee, with the participation of representatives of both committees (including the European Central Bank), of the Commission and of the Macroeconomic Group of the Social Dialogue. In order to provide for adequate preparation of the meetings at political level, the first meeting should take place before the Commission adopts its recommendation on the Broad Economic Policy Guidelines and the second meeting after presentation by the Commission of its autumn forecast and its Annual Economic Report.

On this basis a confidence-building and confidential exchange of ideas between decision-makers will take place at political level. To this end, meetings will take place twice a year in the framework of the ECOFIN Council in collaboration with the Labour and Social Affairs Council, with the participation of representatives of both formations of the Council, of the Commission, of the European Central Bank and of the social partners. The first meeting should take place before the drawing up by the ECOFIN Council of the draft Broad Economic Policy Guidelines and the second before the adoption by the European Council of its conclusions in respect of the Employment Guidelines, for example at the meeting of the Jumbo Council.