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**FIGHTING UNEMPLOYMENT  
IN THE EUROPEAN UNION**

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## FIGHTING UNEMPLOYMENT IN THE EUROPEAN UNION

*"The Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing common policies or activities referred to in Articles 3 and 3a, to promote throughout the Community a harmonious, balanced and sustainable development of economic activities, a high level of employment and of social protection..."<sup>1</sup>*

In a European Union, which originated as an economic community where employment is the backbone of the Member States' economies fighting unemployment is a task of paramount importance. The importance of job creation is seen in the fact that it is immediately laid down at the beginning of the Treaty in Article 2 and further accentuated by other provisions such as Articles 102a, 117 and 118.

The importance of having a competitive European economy has been stressed over and over again, and it can be said that many of the measures taken by the European Union are destined, primarily to maintain and upgrade Europe's competitiveness. A common comprehensive definition<sup>2</sup> of what the term "competitiveness" entails is the following:

A country is considered to be internationally competitive if it fulfils these 3 requirements:

1. its productivity increases at a rate similar to or higher than that of its major trading partners with a similar level of development
2. it maintains external equilibrium in the context of an open free-market economy
3. it has a high rate of employment

As regards the first 2 requirements, Europe has performed fairly well. The growth of labour productivity (defined as GDP per employed person) was stable at 2% per year during the period 1994-1997,<sup>3</sup> and the current account of the EU as a whole has always fluctuated within narrow limits.

However, as regards the employment situation, we have another scenario. In 1997 this stood at the 18 million mark<sup>4</sup>, which amounts to 10.7% of the civilian labour force. Europe also has a low ratio of effectively employed persons with respect to the working age population (which is called the employment rate): 60% when compared to a rate of 74% in the US and Japan, Europe's main competitors.<sup>5</sup>

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<sup>1</sup> Article 2 of Treaty of Amsterdam.

<sup>2</sup> Commission communication "Growth and employment in the stability oriented framework of EMU: Economic policy reflections in view of the forthcoming 1998 broad guidelines", COM (98) 103 final, 25/2/98 pg.5

<sup>3</sup> *ibid.*

<sup>4</sup> Eurostat

<sup>5</sup> Commission communication "Growth and employment in the stability oriented framework of EMU: Economic policy reflections in view of the forthcoming 1998 broad guidelines", COM (98) 103 final, 25/2/98 pg. 5

The economic and social costs of unemployment are enormous. They include not only the direct expenditure on providing social security support for the unemployed, but also the loss of tax revenue which the unemployed would pay out of income if they were working; the increased burden on social services; rising poverty; crime and ill-health; and increasing levels of educational under-achievement.

Depressed rates of economic growth and rigidities in the labour market have been a major cause of unemployment in the EU. However, slow growth has not only meant low rates of employment creation. It has also inhibited the process of structural economic adjustment. Before 1973 the creation of new jobs in growth sectors was large enough to absorb those losing their jobs in agriculture and declining industries, and unemployment for the most part remained 2 to 3%.

Since 1973, job creation in growth sectors has been much slower. The shift in employment has been much more painful due to the shortage of alternative employment opportunities, the limited possibilities of companies to shift labour from declining to expanding activities and the significant impact of new technologies in replacing labour, particularly in terms of manual and low-skilled occupations.

One of the causes of concern is the age factor affecting the labour force. Between 1995 and 2020, the ratio of people over 65 will increase by 1/3 over those who are still of working age. If the employment rate (which effectively means those financing present pay-as-you-go pension schemes) remains at its present level, and the unemployment level remains above the 10% mark, social contributions would have to increase by 33% to maintain the present ratio of pensions to earned income. On the other hand, if the employment rate reaches 74%, contributors and pensioners will be on an equal level.<sup>6</sup>

Another cause for concern in Europe is the shifting nature of work due to globalisation and the permanent and ever-expanding introduction of new technologies which are raising the skill requirements for jobs.

The answer to this low employment rate, and the social problems to which it gives rise, depends on economic and social conditions which may fluctuate strongly over a period of time, but also on the creation of a sufficient number of jobs in the medium and long-term. If this condition materialises, the employment rate could return to some 67% as in the 1960s. With the likely increase in female participation in the labour force, the employment rate could rise up to 72%, which is very close to the rates in the Europe's main trading rivals. These two limits (67% and 72%) imply an employment potential of 22 to 34 million people respectively.

In the last couple of years the European Union has been working on new proposals and methods of fighting and reducing the rate of unemployment within the Union and with associate members in the Euro-Mediterranean region. The aim of this paper is to analyse these proposals, their evolution and the measures implemented by the Member States, both individually and as a Union.

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<sup>6</sup> Commission communication "Growth and employment in the stability oriented framework of EMU: Economic policy reflections in view of the forthcoming 1998 broad guidelines", COM (98) 103 final, 25/2/98 pg. 6

## White Paper on Growth, Competitiveness, Employment

The 1993 White Paper must be considered as a very important document in the fight against unemployment in the EU. This is because the White Paper lays down the foundations on which the Member States must base their policies in the years to follow. It focuses on the failures of the previous years and sets out new proposals for reducing the problem.

In the White Paper the Member States stressed the need for life-long education and training of both employed and unemployed young people.

*"Preparation for life in tomorrow's world cannot be satisfied by a once-and-for-all acquisition of knowledge and know-how."<sup>7</sup>*

Thus, life-long education was envisaged as the overall objective to which the national educational communities were to direct their own contributions. It was further proposed that each country should aim towards universally accessible advanced vocational training. The White Paper further emphasised the need of equal opportunities for all individuals and the proposed response was the provision of training capital or cheques financed by the redistribution of public resources.

In order to respond more effectively to the problems facing young people in the labour market, the White Paper proposed to invite Member States to participate and cooperate in establishing a youth guarantee scheme throughout the Union, to be known as YOUTHSTART. Under this scheme Member States would progressively take the necessary steps to ensure the availability of access to a recognised form of education or training, including apprenticeships or other forms of linked work and training for all young people under the age of 18. Member States should target special measures at these young people leaving school with no diploma or basic qualifications.

Another important proposal in the White Paper was double flexibility, both internal and external, in labour markets. The Member States agreed that improving "external flexibility" by making it possible for more unemployed persons to meet the identified requirements of business was of paramount importance and the first step here was to improve geographical mobility which could be encouraged by injecting new impetus into the accommodation market. The aim of "internal flexibility" was to adjust the workforce without making people redundant whenever this can be avoided. Focusing on the continuity of the link between the company and the worker, thus maximising the investment in human resources and staff involvement was to be given priority.

Decentralisation and initiative was another proposal aiming at reducing unemployment. It was suggested that national authorities should focus on the quality of training and compatibility between different types of training, to make it easier to move from one specialisation to another.

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<sup>7</sup> Growth, Competitiveness, Employment: The Challenges and Ways Forward into the 21<sup>st</sup> Century, White Paper.

The Member States also suggested that reducing the relative cost of unskilled and semi-skilled labour would help in creating more incentives for job creation. Studies carried out before the White Paper was considered suggested that a reduction of 30% to 40% in social security contributions for low-paid workers would increase employment by 2%. It was also regarded as essential to reduce non-wage costs of unskilled and semi-skilled labour by an amount equivalent to 1 to 2 percentage points of GNP by the year 2000. It was estimated that the improvement in tax revenue resulting from this measure would offset the cost by up to 30%. Savings or other revenue would finance the remainder.

Therefore, it may be said that the strategy proposed in the White Paper had two basic elements. One was the strengthening of economic growth through the better co-ordination of national economic policies. The other was a more employment-intensive pattern of production in order to generate more jobs from the economic growth which is attained.

### *Brussels and Corfu` European Councils*

The strategy outlined in the White Paper and the analysis underlying it were endorsed by Member State Governments at the European Council meeting in Brussels in December 1993 and were confirmed at the meeting in Corfu` in June 1994. In addition, the Council identified seven key areas for particular attention by the Member States. These were:

- improving flexibility within enterprises and in the labour market;
- the re-organisation of work at enterprise level;
- targeted reductions in the indirect cost of labour, especially statutory contributions and particularly of less skilled work;
- better use of public funds set aside for combating unemployment;
- developing employment in new areas of activity in connection with new requirements;
- specific measures aimed at young people without adequate training;
- improving education and training systems, especially continuing training.

Practically the two European Councils did not change much in the proposals set out in the White Paper. In fact one notices that training and education enjoys quite some importance as the need for improvement in this field is stressed once again.

However, according to the *Commission's Report on Unemployment*<sup>8</sup> the economic situation and outlook for the Community's economy had improved in 1994. The

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<sup>8</sup> Report from the Commission, *Employment in Europe 1994*, COM (94) 381 Final, Brussels, 14.09.1994

recession which had plagued the economy during most of 1992 and 1993 had receded and evidence suggested that economic recovery was strengthening and that the foundations were being laid for sustained, non-inflationary-growth of output and employment over the medium term.

Gradual recovery of the Community's economy seems to have begun in spring 1993, GDP averaging 1 to 1.5% during the remainder of the year. Nevertheless, for the Community as a whole, growth was not enough to prevent a decline in GDP of 0.3% between 1992 and 1993. Preliminary quarterly data suggested that the recovery strengthened during the first half of 1994.

Another important aspect considered by the Commission in the report on employment regards equal opportunities of men and women in obtaining jobs. In fact statistics show that the rate of participation of prime working age women in the labour market had risen considerably since the 1960s — 34% in 1960, 39% in 1970, 67% in 1992 — with little sign of any slowdown.

This growth in the participation of women of prime working age has been the main factor behind the growth of the labour force in the Community in the past 30 years. Between 1980 and 1992 it was responsible for 10 million of the 15 million increase in the workforce. However, in the last couple of years this growth rate has been in decline.

#### *Essen European Council<sup>9</sup>*

The Essen European Council was one of the most important Council meetings regarding unemployment and job creation in the European Union. In fact equality of opportunity for men and women was envisaged to be one of the major tasks of the EU and its Member States. It was believed that the economic recovery-taking place would help in dealing with these tasks. However, the Member States suggested that the recovery was not in itself sufficient to solve the problems of unemployment.

The Member States agreed that important measures needed to be taken in five key areas:

- Improving employment opportunities for the labour force by promoting investment in vocational training. A key aspect in this field falls to the acquisition of vocational qualifications, particularly by young people. It was further agreed that as many young people as possible must receive initial and further training which enables them through life-long learning to adapt to changes brought about by technological progress, in order to reduce the risk of losing their employment.

Continuing training throughout an individual's working career is encouraged in some Member States through statutory entitlement to training or study-leave (in Belgium and Denmark), in most through collective agreements between the social partners. In addition, financial incentives in the form of tax relief on expenditure are widely available, funded in part by levies on firms.

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<sup>9</sup> 9<sup>th</sup> and 10<sup>th</sup> December 1994.

Nevertheless, evidence suggests that both access to continuing training and its focus are closely related to educational attainment levels, so that the least qualified and those most vulnerable to changing skill needs are the least likely to receive it.

This seems also to be the case for those employed in small companies, which account for 70% of employment in the Union and which are the main source of new job creation because of the relative lack of resources, both human and financial, to provide adequate training. In a number of Member States, therefore, such workers are included in priority groups for publicly-funded provision. This illustrates the common tendency for life-long learning to be a shared responsibility between governments, business and employers' organisations, trade unions and individuals.

- Increasing the employment intensiveness of growth, in particular by:
  - more flexible organisation of work in a way which fulfils both the wishes of employees and the requirements of competition;
  - a wage policy which encourages job creation investments and requires moderate wage agreements below increase in productivity
  - and finally, the promotion of initiatives particularly at regional and local level, that create jobs which take account of new requirements.
- Reducing non-wage labour costs extensively enough to ensure that there is a noticeable effect on decisions concerning the taking on of employees and, in particular, of unqualified employees. The problem of non-wage labour costs could only be resolved through a joint effort by the economic sector, trade unions and the political sphere.
- Improving the effectiveness of labour market policy. The effectiveness of employment policy must be increased by avoiding practices which are detrimental to readiness to work, and by moving from a passive to an active labour-market policy. The individual incentive to continue seeking employment on the general labour-market must remain. Particular account of this was to be taken when working out income support measures.

It was agreed that the need for and efficiency of the instrument of labour market policy must be assessed at regular intervals.

- Improving measures to help groups which are particularly hard hit by unemployment. Particular efforts were deemed necessary to help young people, especially school-leavers who have virtually no qualifications, by offering them employment or training.

The Essen conclusions also broke new ground in the employment field urging the Member States *to transpose these recommendations in their individual policies into a multi-annual programme having regard to the specific features of their economic and social situation*<sup>10</sup>.

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<sup>10</sup> Communication to the Council: Follow-up to the Essen European Council on Employment.

In order to pursue these objectives the Essen European Council requested the Labour and Social Affairs and Financial Affairs Councils and the Commission to keep close track of employment trends, monitor the relevant policies of the Member States and report annually to the European Council on further progress of the employment market starting in December 1995.

A Commission communication to the Council and Parliament on a European strategy for encouraging local development and employment initiatives aimed to give impetus to the process of job creation outlined in the White Paper on Growth, Competitiveness, and Employment and endorsed by the Essen European Council. The Commission set out a strategy for promoting local development and employment initiatives<sup>11</sup> to be viewed in terms of local projects calling for a legal and financial partnership between the private and public sectors, geared to meeting new needs resulting from the obtaining social fabric. It identified 17 fields with potential for meeting these new needs and offering substantial employment prospects: home help services; child care; new information and communication technologies; assistance for young people facing difficulties; housing improvements; security; local public transport services; revitalisation of urban areas; local shops; tourism; audio-visual services; cultural heritage; local cultural development; waste management; water services; protection and conservation of natural areas, and control of pollution.

### *Cannes European Council<sup>12</sup>*

Besides stressing the importance of the five guidelines outlined at Essen, the Cannes European Council placed particular emphasis on the need to foster growth of a kind that will create jobs, to step up measures to bring young people and the long-term unemployed back into the world of work, and to make the labour markets perform better, in particular by reducing indirect labour costs. Once again the Member States stressed the need of improving training and apprenticeship policies, especially continuing training.

The European Council also emphasised the importance it attaches to the development of local employment initiatives, in particular in the field of services linked with the environment and living standards, crafts and traditional products. It placed emphasis on the need to disseminate initiatives undertaken at national level.

It was further emphasised that small and medium-sized enterprises (SMEs) play a decisive role in job creation and, more generally, act as a factor of social stability and economic drive. It called upon the Commission to submit a report to it on policies currently being conducted in this field and on ways of improving their effectiveness through measures, particularly of a fiscal nature, aimed at promoting the creation of SMEs, reducing their participation in training and research programmes.

Further emphasis was placed on the importance of developing investment in research development and education at national and Community level. It likewise emphasised that in order to stimulate employment, competitiveness, and innovation, it is important

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<sup>11</sup> Adopted by the Commission on 13<sup>th</sup> June 1995.

<sup>12</sup> 26<sup>th</sup> and 27<sup>th</sup> June 1995.

to combat excessive regulation where simplification is justified, without jeopardising what has been achieved.

Investment promotion also had a role to play in combating unemployment. The European Council welcomed the progress made with implementation of the priority projects adopted at Essen, in particular the agreements reached on defining the regulatory framework.

The proper functioning of the internal market is fundamental to a dynamic economy and thus to job creation. The Member States agreed that priority must be given to the effective and uniform application of Community legislation throughout the Union would increase confidence in the single market on the part of industry and the public. The Cannes European Council also restated the importance it attaches to rigorous application of the principle of subsidiarity.

Moreover, on 29<sup>th</sup> June 1995, the Council stressed the need to adjust working conditions and vocational training arrangements in line with specific needs of older workers to assure them of adequate resources and to prevent their exclusion from the labour market.<sup>13</sup> It called on the Member States and the social partners to foster greater occupational mobility within undertakings, to introduce appropriate support structures for workers for whom vocational training may be the starting point of a new career, to cater for early retirement through internal flexibility measures, to facilitate phased retirement by developing part-time work for older workers and initiatives making good use of their skills, to take due account, in pay systems, of workers' experience and make the best possible use thereof, and to promote the combination of periods of work, vocational training and, if necessary, retraining. The Council recommended that the Member States take steps to eliminate legal and administrative obstacles to the employment of older workers, make employers aware of the individual or collective consequences of dismissing older workers, and where the State acts as employer, give positive examples of getting older workers back to work and keeping them in employment.

#### **Round Table upon employment (Brussels 28/29 April 1996)<sup>14</sup>**

The social partners attended this meeting, which is in accordance with the policy of the EU to involve all social partners in deciding what should be done to solve the unemployment problem. It was intended to contribute towards the formulation of the European confidence pact upon employment, and it focused upon various approaches to the question. The Commission President set out the main objectives:

- to keep macroeconomic strategy on course
- to strengthen Community instruments for enhancing competitiveness and employment
- to modernise the labour market

The participants focused their discussions on the flexibility and organisation of work, on the cost factor and on mechanisms for creating jobs.

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<sup>13</sup> Council resolution on the employment of older workers.

<sup>14</sup> EU Bulletin 4/96 pg.52

## **Speech delivered by President Jacques Santer at the Tripartite Conference on Growth and Employment (Rome 14/6/1996)<sup>15</sup>**

It is impossible to build a united Europe if the fabric of society is being unravelled at the same time, so this is the reason why unemployment is an EU priority.<sup>16</sup> The role played by decisions which are taken at consensual level and which enable a common approach, especially since unemployment is a problem which affects all member states, was stressed. The approach taken by the EU combines macro-economic policy with action to complete the Single Market, the reform of employment systems, and better use of the EU's structural policies.

In the macroeconomic context, growth is indispensable. This growth must be based on monetary stability, which is the aim of EMU, and a sound financial policy in order to be sustainable. Lower taxation is also more conducive to growth than higher public spending, and Mr. Santer urged for sounder public finances in the member states, with more emphasis placed on using public finances to invest in human capital, research and development, and to promote the competitiveness of member states through innovation. A decrease in taxation which penalises employment by burdening labour was advocated.

The Single Market also has a great job-creating potential - though the Commission President noted that there was a degree of laxity in implementing EU directives on the completion of the Internal Market. The Single Market would enhance Europe's competitive environment and help SMEs further. A wider access to the world market would be guaranteed to European enterprise through the Single Market.<sup>17</sup>

As regards the reform of the employment systems, it was noted that there must be a balance between reform and the high level of social protection afforded by the European social model. Decentralisation and simplification of employment systems were considered as necessary to stop people from finding bureaucracy in the way of their search for a job and to prevent the system from falling prey to endless piecemeal reform. The Commission President also urged better use of the Structural funds to help employment projects and reforms.

## **Conclusions of the Chairman of the Tripartite Conference on Growth and Employment<sup>18</sup>**

A strengthening of the dialogue between institutions and the social partners, both at national and Community level was advocated. In this way, the principle of subsidiarity (taking decisions at the lowest possible level) enshrined in the EU Treaty would also be respected in this field. The conclusions of this conference, building on previous talks and reports, once again emphasised the importance of growth, which is led by demand, non-inflationary and employment-intensive, as well as the need to

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<sup>15</sup> EU Bulletin Supp.4/96

<sup>16</sup> *ibid.* pg.7

<sup>17</sup> *ibid.* pg.8

<sup>18</sup> This conference was called to give a fresh impetus in the fight against unemployment, and as part of the preparations for the Florence European Council which was held very shortly after.

keep public finances under control while keeping in mind the social impact of any deficit-reducing measures and refocusing public spending to invest in the labour force upgrade. Projects aiming at the simplification of legislation were praised, and so was the liberalisation of services, without eliminating the role of the public services. The conference also praised initiatives to promote employment taken at local level. It was felt that a general overhaul of national employment systems, making them more transparent, efficient and consistent was needed. <sup>19</sup> It noted that there are 5 million people under 25 who are unemployed, some of which have qualifications but have no work experience, and others who have little or no qualifications at all. The organisation of work is changing, and is now more flexibility-oriented, but at the same time measures must be taken to protect the security of the workers.

### **Conclusions of the Florence European Council - 21,22 June 1996<sup>20</sup>**

Drawing upon the conclusions of the Essen European Council and the 1993 White Paper, this council stressed the need for an integrated approach to tackle the unemployment issue involving all the institutions of the EU, governments, regional and local authorities and all social partners so that concrete action to promote employment can be taken. <sup>21</sup> The preconditions for an improvement of the current employment situation were re-emphasised: high, sustained and non-inflationary growth together with credible, pre-announced and socially balanced efforts to reduce budget deficits with the aim of reviving entrepreneurial confidence and to help in achieving a smooth transition to EMU, which should bring about a zone of monetary stability as from the 1<sup>st</sup> January 1999.

The European Council also called for a speedier adoption of a European statute regarding company law. The trans-European networks, SMEs and scientific and technical research have a high job-creation potential. <sup>22</sup> It also invited member States to select regions or cities to act as candidates for pilot projects on territorial and local action pacts.

### **Action for employment in Europe: a confidence pact<sup>23</sup>**

This Confidence pact was presented as part of the process of the implementation of the 1993 White Paper. The aim of this pact is to launch a comprehensive movement involving the public authorities and the social partners in a co-ordinate, practical strategy for employment that will integrate measures to combat unemployment into a medium and long-term view of society, and to make better use of the multiplier effect. This strategy is based on 4 fields:

- creating a macroeconomic framework which enhances growth and sound financial policy. It was recommended that this track be followed and improved. Priority should be given to reducing expenditure (this is in accordance with the Maastricht convergence criteria for EMU) whilst keeping that spending which is necessary to improve human capital and innovation. This approach is better than the

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<sup>19</sup> EU Bulletin *ibid.* pg.24

<sup>20</sup> EU Bulletin Supp. 4/96

<sup>21</sup> *ibid.* pg.37

<sup>22</sup> *ibid.* pg.38

<sup>23</sup> EU Bulletin Supp. 4/96

alternative of increasing taxes since these are already higher than in the US and Japan. It confirmed the objective of turning passive support systems into active ones.

- harnessing the full potential of the internal market - in accordance with the general EU policy of moving towards the completion of the Single Market. This includes simpler laws, fewer obstacles to the free movement of people, encouraging innovation (defined as turning new ideas into a technical and commercial success), helping SMEs, and furthering access to the world market.
- reforming unemployment systems - utilising local agencies to address the diversity of unemployment situations and meet specific needs, such as through decentralising measures and local savings funds, helping youths to acquire new skills. The new organisation of work is based on the notion of "flexisecurity" - a harmonisation of flexibility and security involving career breaks, gradual retirement and occupational guidance amongst others.

### **Commission Green Paper "Living and working in the information society: people first"<sup>24</sup>**

This Green Paper aims at promoting a discussion about the impact of the information society upon the organisation of work and upon people's individual and family lives. Various challenges are identified including modernising institutions and the institutional framework of working life by initiating a rethink of social protection arrangements, the organisation of working time, health and safety, ensuring that SMEs can make full use of the potential of the information society, overhauling education and training to prepare the labour force for this challenge, using information society to reduce gender gaps and to integrate disadvantaged groups. This paper shows how workers should not feel threatened by the information revolution, but prepare themselves for it.

### **Commission Report on Employment in Europe<sup>25</sup>**

This document contains an analysis of the latest trends in employment and the labour market: there were 148 million unemployed, the unemployment rate was still at 10.7% for adults and 20% for young people, which justifies the priority given to youth training by the EU. Most new jobs were in the part-time sector, and most of the employment growth consisted of temporary employment. Female participation remained low.

Policies that tried to affect the demand side by manoeuvring the public deficit have been ineffective solutions. Macro-economic policies, the report concludes, should be based on stability. It recommended an assault on structural rigidity, whilst respecting the principles of solidarity and social justice, tackling the inequalities affecting low wage workers and poorly skilled people, and implementing policies to tackle long-term unemployment. Concrete proposals included training levies, compulsory training investment, tax relief or reduction on social contributions whilst undergoing

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<sup>24</sup> 24/07/98 - Com (96) 389; EU Bull. Supp. 3/96

<sup>25</sup> COM (96) 485

training, and training leave. Training in general should be more oriented to those aspects which will be required of the trainees on their job. The report defined "security" not in the traditional sense of restraining job dismissals but in that of retaining members' employability.

### **Conclusions of the Dublin European Council –13<sup>th</sup> and 14<sup>th</sup> December 1996<sup>26</sup>**

This European Council urged a continuation of the macroeconomic strategy for economic growth and employment, increased efforts to modernise the markets for goods and services, and for the exploitation of new sources of employment. It encouraged a focusing upon the efficiency of the labour market, and on investment in human resources, which emerges as one of the most stressed upon points in the EU approach to unemployment. It recommended making taxation and social protection systems more employment-friendly, and strengthening the interplay between macroeconomic and structural policies. It welcomed the strong reaction to the Florence European Council's initiatives on territorial employment pacts. The enhancing of the competitiveness of SMEs, which is considered to be the most fertile ground for job-creation is also urged. This pro-SME policy is aided by the SLIM (Simpler Legislation for the Internal Market) programme since this aims at reducing the administrative costs for enterprises and SMEs.

### **Dublin Declaration on Employment<sup>27</sup>**

This declaration pinpointed various practical measures at national and Community level, endorsed the analysis contained in the Confidence Pact for a commitment from all economic and social players to assume their full responsibility on the employment front, and called for a rapid implementation of the draft territorial pacts upon employment. It noted that although there has been an improvement in the employment situation, progress was too slow. The declaration approved of the commitment shown to generate the correct conditions for the flourishing of employment: low inflation, fiscal consolidation, low interest rates, improvement of confidence levels and investment profitability. It added that a sound macroeconomic policy is compatible with strong and sustainable growth in output and employment, and encouraged selective restructuring of public expenditure. The declaration added that EMU and the introduction of the Euro would bring about a zone of stability which will enhance the Single Market by eliminating transaction costs and exchange-rate risks for business, by generating a stable macroeconomic framework which is necessary for sustainable employment.

The efficiency of the labour market should be increased, and there should be more investment in human resources - life-long training, helping workers to meet the new requirements of the modern organisation of working time especially as influenced by the information and communications technology, the creation of a labour market more open to employment by making people and firms more responsive to economic changes, harmonising security with flexibility. It also recommended that steps be taken to ensure that women in part-time jobs have the opportunity to train so as to improve their future, focusing training and work experience particularly on the needs

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<sup>26</sup> EU Bulletin 12/96

<sup>27</sup> EU Bulletin 12/96 pg. 30

of youths, considering means to encourage youths to take starter jobs, and to supplement training with individual counselling.

Tax systems, the declaration recommends, should provide clear incentives to people to seek jobs and to employees to offer them, while social protection systems should be aimed at encouraging unemployed to re-integrate and not depend on such systems. It advocated the promotion of SMEs and the exploitation of new sources of employment such as environment protection and social services. Securing the future of rural areas through a mobilisation of the entire rural economy was another proposal.

### **Commission Green Paper “Partnership for a new organisation of work”<sup>28</sup>**

This green paper forms part of the whole strategy for employment promoted by the Confidence Pact. It was intended to stimulate a debate around Europe on new ways in which work may be organised so as to have a general improvement in the employment situation and to improve the competitiveness of European enterprise. The 3 main issues dealt with are:

- reasons for the changes in the organisation of work
- the policy challenges to be met
- the various possibilities for partnership in this area of work organisation reform

The organisation of work is now far removed from the traditional static system and is more flexibility-oriented, embracing changes in technology, markets, and human resource management. A partnership between the social partners and the national authorities would be a great step in moving towards this modern concept of work, which is based on production and skills. At the same time employee security, which must be understood not in the traditional way but in the light of the definition of previous Commission documents, must be safeguarded.

### **First Action Plan for innovation in Europe-innovation for growth and employment<sup>29</sup>**

This Action Plan is based on the Green Paper on innovation<sup>30</sup>. Studies confirmed that though Europe is recognised for its scientific excellence, it is difficult to turn a new idea into a new product or service and exploit it in Europe. To solve this problem the Commission proposed 3 lines of approach:

- fostering an innovation culture: the issues of education and training are fundamental in this field. It proposed a permanent training and innovation forum to exchange experience and link schools as part of its “learning in the information society” initiative. It also aims to encourage the mobility of research workers and engineers to SMEs by increasing the number of placements of young research workers and engineers in firms in other countries;

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<sup>28</sup> COM (97) 128; EU Bulletin Supp. 4/97

<sup>29</sup> EU Bulletin 5/97 point 1.3.80

<sup>30</sup> COM (95) 688, EU Bulletin Supp. 5/95

- Establishing a framework conducive to innovation: substantial improvement in the European patents system is necessary, and measures to combat counterfeiting and help businesses and researchers protect intellectual property are also necessary. This Action Plan proposes greater help to finance innovation, and recommends that members should devise ways to reduce formalities, costs and delays in setting up businesses;
- Gearing research towards innovation: an increase in the share of GDP of each member state set for research, development and innovation. This would encourage spin-off activities at local, regional or national level (the “clustering” concept).

### **Amsterdam European Council - June 1997**

A new title on employment was inserted in the EC Treaty, providing amongst others that the European Council will make an annual review of the employment situation on the basis of which the Council was to draw up guidelines keeping in mind EU economic priorities. It called upon the Council to take the multi-annual employment programmes into account when formulating the broad lines of economic policy and confirmed the EU’s intention to combat the high unemployment levels and its resolution to restore a sustained high level of non-inflationary growth.

### **Resolution of the Amsterdam European Council on the Stability and Growth Pact <sup>31</sup>**

This resolution underlined the importance of safeguarding sound government finances as the means of strengthening the conditions for price stability and for strong sustainable growth which can generate employment. National budgets should thus be more stability oriented. Member states committed themselves to respect the medium term budgetary objective of close to balance or surplus, and to take the necessary action in their budgets to meet the goals of their stability or convergence programmes. They also undertook to correct excessive deficits as quickly as possible and always within a year.

### **Resolution of the Amsterdam European Council on Growth and Employment <sup>32</sup>**

This resolution declared that EMU and the Stability and Growth Pact would enhance the internal market and foster a non-inflationary macro-economic framework with low interest rates in which economic growth and employment can be generated. A top EU objective is to develop a skilled, trained and adaptable workforce and to make labour markets responsive to economic change. It underlined the fact that structural reforms should take a comprehensive not fragmented approach. Social protection systems should be reformed so as to contribute to competitiveness, employment and growth, and at the same time keeping in mind that economic growth and social inclusion are not mutually exclusive. The importance of the internal market in removing tax competition and barriers to competition was also stressed.

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<sup>31</sup> OJ C 236, 2/8/97

<sup>32</sup> *ibid.*

### **Commission report on Employment in Europe<sup>33</sup>**

The report for 1997 analyses the policy challenges faced by the EU, with particular emphasis on the move towards the single currency, the completion of the internal market and the prospect of enlargement. Building on the new provisions of the Amsterdam Treaty, it re-emphasised the importance of trying to achieve a flexible labour market. This report presents the latest trends in employment and the labour market and looks forward to the challenges posed by the next century in the light of the completion of the internal market, the Euro and the enlargement process.

It noted that employment rose slightly as a result of the general improvement in the economic situation and low inflation. The shift towards part-time work continued, and this will probably be a long-term trend. The unemployment rate remained high at 10.8%, especially in the female, youth and disabled sectors of the labour force. This shows the necessity of pursuing the Community goals for the creation of jobs involving a modernisation of the structure and functioning of the labour market. The dual approach of generating a sustainable rate of growth and enhancing the employability of workers by helping them to upgrade their skills to meet changing job requirements is the key to the problem. The report identifies 3 EU objectives:

- improvement of education and training for young people
- enhancement of the workforce skills on a lifelong basis
- implementation of an active training programme for the unemployed

### **Commission communication on policies in support of employment<sup>34</sup>**

This document sets out to provide a reference frame for the Luxembourg extraordinary council on employment. It contains a condensed version of the contributions the various Community policies can make to the creation of jobs. EU action in this area is seen against the background of a general strategy originating in the confidence pact on employment which sets out an important framework for job creation to take place. This framework is based on a strong macro-economic basis, the strengthening of the internal market, taxation reforms, reforms in the structure of the labour market, and sustainable development which are essential to combat unemployment. Other measures include improvement in the area of research and innovation, increasing financial resources for SMEs, promoting a knowledge-based society, and building partnerships to fund TENs. The report points out the job-creating potential of the Internet and electronic commerce<sup>35</sup> as well as that of the liberalisation of the telecommunications sector.

The Commission emphasised that this pan-European approach is not meant to suppress action taken at national level but to complement it. This complementary approach receives so much attention since in its absence efforts to fight unemployment can only be fragmented. State aids are still beneficial, but they must be distributed so as to prevent job creation in one sector at the expense of the other.

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<sup>33</sup> COM (97) 485

<sup>34</sup> COM (97) 611

<sup>35</sup> *ibid.* pg.11



State aids should also be used in the promotion of lifelong training, lasting jobs, and the smooth operation of the labour market.

**Extraordinary European Council on Employment – 20<sup>th</sup> and 21<sup>st</sup> November Luxembourg, November '97**

This was the first European council dedicated specifically to employment, and shows the importance which the EU is giving to tackling this issue. It decided that the relevant provisions of the new title on employment in the Amsterdam Treaty were to be put into effect immediately, so that the provisions on the co-ordination of national policies (which is a mission fundamental to the EU) could be implemented at an early date.

Although it was recognised that each state has specific and different needs, convergence towards jointly set and regularly updated targets is also necessary. This involves a co-ordinated macro-economic policy underpinned by an efficient internal market, and a harmonisation of all Community policies supporting employment. It gave its approval to the Commission guidelines for 1998 which set common goals, and then it is up to each state to implement them in co-ordination with all social partners, which is an application of the principle of subsidiarity enshrined in the Treaty, but which implementation is monitored at Community level.

It approved 2 specific initiatives: an EIB initiative to find extra funds to support SMEs, new technology and trans-European networks (TENs); and an agreement between Council and Parliament to insert a new heading in the EU Budget to allocate further funds to SMEs to help them create sustainable jobs. Particular attention was laid on the idea of trying to help people as soon as they become unemployed so as to restrain long-term unemployment. It emphasised the growth which will result from the internal market and urged its speedy completion. EMU and the Euro will provide a permanent framework of stability conducive to growth and employment, the Council added.

State aids should favour economic efficiency and employment without causing distortions of competition. It recognised the role which large pan-European risk capital markets can play in generating employment. Harmful tax competition should be eliminated. It emphasised the importance of research for job creation as it spreads innovation and the transfer of technology to SMEs. Trans European Networks are complementary to the Single Market and enhance competitiveness.

**Commission communication - Proposal for guidelines for Member States' employment policies<sup>36</sup>**

This document notes that there are the right conditions for an improvement in the employment situation - macroeconomic stability, EMU progress, low inflation, sounder public finances and higher exports. It identifies 5 main problems:

- lack of growth (which is now on the mend)
- an inability to create new jobs

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<sup>36</sup> COM (97) 497

- lack of adequate skills
- failure to adapt to new circumstances
- unequal opportunities

It set a 70% employment rate as the EU's goal, and aimed at creating 12 million new jobs within 5 years. One of the very few Commission proposals which was not fully incorporated in the 1998 guidelines was that of co-ordination between public authorities and the social partners to reduce working hours (which was included) without penalising those who work reduced hours as regards career progress (which was not included) in order to help businesses become more competitive.

### **The 1998 Employment Guidelines** <sup>37</sup>

These are to be incorporated into specific measures set out in the National Action Plans drawn up by the member States. They constitute the basis for the strategy to be pursued on the employment front for 1998. They point to specific objectives for member states to permanently increase the level of employment. The guidelines contain four main lines of action:

1. **Employability:** within 5 years Member states are to develop preventive strategies which will identify individual needs early on and which should aim at helping unemployed youths find a job within 6 months and unemployed adults within 1 year. Benefit and training systems should be more employability-oriented: the number of unemployed offered training must be of at least 20% of the average of the 3 most successful members. Another proposal is for member states to improve their school systems to drastically reduce the number of dropouts and by equipping them with the necessary training to face the changing world.
2. **Entrepreneurship:** national policies should make it easier to start up and run businesses especially by enhancing the scope for self-employment by decreasing tax and social security burdens and reducing their overhead costs.
3. **Adaptability:** expenditure on research by member states should be increased to 2.5% of GDP. Work organisation should be modernised in collaboration with social partners to introduce flexible working arrangements which respect worker security at the same time including covering the expression of working time as an annual figure, reduction of overtime and working hours, development of the part-time sector, and career breaks for re-training. Member states should also consider the possibility of introducing new forms of contract which reflect the present employment situation more accurately. Other objectives include removing fiscal objectives standing in the way to adaptability and refocusing State aid, within the limits of competition law to upgrade the labour force.
4. **Equal opportunities:** women are over-represented in some sectors and underrepresented in others, and member states should work at correcting this imbalance. Reconciling the family and work through parental leave and part-time work, and facilitating women's return to work are also included under this heading.

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<sup>37</sup> OJ C 30 28/1/98 Annex

**Commission communication "Growth and employment in the stability oriented framework of EMU: Economic policy reflections in view of the forthcoming 1998 broad guidelines"<sup>38</sup>**

This document focuses on the current economic situation, examining the main challenges Europe will face in the coming years, and suggests main priorities for employment policy. The renewed upturn in employment since 1996 as a result of increased exports is gaining momentum, with the growth impulses becoming more dependent on domestic demand. A gradual decrease in unemployment should thus be achieved, but given its high level at present, much work remains to be done. The community policy of maintaining monetary stability and market confidence in order to create a macroeconomic framework conducive to growth and to implement structural reform in the goods, services and labour markets which can increase growth and its labour content are even more imperative in the context of the start of economic and monetary union.

The Commission considers that a downward widening of the wage scale with the aim of slowing down the replacement of labour by capital would aggravate inequalities excessively and is difficult to envisage. On the other hand, reducing non-wage labour costs, if targeted at low wages, might enable the same goals to be achieved. The Commission also examined the circumstances under which a reduction of working time might create jobs and advocated negotiated reductions at the microeconomic level between the social partners. The document emphasised how the necessary budgetary measures and wage developments facilitate the stability task of monetary policy in creating the necessary monetary conditions, including exchange rates and long-term interest rates, which will be favourable to growth and employment.

**Commission communication "Capital investment: the key to job creation in the EU"<sup>39</sup>**

This document contains an analysis of the role of the capital investment markets as the key to the growth of SMEs and as an instrument for developing a new entrepreneurial spirit in Europe, thus making an essential contribution to job creation. The Commission also puts forward a number of lines of action for the Community institutions, national governments and the private sector, aimed at removing the major obstacles such as fragmentation to the development of such markets. These lines of action are based on 6 priorities:

- promoting the capital investment markets in Europe
- removing the institutional and regulatory barriers to development, including those in EU law
- improving the system of tax on capital investment
- promoting growth of SMEs in the high technology sector
- increasing the number of entrepreneurs and qualified specialists
- alleviating the cultural obstacles to a spirit of enterprise

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<sup>38</sup> COM (98) 103 final, 25/2/98

<sup>39</sup> EU Bulletin 3/98

## **“From guidelines to action: the National Action Plans for employment”<sup>40</sup>**

All member states presented their National Action Plans (NAPs) within 4 months, which is evidence of their commitment to a more transparent and politically driven implementation of the commonly agreed employment policy objectives. A comprehensive and multi-annual approach has been taken, and in some cases a critical approach to present problems. Key actors at national and regional levels, and social partners were included in NAP discussions, which were conducted at Parliamentary level in many cases. The NAPs have extended policies to cover more areas and those policies which were successful in the past have been intensified. Some countries such as the UK, Spain and France are undertaking an in-depth review of tax and benefit systems. The report notes that there has been progress towards decentralisation and autonomy at local level.

The report confirmed the need to modernise the Public Employment Service (PES) of most countries, bringing its capacity and resources in line with new challenges. This involves a global review of working procedures, budget and staffing resources and management of PESs. It identifies areas of knowledge and skills which are considered to be highly relevant for re-enforcing employability adaptability, such as basic literacy and numeracy, ICT competence and foreign language competence. One of the criticisms levelled by the Commission at the NAPs is that they concentrate too much on the pillars of "employability" and "entrepreneurship", and give less attention to those of "adaptability" and "equal opportunities". The report highlights the following objectives:

### **a) employability**

- implementing a preventive approach so as to decrease significantly the inflow of young and adult unemployed persons into long-term unemployed
- shifting people from welfare dependency to work and training through a more active labour market policy
- using a partnership with all concerned to provide lifelong training
- facilitating the move from school to work

### **b) entrepreneurship**

- reduce the overhead costs and administrative burdens for businesses e.g. creation of a single registration form (Finland), one-day procedure for the registration of new businesses (France)
- promote the development of self-employment e.g. introduction of entrepreneurship courses in the education curriculum (Denmark)
- promote job creation in the social economy (including the reintegration of disadvantaged groups of society) and at the local level
- reduce the tax burden on labour e.g. fiscal incentives for the hiring of the first employee (Spain). Fiscal targets for reducing the overall burden of tax on labour have not been set but important reforms were made, such as lowering non-wage

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<sup>40</sup> COM (98) 316

labour costs especially for low-wage workers, reducing marginal income tax rates and introducing tax credits which have a positive effect in removing disincentives to taking up low-paid jobs and avoiding poverty traps.

- examine ways of reducing VAT in some labour-intensive sectors
- a more favourable environment for competition
- access to venture capital
- liberalisation of the market for goods and services
- promotion of high-tech future-oriented industries such as in the information technology sector
- giving aid to co-operatives or mutual societies

c) adaptability

- social partners are invited to negotiate agreements to modernise the organisation of work. These can cover different expressions of working time and forms of work with a balance of flexibility and security
- introduction of more adaptable contracts, whilst maintaining employee security; modernising legislation, updating collective agreements and bargaining
- encourage the development of in-house training and investment in human resources

This pillar requires time to be fully developed since it is very vast and is thus not sufficiently developed in most NAPs.

d) equal opportunities

- tackling gender gaps in employment and unemployment
- reconciling work and family life
- facilitating re-integration into work
- facilitating integration of disabled people
- need to remove further sources of re-integration e.g. ethnic origin

**Commission communication “Community policies in support of employment”<sup>41</sup>**

The Luxembourg Special European Council called for more co-ordination of Community policies in accordance with Art.127(2) of the Amsterdam Treaty. An important reason for emphasising co-ordination is the increasing economic integration of Europe, especially with EMU. The Single Market too can lead to job creation because of mutual recognition of standards. Another source of new jobs is by increasing the competitiveness of the information and communication technology (ICT) sectors. In view of this importance given to ICT, the Commission emphasised the need for greater multi-media use in education.

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<sup>41</sup> COM (98) 354

In the field of taxation, the Commission stressed the fact that the current trend of taxing labour not capital needs to be reversed. It approved efforts to reduce tax competition as proposed in an ECOFIN council package, which consists in a code of conduct for business taxation and an agreement on elements for the taxation of income from savings and the taxation of interest and royalty payments between companies respectively, which will increase the room for manoeuvre for Member States to reduce the tax-burden on labour. Another proposal is that of a tax on energy products which would aid job creation assuming that the revenues from taxation of natural resources would be used to reduce social security contributions.

The promotion of a business-friendly environment includes less public bureaucracy, better access to technology and finance especially for SMEs and those launching innovative products and services. Relying too much on short-term loans can be very risky for firms, especially during times of recession. The culture industry also contains much employment potential and is also a testing ground for innovation. However, there is a serious lack of adequate training in this sector.

The Commission felt the need to improve the social protection systems which includes:

- tightening the eligibility for benefits in order to reduce dependency on such systems
- reversing the trend towards early retirement and encouraging partial retirement
- bringing undeclared work into the open, through means such as the liberalisation of product and service markets since undeclared work is the result of outdated legislation, less taxation on labour and more involvement of all social partners in enforcement

Although it may seem paradoxical, this approach will help to sustain the core values of the European social model.

The environment also has the potential to create new jobs: clean technology improves efficiency, the energy conservation sector can provide many jobs such as diversification of on-farm activities to span tourism, organic production, waste and water treatment.

### **Innovation for growth and employment: Implementation of the First Action Plan on innovation in Europe<sup>42</sup>**

This document was intended to show that the Commission intends to take into account the link between innovation, growth and employment. This strategy is mainly based on the Amsterdam and Luxembourg (special) European council. The implementation of the Innovation action plan adopted in 1997 constitutes a top EU priority. Innovation is considered as the key to fight unemployment by reviving Europe's capacity for entrepreneurship and capacity to innovate since maintaining traditional approaches will lead nowhere. The Innovation Action Plan was intended

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<sup>42</sup> Innovation for growth and employment: Implementation of the First Action Plan on innovation in Europe, European Commission publication, Luxembourg 1997

to mobilise Community instruments such as the Structural Funds to reach this end, and the Luxembourg special Council built on this line.<sup>43</sup>

Mastering knowledge and skills is a determining feature of modern economies facing international competition, and technology is fundamental in this approach. Technology is much more of a help than a hindrance to the creation of jobs, and innovation is geared around technology.

This document sets out various objectives:

- The protection of intellectual property which is very important in order to safeguard new inventions which are made. Europe's ability to innovate is deteriorating, as statistics show that patented inventions are much higher in the US and Japan. The current intellectual property regime is complex, expensive and fragmented between European and national level. The Commission proposed a reduction of costs and time scales, and a more consistent and certain legal framework especially through harmonisation of rules.
- The lack of financing is a major disincentive to innovators, and the 1997 Amsterdam and Luxembourg (special) councils praised EIB initiatives to aid SMEs in this area, since SMEs are primary sources of innovation. The measures in this area under the Action Plan are mainly aimed at attracting private capital towards youth high-growth businesses and innovative products in the start-up phase. New European capital markets for innovative, high-growth businesses were launched e.g. EASDAQ, and the necessary legal, fiscal and training frameworks to back them are being developed. To qualify for investment from venture capital, projects must either be capable of achieving a commercial application on the basis of research and development work and/or demonstrate a high level of technological innovation in the form of a product, service or process. It also encourages exchanges of experience and dissemination of best practice in innovation financing
- the simplification of the regulatory frameworks and administrative procedures is advocated. Extensive bureaucracy is an added cost burdening European competitiveness. The Commission is developing methodologies for taking innovation into greater account when deciding upon new regulations
- education and training are important in order to disseminate a culture of investing in innovation, improving know-how, the ability to combine disciplines, developing creativity and the sense of initiative and facilitating social, geographical and professional mobility. Concrete measures include projects to promote mobility in the field of sandwich courses and apprenticeships. These training and mobility measures must also be directed at researchers, managers in business, and entrepreneurs and aim to strengthen the innovation culture in conjunction with projects for the exploitation of research. Other projects include making better use of information as a tool for the production and dissemination of knowledge

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<sup>43</sup> refer to section on Luxembourg special European council on employment

- gearing research towards innovation - at the moment there is insufficient investment in research, fragmented efforts, a lack of identification of the needs of society and new markets, and an inadequate link between research and its application. A fundamental objective within this field is to promote interoperability and competitiveness through the standardisation of research and involving SMEs further.
- Strengthening overall co-ordination since innovation is a challenge to the Community which concerns all levels of intervention. It is therefore essential to encourage dialogue and to organise the co-ordination of policies which depend on it. The implementation of the Action Plan has gone some way into reaching this objective.

In its list of priorities for 1998 the Commission mentions:

- ◆ taking the issues of sustainable development, enlargement, and developments in the socio-economic and technological context into account when formulating innovation policies
- ◆ involving member states and all actors concerned in the elaboration of innovation policies
- ◆ fostering the birth and development of companies, with particular attention given to those based on new technologies (which could include the dissemination of good practice, the constitution of networks or pilot projects and so on)
- ◆ encouraging new production and trading patterns (such as virtual or “network” companies, electronic trade and so forth)
- ◆ supporting the professionalisation of innovation support specialists, especially through training in the fields of technology brokerage, technology transfer, and financial analysis of technology stocks
- ◆ facilitating the inter connection or setting up of private and/or public networks to advise firms in the area of technology, marketing, management, finance, and information.

#### *The Euro-Mediterranean Ministerial Conference<sup>44</sup>*

At this conference no mention is made of the need to fight unemployment and creating new jobs in Europe and the Mediterranean region. However, particular attention is given by the Member States to the need to encourage:

- A full exchange of information on the systems, policies and action in the field of education and training;
- The development of vocational training programmes, with the emphasis on the private sector;
- Promotion of co-operation frameworks among universities and encouragement of mobility of research workers and technical staff;

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<sup>44</sup> 27<sup>th</sup> and 28<sup>th</sup> June 1998 at Barcelona.

- Strengthening the links between education and business;
- Development of education with particular reference to the education of the young and adult literacy training;
- Development of programmes in management and executive training.

Following the strategy of the European Union as expressed in the various European Councils, one might understand this proposal as an indirect way of addressing the unemployment issue at a Euro-Med level. No major developments were considered at the second Euro-Med Conference held in Valletta in 1997. The Barcelona guidelines were simply confirmed by the participants.

### **Conclusion**

If one were to consider the work done on fighting unemployment, one would notice that the main strategy revolves around educational programmes, training and retraining of the young, unskilled or semi-skilled, and old-age unemployed, together with the concept of innovation and a macroeconomic policy meeting the new requirements of modern work organisation. At the end of the day, notwithstanding recent successes, the European Union is still some way from the desired result as there is still room for further improvement in order to reduce further, and maybe one day eliminate completely this social and economic problem.

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