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Full Employment In The EU Within Ten Years

1. The EU countries must set themselves the goal of achieving **full employment within ten years**.
2. Full employment means that **the EU's rate of employment must be raised** from the current 60% to at least 70% (in the USA and Japan it is well over 70%). More than 25 million jobs need to be created to this end, corresponding to an increase in employment of 1½% per year.
3. Such a growth in employment can **only** be achieved **if the economy grows more rapidly than productivity**:
   * Without structural and labour-market measures in the EU, annual productivity increases of 2% (a stable trend over the past 25 years) mean that a GDP growth of 3½% per annum is required.
   * With structural and labour-market measures in the EU, which make growth more employment-intensive, a growth rate of 3% per annum could be sufficient.
4. The prerequisites for such growth **are more favourable now than at any time over the past 30 years** across the EU:
   * inflation is as low as during the most stable years of the post-war period;
   * Profitability of investment is as high as at the time of full employment in the 1960s;
   * the monetary conditions, including exchange rates and long-term interest rates, favour a healthy revival of demand.
5. In order for these prerequisites to be fully exploited and for past obstacles to growth to be more readily overcome, Economic and Monetary Union (**EMU**) **must be introduced on time**, because then:
   * there will no longer be currency upheavals between EMU Member States;
   * conflicts between budgetary and monetary policies will be avoidable;
   * this framework will help to make wage trends consistent with stability and
   * it will therefore be easier to generate the additional production capacity needed for employment growth.
6. The ongoing recovery can be converted into **long-term investment-supported growth**. This requires the fulfilment of two conditions:
   * the consolidation of national budgets, which is facilitated by growth, must be continued in order to prevent the necessary increase in the investment rate being impeded by rising interest rates and balance of payments deficits;
   * the wages policy of the Social Partners must take into account the objective of price stability and the need to increase returns on investment and purchasing power.

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7. If governments and the social partners act in this manner, sufficient room for manoeuvre will be created for **monetary policy** to help achieve the objectives of growth and employment. Article 105(1) of the EC Treaty stipulates that the European Central Bank has to exploit this room for manoeuvre.

8. Full employment can only be achieved in the long term **if the European economy is competitive**. This is primarily the task of enterprises, but competitiveness must be fostered by policies to promote innovation and improve human capital. Growth underpinned by investment strengthens competitiveness.

9. **Labour-market policy** alone cannot solve the problem of unemployment; it does however play a major accompanying role. Its main tasks are:
   * to make growth more employment intense by means of greater flexibility concerning wages and working time, and by relieving the burden of taxation and non-wage labour costs on lower incomes in a budgetarily neutral manner;
   * to promote initial and continuing vocational training;
   * to combat the social exclusion of young people and of the long-term unemployed.

10. Europe needs **a long-term pact for growth and employment** in order to achieve full employment within ten years. It should establish intermediate operational benchmarks, both in the macro-economic field and in terms of structural and labour-market policy. The Ministers for Economic, Financial and Social Affairs, the Social Partners and the Central Bank should engage themselves to co-ordinate their policies regularly to this end.

Full employment achieved through growth exceeding the productivity trend eases the burden on national budgets and makes it easier to fund social security systems. It is the best way to preserve, reform and further develop the **European social model**.

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Full Employment In The EU Within Ten Years

(Full text)

1. Massive underemployment: the EU's reserves of labour

According to EU statistics the number of unemployed persons is approximately 18 million. The true extent of underemployment is however considerably greater, since the statistics do not include all those who are willing and able to work. The rate of employment, namely the ratio between total employment and working age population, is a better indicator: the rate in the EU is only about 60%, whereas in the USA and Japan it is well over 70%. This could mean that in the EU fewer citizens wish to work than in the USA and Japan; yet a more plausible explanation is that more EU citizens would like to work too, but cannot do so because of a shortage of jobs. The divergence in employment rates therefore reveals not only the extent of underemployment but also the vast, untapped potential for employment, income and prosperity in the EU.

How great are the EU's reserves of labour? On the basis of a 67% rate of employment, as existed at the start of the 1960s, its untapped employment potential amounts to almost 22 million persons (see graph 1). Assuming a 72% rate of employment - a valid hypothesis given the sharp rise in the number of working women - the EU-wide potential is roughly 34 million1. [HJA1] In addition there is a good deal of involuntary part-time work at present.

These huge reserves of labour not only indicate the extent of underemployment in Europe; they are also a measure of the wastage of labour and the enormous potential for additional income and employment. The integration of 22 or 34 million persons into the world of work could boost the Community's gross domestic product (GDP) - over and above the productivity increase- by an amount equivalent to the current GDP of France or Germany respectively. Such a development would at the same time drastically ease the burden on national budgets and social security systems.

2. Full employment within ten years is possible

If 22 million extra jobs are to be created over a ten-year period, employment must grow by 1.3% per annum. If there are to be 34 million jobs, annual employment growth of 2.0% is required. Such employment growth can only be realised if GDP growth is higher than the rise in productivity[2]. Graph 2 illustrates this correlation.

In the EU of 15, the trend rate of productivity growth has been stable at 2% per annum since the mid 1970s. If this trend persists over the next ten years, annual GDP growth rates of 3.3% or 4.0% will be needed to fully utilise the above-mentioned labour reserves of 22 or 34 million persons respectively.

[1] The working population currently numbers 22 millions in France and 34 millions in Germany.

[2] Only growth in excess of the rise in productivity is effective in employment terms. High productivity growth heightens the prosperity and competitiveness of those in work, but also destroys jobs if it outstrips overall economic growth. The available employment potential can thus be absorbed only through economic growth exceeding the productivity trend.

Graph 1
Rates of Employment of Working-Age Population
USA, Japan, EU (in %)

Graph 2

About half of the productivity increase over the past 20 years can be attributed to neutral, technical and organisational progress, and the other half to the substitution of labour by capital[3]. If the substitution of labour by capital could be eliminated completely, full employment could be achieved within ten years even at growth rates of 2.3 or 3.0% per annum. Such a reversal of the macro-economic substitution of labour by capital would, however, presuppose a severe downward opening of the wage scale, as happened in the USA in the 1970s and 1980s (a 30% fall in real wages in the lowest quintile). The problem of joblessness would be transformed into a "working poor problem": this would be incompatible with the European social model. Instead, growth in the Community can be made more employment intense, for example, by reducing non-wage labour costs at the lower end of the wage scale or through more flexible collective agreements (see section 5).

Two conditions must be fulfilled in order to make possible the required real GDP growth:

a. the existing workforce must meet the skill requirements of the economy;

b. the economy must generate sufficient production capacity and physical jobs over and above the rise in productivity.

a.: The first condition is probably easier to fulfil than would appear, judging by the widespread complaints from industry. Most newcomers to the world of work (young people and the "hidden reserves") possess an adequate basic education, although this needs to be built on during their working lives. The bottleneck is not to do with qualifications, but with the fact that too many people are competing for too few jobs.

The majority of the unemployed (about 11% of the labour force in 1996) is still in the turnover of the labour market. Their problem is not "employability", but the fact that there are not enough jobs for all[4]. This applies on the one hand to the relatively low level of cyclical unemployment, which affected some 2% of the labour force in 1996: in this case, labour is available and the physical jobs exist, but a lack of macro-economic demand prevents them from being taken up.

However it also applies, in part, to "non-cyclical unemployment" - i.e. to the 9% or so of the labour force for whom there are no physical jobs. Almost half of these (4% of the labour force) still had jobs less than a year ago. They could be permanently employed, with a minimum of retraining, if sufficient physical jobs were created.

Only for the 5% or so of the labour force who constitute the long-term unemployed is there a lack of both: physical jobs and the necessary qualifications. But that does not mean they should be "written off": if the economy makes enough jobs available, many of them can be reintegrated into the labour market by means of retraining and other measures.

Thus the employability of the labour force cannot be a major obstacle to strong, lasting economic growth. It should only become a problem once unemployment falls below 3% or so, that is, once it has shrunk by 8 percentage points as compared to today's level.

The widespread claim that "only two percent of the labour force are affected by cyclical unemployment; the rest is structural unemployment which cannot be eliminated through growth" is therefore inaccurate. It overlooks the difference between a cyclical upturn, which utilises spare

[3] Annual Economic Report 1997, European Commission, in: European Economy, 1996, No. 63.

[4] Cf. European Economy, 1995, No. 59, Study No. 3.

capacity, and a medium-term growth process, which creates new production capacity and new physical jobs.

This argument does not conflict with the promotion of initial and continuing vocational training. On the contrary, the latter is indispensable to enhancing the skills not only of unemployed people, the "hidden reserves", but also those in work, who are expected to be much more adaptable nowadays. Clearly, initial and continuing vocational training in itself does not create new jobs, although it does improve the vocational prospects of individuals and boost overall economic productivity. Its full benefit, however, can only be realised if the economy makes sufficient jobs available through the growth process.

b.: The second condition, namely the generation of new production capacity over and above productivity growth in the overall economy, and hence the creation of new jobs, is therefore the crucial condition for utilising the Community's huge potential workforce to the full.

This can only be achieved through a medium-term growth process supported by job-creating and capacity -increasing investment. Given the current relatively stable capital output ratio, with an investment rate of around 19% of GDP the European economy can only grow by about 2¼% per annum in the long term without bottlenecks in capacity causing inflationary tension. Thus, a rise in the rate of investment is crucial in order for the EU to embark permanently on the road to higher growth and higher rates of employment.

The prerequisites for this kind of a growth process sustained by investment are more favourable than ever before in the past 30 years:

* inflation is as low as during the most stable years of the post-war period;
* returns on investment are as high as at the time of full employment in the 1960s and are still rising;
* the monetary conditions, including exchange rates and long-term interest rates, are extremely favourable to a healthy development of demand.

Under the present structural circumstances (the capital output ratio, productivity trend and extent to which labour is being substituted by capital), this growth process might take the following form[5]: GDP growth of between 3 and 3½% per annum gradually leads to spare capacity being completely utilised. At the same time, investment growth of 6-7% per annum causes sufficient new capacity to be generated to boost employment and allow private consumption to grow by between 2½ and 3% per annum. Exports and imports grow by 6-7% per annum in the medium term. In this way, within five years the growth potential - i.e. annual growth in production capacity - could be raised from 2¼% now to 3½% or so because of the increasing rate of investment. Growth could then continue to rise at 3½% per annum without inflationary tension.

With economic growth of 3½% and productivity growth of 2%, employment can increase by 1½% per year, thereby generating approximately 25 million jobs in ten years. That would push up the employment rate from around 60% at present to about 70%. Although even higher rates of employment could be envisaged (see section 1), this would still be well on the way to full employment.

If growth can be made more employment-intense through structural and labour-market policy measures, the same employment effect can also be achieved with a lower economic growth rate of some 3% (see section 5).

5 Cf. European Economy, 1993, No. 55; 1995, No. 59 and 1996, No. 62.

It is therefore possible and realistic to utilise fully the Community's huge labour potential within the scope of a ten-year growth process with an average of 3-3½% annual growth, and hence to return to full employment. What is more, the prerequisites for such a process are better than they have been for many years. Now that there are indications of a cyclical upturn, there is an opportunity to convert this into a lasting, non-inflationary growth process as outlined above, and even - something that cannot be explored in detail here - one that is environmentally sustainable.

3. Obstacles to growth and employment in the past

Until the time of the first oil crisis in 1973-74 there was practically full employment in the European Community. In the 1960s and 1970s, and even until the start of the 1980s, the average unemployment rate in Europe lay below that of the USA. The long-term rise in productivity in the EC (1974-95: 2% p.a.) is comparable with that in Japan (1986-95: 2% p.a.) and far higher than in the USA (1974-95: 0.6% p.a.). This applies likewise to the long-term trend in technical and organisational progress (1974-95: EC 1.1% p.a.; Japan 1% p.a. and USA 0.5% p.a.)[6].

Europe's economy was not, however, able to achieve sufficient economic growth exceeding the productivity trend to absorb the potential increase in the labour force (1974-95: 0.61% p.a.). If we regard the productivity growth stimulated by technical progress, trade liberalisation and the Internal Market as the basis for Europe's prosperity and competitiveness, the root-cause of its unemployment problem is inadequate GDP growth over and above the rise in productivity (see also graph 2).

Why did such a growth not materialise? Looking at developments since 1986, once the effects of the two oil crises had been overcome, it becomes clear that in the period 1986-90 the Community achieved remarkable growth of 3.3% per annum, which was accompanied by annual employment growth of 1.3% and a significant decline in the unemployment rate (in 1990 the unemployment rate for West Germany was 4.8%; for the EC 7.7%). A total of 9.3 million jobs were created. Over the 1991-96 period, however, the EC achieved growth of only 1.6% per annum. Employment therefore fell by a total of 4.7 million, while the unemployment rate had risen to 10.9% by 1996.

This unsatisfactory trend in employment during the first half of the 1990s is often attributed unjustifiably to globalisation and the introduction of new technologies. In reality it derived primarily from three macro-economic obstacles to growth:

a. An overheating of the economy (from 1988 onwards), advanced by a lax budgetary policy, fuelled inflation (from 1989) and this was reflected in correspondingly higher rises in nominal wages (from 1990). This trend was further exacerbated by the significant increase in the government deficit in the wake of German unification. The inflationary trend caused the Bundesbank to adopt a very tight monetary policy, which had a knock-on effect in all the EU countries. Consequently, rising interest rates and the currency crisis of 1992 led to the stabilising recession of 1992-93. This stability conflict between budgetary, wage and monetary policies was a major macro-economic obstacle to growth.

b. A rapid adaptation of wage trends, sharp rises in productivity and increased competitiveness contributed in 1993-94 to a healthy upswing, which was led by exports and investment, coupled with a gradual improvement in private consumption and employment levels. This upswing was, however, stifled by the currency upheaval of spring 1995 (which was mainly attributable to the absence of

[6] Cf. Annual Economic Report of the European Commission, 1997, Chapter 2, Europ. Economy, 1996, No. 63.

credible economic and more particularly budgetary policies in a number of Member States) and by a rise in long-term interest rates. Such currency upheavals are another major macro-economic obstacle to growth; they have occurred repeatedly in the Community and especially in Germany since the early 1970s.

c. The fact that healthy upswings have been cut short again and again by stability conflicts and currency upheavals has led to a decline in the investment rate in the Community. This means only weak growth in production potential (now around 2¼% p.a.), which in itself constitutes an obstacle to growth.

Without these three obstacles to growth, the growth experienced from 1986 to 1990 could have continued and the Community would by now have been very close to the objective of full employment.

4. The prerequisites for full employment are better now than for a long time

As already illustrated, the prerequisites for a return to full employment are more favourable now than they have been for three decades. In addition to the cyclical upturn which is beginning to take shape and has already been forecast by several institutes, a lasting growth process underpinned by investment now appears possible - and on such a scale that there are likely to be approximately 17% more jobs ten years from now. The political challenge consists in not jeopardising these favourable prerequisites, and in keeping the macro-economic obstacles to growth under control and not allowing them to resurface.

The completion of Economic and Monetary Union (EMU) could play a crucial role in preventing a revival of these obstacles to growth:

a. Monetary union rules out monetary turbulence between the participating countries. The more countries belong to EMU, the more favourable the effect on the Internal Market. But even extra-Community trade (which only accounts for some 10% of Community GDP) would stand to gain, since the euro would probably be strong enough to stabilise the international monetary system too.

b. The obstacle to growth arising from potential stability conflicts can also be far more readily avoided thanks to the Monetary Union. The provisions contained in Articles 104 to 104c of the Treaty[7], in particular the ban on the financing of government deficits by printing money in Art. 104, greatly reduce the risk of a conflict between budgetary policy and monetary policy. The implementation of the Stability and Growth Pact with a view to balancing the budget under normal economic circumstances goes in the same direction, in that the reduction of deficits and the burden of debt gives budgetary policy greater scope to take pressure off monetary policy in the course of the economic cycle. Overall, in this way interest rates can settle on a lower level.

   The impossibility of exchange rates changes within the Monetary Union, coupled with the credibility of the European Central Bank's stability policy, places greater responsibility on the Social Partners. Under EMU, nominal wages should on average progress in a manner that is compatible with the objective of price stability. Taking productivity gains into consideration, increases in real wages should take into account the need to strengthen both the return on job-creating investment and the purchasing power of wage-earners.

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[7] Art. 104: ban on the monetary financing of government deficits; Art. 104a: ban on privileged access of public authorities to the financial markets; Art. 104b: the Community and the public authorities of the Member States are prohibited from assuming liability for the debts of other public authorities; Art. 104c: excessive government deficits and debts must be avoided.

Indeed, the more the stability task of monetary policy is facilitated by a sound budgetary policy and by appropriate wage trends, the more favourable to growth and employment will be the monetary conditions, including the euro exchange-rate and long-term interest rates.

This means that, in accordance with Art. 105(1) of the EC Treaty, the European Central Bank will pursue in a forceful and credible manner its primary objective, to maintain price stability, but also that, "without prejudice to the objective of price stability", it "shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2" of the Treaty (including the objectives of growth and employment).

c. In this way, Monetary Union creates a more stable and less conflictual environment for growth and employment. This in turn is the crucial precondition for overcoming the third obstacle to growth, namely inadequate growth in production capacity. Only if, through strong capacity-increasing investment, the growth in production capacity lies well above the rise in productivity can enough jobs be created to integrate the Community's huge labour reserves gradually into the production process. The existing high profitability and the ongoing revival of demand foster such patterns of investment.

This approach, which promotes both growth and stability, is already the basis of the Community's "Broad economic policy guidelines" and is the subject of EU-wide consensus[8]. Nevertheless, within the EMU stability framework, the promotion of growth and employment should be given far greater prominence, as called for in the "Growth and Employment" resolution adopted at the Amsterdam European Council.

It is important not to jeopardise the favourable prerequisites for growth and employment, and not to permit the emergence of fresh obstacles to growth. The responsibility for this lies with the Ministers for Economic, Financial and Social Affairs, the Social Partners and the European Central Bank. A long-term pact for growth and employment would facilitate co-ordination among these players on macro-economic and structural policy, and hence favour the realisation of the full-employment objective.

5. Support for the growth process through structural, labour-market and fiscal policies

Technical progress and globalisation lead to a permanent structural change in the growth process. The pressure to boost productivity and cut jobs is severe. In sectors with high productivity gains, fierce international and intra-Community competition leads to falling relative prices. Competitiveness is thereby strengthened and increased productivity, for the most part, is passed on to the rest of the economy through the price mechanism. This market-led transfer of purchasing power allows for rising relative prices in sectors with low productivity gains and less competitive pressure, thus making many jobs in such sectors worthwhile.

This is an age-old process, for which there is clear statistical evidence, and which requires that the price mechanism operates effectively. To a large extent this condition has been met by the opening-up of markets. Nevertheless, in order for the process to create sufficient jobs there are two further prerequisites:

* sectoral structural change must be accepted and socially acceptable;

[8] Cf. "Broad Economic Policy Guidelines of the Member States and the Community", European Economy, 1996, No. 62, and 1997, No. 64.

* the growth rate in the economy at large must be sufficiently high for the balance between sectoral job creation and sectoral job losses to be positive and large enough to bring about a fall in unemployment.

These two prerequisites are interrelated. The stronger the overall economic growth, the less painful the process of sectoral structural change, and the more readily its social effects can be cushioned.

Only if efforts to increase competitiveness and productivity are coupled with correspondingly high growth and rising employment levels can the potential prosperity gains from technical progress, the internal market and the international division of labour actually be achieved. Sharply increased productivity accompanied by inadequate growth reduces employment, overburdens social security budgets and pushes up non-wage labour costs, which in turn have a detrimental effect on competitiveness. The policy mix to promote growth and employment, which is feasible under monetary union, offers a way out of this vicious circle.

Structural policies must take account of this overall context. As far as the markets of goods and services are concerned, it is vital to ensure that the price mechanism and competition continue to operate efficiently. But only in a context of adequate growth will the measures still needed to promote competitiveness in the fields of technology, innovation and the information society really bear fruit, as will the Trans-European networks, the Internal Market and the liberalisation of world trade: since they all strengthen productivity, their positive effects on overall employment levels depend on the growth rate exceeding clearly the trend of productivity. .

This applies similarly to important aspects of **labour-market policy**. The promotion of vocational training, retraining, the integration of young people and the long-term unemployed and, more generally, the upgrading of human capital - their positive effects will not be felt in full until the economy has made sufficient jobs available. In the light of technical progress and structural change, continuing vocational training for the entire labour force- and not only for the unemployed - is an important labour-market policy objective: this allows for mobility, occupational advancement and better wages, as well as boosting competitiveness and productivity. Because of these productivity effects, however, here too the impact on overall employment levels depends on the scale of macro-economic growth in excess of increased productivity.

Clearly, labour-market policy also has a <u>social dimension</u> that should not be neglected. The reintegration of problem groups, and in particular young people and the long-term unemployed, into the world of work must be regarded not only in terms of its economic effects but also from the point of view of avoiding social exclusion.

It is necessary, moreover, to devise labour-market policy rules that contribute - in a way that is pragmatic and in keeping with the European social model - to making <u>growth more employment-intense</u>. In this way the goal of full employment can be reached more rapidly, without opening up the floodgates to a USA-style “working poor syndrome” resulting from a severe downward widening of the wage scale. The following approaches are worth considering:

* flexible arrangements to reorganise and reduce working time, negotiated locally between the parties to collective agreements, and with a neutral impact on costs, including a dissociation of the working hours of humans from those of machines wherever possible, also voluntary part-time work should be encouraged;

* collective agreements between the social partners containing greater wage differentiation according to skills, regions and - up to a certain point - sectors, together with temporary entry wage rates for the long-term unemployed;

* a budgetary neutral means of easing the burden of taxation and/or non-wage labour costs on the labour factor (especially at the lower end of the wage scale), suitable forms of wage subsidies and negative income taxes in the context of a reform of taxation and social security contribution systems.

The **reform of taxation and social security contribution systems** should take account of – besides separate objectives, such as fiscal justice and simplification - the objective of full employment through stronger growth. The following principles are of particular importance in this context:

a. The reduction of government deficits in the process of growth, down to a state of budgetary equilibrium or slight surplus under "normal" economic circumstances, is necessary not only for reasons of stability (to avoid conflicting with monetary policy), but also to encourage the necessary job-creating investment. Since in such circumstances governments no longer absorb private saving, but make a positive contribution to savings in the economy, the increase in the investment rate which is essential to lasting growth can - other things being equal - take place without adversely affecting the balance of payments and without putting pressure on long-term interest rates[9]. Tax and contributions reforms which augment structural government deficits are therefore incompatible with the necessary process of medium-term growth, and hence with the objective of full employment.

b. The growth process leading to full employment must develop along environmentally sound lines. The progressive introduction of environmental taxes makes it possible to improve the environmental sustainability of growth via the price mechanism. There need be no fear of impairing overall economic competitiveness, as long as the burden of taxes and social security contributions on the labour factor is eased at the same time and in a budgetarily neutral manner.

c. A budgetary neutral easing of the burden on the labour factor deriving from taxation and social security contributions is most effective in employment terms if it is targeted at the lower end of the wage and income scale. Jobs with a low level of productivity (above all in the service sector) thus become worthwhile, and a successful battle is waged against the underground economy. An across-the-board reduction in the burden of taxation and social security contributions levied on the labour factor is far less effective in employment terms, and would necessitate a considerable amount of compensatory funding to be effective and remain budgetary neutral.

   It is worth mentioning that enterprises have already benefited from a substantial easing of the burden of overall wage costs affecting all employees. The moderate trend in real wages as compared with the rise in productivity (in the EU the average annual increase in real wages since 1982 has lagged one percentage point behind the annual productivity growth of 2%) has in fact led to a significant improvement in the profits of enterprises and profitability of investment. Thus the overall increase in social security charges from the early 1970s (1973: 11.8% of GDP) until 1996 (16.1% of GDP) has been shifted back from enterprises to wage-earners. Real unit labour costs in the economy as a whole are currently some 13% below their level at the start of the 1970s.

d. A reform of taxation and social security systems should also take account of the fact that the budgetary equilibrium sought under "normal" economic circumstances considerably reduces the burden of government indebtedness in the longer term. The room for manoeuvre obtained in this way will give scope for budgetary policy not only to take pressure off monetary policy in stabilising the economic situation, but also to facilitate a reduction in the overall burden of taxation and contributions once the time is ripe.

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9 Major economic growth and catching up processes in the past (e.g. the "economic miracles" in Germany and Japan) have been accompanied by high budget surpluses (compulsory saving).

e. Gradual attainment of the objective of full employment will considerably ease the burden on social security systems. This does not mean that reforms that are currently under consideration and much needed should be abandoned. But with a return to full employment it is nevertheless possible to maintain and reform the European social model. This applies in particular to pay-as-you-go pension systems.

As has been demonstrated elsewhere[10], the ratio of people aged 65 and over to those from 15 to 64 will grow by approximately a third between 1995 and 2020. If the employment rate remains at its present level, pay-as-you-go pension contributions will have to rise likewise by some 33% in order to maintain the current level of pensions in relation to earned income levels. However, if the employment rate can be raised from around 60% at present to 72% over the next ten years and kept at this level or raised even further by the year 2020, the rise in the number of people in work (and hence those paying contributions out of earned income) will more or less offset the rise in the number of pensioners. For the same relative pension level, therefore, only slight increases in contributions would be necessary. The problems of pay-as-you-go pension systems would thereby be minimised for a generation.

Similar considerations apply to sickness, nursing and unemployment insurance. In the case of unemployment insurance, contributions could even be drastically reduced, since the number of beneficiaries would also fall.

These examples show the extent to which the future of the European social model depends on achieving the objective of full employment and a high rate of employment.

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[10] Cf. for example: “Some Economic Implications of Demographic Trends Up To 2020”, Study No. 5, European Economy, 1994, No. 56.