

Bulletin
of the European Communities

Supplement 6/93

Growth, competitiveness, employment

The challenges and ways forward into the 21st century

White Paper

COM(93)700
5 December 1993
Parts A and B

Blank pages not reproduced: 4, 6, 8, 36, 38, 54, 56, 116, and 144

COMMISSION OF THE EUROPEAN COMMUNITIES

Cataloguing data can be found at the end of this publication

Luxembourg: Office for Official Publications of the European Communities, 1993

ISBN 92-826-7000-7 (Parts A + B)

ISBN 92-826-7071-6 (Part C)

ISBN 92-826-7065-1 (Both volumes)

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Printed in Germany

PREAMBLE

This White Paper sets out to foster debate and to assist decision-making — at decentralized, national or Community level — so as to lay the foundations for sustainable development of the European economies, thereby enabling them to withstand international competition while creating the millions of jobs that are needed.

We are convinced that the European economies have a future. Looking at the traditional bases of prosperity and competitiveness, Europe has preserved its chances. It possesses assets which it has only to exploit — assets such as its abundant non-physical capital (education, skills, capacity for innovation, traditions), the availability of financial capital and highly efficient banking institutions, the soundness of its social model, and the virtues of cooperation between the two sides of industry.

Given the scale of the needs that have to be met, both in the European Union and elsewhere in the world, recovery must be achieved by developing work and employment and not by endorsing basically Malthusian solutions. Yes, we can create jobs, and we must do so if we want to safeguard the future — the future of our children, who must be able to find hope and motivation in the prospect of participating in economic and social activity and of being involved in the society in which they live, and the future of our social protection systems, which are threatened in the short term by inadequate growth and in the long term by the deterioration in the ratio of the people in jobs to those not in employment.

In other words, we are faced with the immense responsibility, while remaining faithful to the ideals which have come to characterize and represent Europe, of finding a new synthesis of the aims pursued by society (work as a factor of social integration, equality of opportunity) and the requirements of the economy (competitiveness and job creation).

This major challenge confronts us all. That is why we are arguing, first and foremost, the need to press on with building a unified Europe which will increase our strength through cooperation and through the benefits of a large area without frontiers of any kind. That is why we are calling on everyone — and not only political decision-makers and business leaders — to contribute to the combined effort by seeking to understand the new world and by participating in the joint endeavour.

Nothing would be more dangerous than for Europe to maintain structures and customs which foster resignation, refusal of commitment and passivity. Revival requires a society driven by citizens who are aware of their own responsibilities and imbued with a spirit of solidarity towards those with whom they form local and national communities — communities that are so rich in history and in their common feeling of belonging.

The contribution which the European Union can make is therefore to assist this movement, which reconciles our historical loyalties with our wish to take our place in this new world that is now emerging.

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PART A

White Paper

**The challenges and ways forward
into the 21st century**

Why this White Paper?

The one and only reason is unemployment. We are aware of its scale, and of its consequences too. The difficult thing, as experience has taught us, is knowing how to tackle it.

The Copenhagen European Council in June invited the European Commission to present a White Paper on a medium-term strategy for growth, competitiveness and employment. That decision followed an in-depth discussion between the Heads of State or Government based on an analysis by the President of the Commission of the weaknesses of the European economies.

The White Paper draws in large part on the contributions from the Member States. It has also been guided by the discussions — often beset by conflict — under way in our countries between governments and social partners (employers' and trade union organizations).

The European Commission is aware of the difficulty of the task. For if the solutions already existed, our countries would surely have applied them; if there were a miracle cure, it would not have gone unnoticed. With national situations being so different, any proposal has to be presented with sensitivity and caution. That being so, the Commission does share the view, expressed by many Member States, that joint responses would strengthen the hand of each player, and therefore of the European Union.

There is no miracle cure

- **Neither protectionism**, which would be suicidal for the European Union, the world's largest trading power, and would run counter to its proclaimed objectives, in particular that of encouraging the economies of the poorest countries to take off;
- **nor a dash for economic freedom**: turning on the tap of government spending and creating money can, like a narcotic, produce a short-lived illusion of well-being. But the return to reality would be all the more painful when we had to repair the

damage wreaked by inflation and external imbalances. The worst damage would be higher unemployment;

- **nor a generalized reduction in working hours and job-sharing at national level**: this would result in a slowing-down of production due to the difficulty of striking the right balances between the demand for skilled workers, the optimum utilization of plant and the supply of labour;
- **nor a drastic cut in wages to align our costs on those of our competitors in the developing countries**: socially unacceptable and politically untenable, such an approach would only worsen the crisis by depressing domestic demand, which also contributes to growth and the maintenance of employment.

How has it come to this?

We will not dwell here on the analysis presented in Copenhagen. This has been confirmed and fleshed out by the national contributions and the Commission's research: competitiveness, growth and employment are closely interrelated, and have been for some time.

Over the last 20 years

- the European economy's potential rate of growth has shrunk (from around 4% to around 2.5% a year);
- unemployment has been steadily rising from cycle to cycle;
- the investment ratio has fallen by five percentage points;
- our competitive position in relation to the USA and Japan has worsened as regards:
 - employment,
 - our shares of export markets,
 - R&D and innovation and its incorporation into goods brought to the market,
 - the development of new products.

And yet the Community over the past few years enjoyed what all observers agree was a period of growth and restructuring prompted by the 1992 objective. That objective was not an illusion: it swiftly received broad support from all sections of society, and the structural changes it generated account for many of the nine million jobs created between 1986 and 1990.

The 1992 objective: A tangible reality

- 70 million customs documents done away with;
- A 3% saving on the costs of international transport;
- Three times more company mergers and acquisitions in the Community over the period in question;
- Twice the number of European companies involved in mergers and acquisitions in the rest of the world;
- A doubling of trade in the Community in sectors previously regarded as sheltered from competition;
- Investment up by one third between 1985 and 1990;
- Nine million jobs created between 1986 and 1990;
- One half of a percentage point extra growth each year.

This integration process is not yet complete since certain sectors are being only gradually opened up to competition; it does, however, amply demonstrate that Europe has been capable of anticipating developments, creating a stimulus and responding to it.

How, then, can we explain the fact that all these achievements have not made it possible at least to cushion the effects of the world recession? Was the single market process merely a flash in the pan? **The truth is that although we have changed, the rest of the world has changed even faster.**

The present crisis can be understood only in the light of the universality of the trends

which have been shaping the global economy and their acceleration since the end of the 1970s.

Changes in the décor

In geopolitical terms

- new competitors have emerged and have shown their ability to incorporate the latest technical progress;
- the end of communism has opened up new potential for economic growth: 120 million people in neighbouring countries with a standard of living well below our own. But we have not been able to harness this for a new dynamism;

In demographic terms

- the ageing of the population and the transformation of family structures;

In technological terms

- the new industrial revolution is well under way and is causing rapid and far-reaching changes in technologies, jobs and skills;
- the economy is becoming increasingly knowledge-based, manufacturing activities are being farmed out, services are taking the lion's share, and the possession and transmission of information is becoming crucial to success;

In financial terms

- the interdependence of markets resulting from the freedom of capital movements together with new technology is an inescapable fact of life for all economic and financial operators

The heart of the problem: The three types of unemployment

Since the beginning of the 1970s, unemployment in the Community has risen steadily except during the second half of the 1980s. Today 17 million people are out of work. Over the last 20 years, 80% more wealth has been created but total employ-

ment has risen by only 9%. To explain this, a distinction must be drawn between the three different forms of unemployment:

Cyclical unemployment

In a context in which labour resources are increasing by some 0.50% a year, any slackening in growth immediately triggers a sharp rise in unemployment. This is particularly so at present when, for the first time since 1975, Europe has experienced a slowdown in economic activity.

Structural unemployment

At the end of the 1980s, when the economy was going strong, unemployment still stood at 12 million.

The explanations for this rigidity of unemployment are now clear:

- The role we have come to play in the new international division of labour has not been an optimum one because we have neglected future growth sectors in concentrating too much on the rents and positions established in traditional industries.
- The relatively high cost of unskilled labour is speeding up the rationalization of investment and holding back job creation in services. This has resulted in the loss of millions of jobs.
- Our employment systems have aged: by this term we mean the whole complex of issues made up nowadays by the labour market and employment policy, the possibilities of flexibility within or outside enterprises, the opportunities provided or not provided by the education and training systems, and social protection.
- Finally and more especially, the countries of the south are stirring and competing with us — even on our own markets — at cost levels which we simply cannot match.

Technological unemployment

This problem is as old as industrial society itself, which has continually changed — albeit not always smoothly — by incorporating technical progress. Nevertheless, the phenomenon now seems to be undergoing

a change of scale. This is not to say that technological progress in enterprises is doing away with more jobs than it is creating: for example, the employment situation is on average more favourable in those firms that have introduced microelectronics than in those that have not done so.

It is nevertheless the case that we are once again passing through a period in which a gap is opening up between the speed of technical progress, which is concerned primarily with how to produce (manufacturing processes and work organization) and which therefore often destroys jobs, and our capacity to think up new individual or collective needs which would provide new job opportunities.

And yet technical progress is presenting opportunities for growth and employment, on condition that we alter our development model, meet the needs stemming from the upheavals in social life and urban civilization, preserve our rural areas, and improve the environment and the quality of our natural assets. In so doing, we will pave the ways for our entry into the 21st century.

Ways forward into the 21st century

In order to reverse the disastrous course which our societies, bedevilled by unemployment, are taking, the European Union should set itself the target of creating 15 million jobs by the end of the century.

It is the economy which can provide the necessary pointers to a reappraisal of principles inherited from an age in which manpower resources were scarce, technological innovation was made possible through imitation, and natural resources could be exploited at will. We are thus setting out a number of broad guidelines which have a predominantly economic basis, although it will be seen that they cannot be dissociated from the major trends which are affecting society itself: an economy that is healthy, open, decentralized, competitive and based on solidarity. However, these efforts would be in vain if we did not once again make employment policy the centre-piece of our overall strategy.

A healthy economy

The people of Europe need stability. The false prophets of inflation and of a return to exchange-rate variability represent special interests. Their bad money still threatens to oust the good.

The White Paper is, accordingly, consistent with the guidelines submitted to the European Council, in accordance with the new Treaty (Article 103), to mark the beginning of the second stage of European economic union, which must be successful if a single currency is to be achieved. We must therefore place our thinking within a **macroeconomic reference** framework for both economic and monetary convergence which will increase the opportunities available to our economies.

This strategy could be applied in two phases, the first consisting of pulling out of the current recession as quickly as possible and the second from the mid-1990s consisting of returning to a path of strong and healthy growth. The macroeconomic policies to be implemented for these two phases are set on similar courses but have different points of emphasis.

The gradual reduction in public deficits dominates the initial phase, subsequently giving way to their stabilization around the common objective. This will call for increased efforts to restructure spending — and in particular to curb operating expenditure — in favour of public resources allocated to investment.

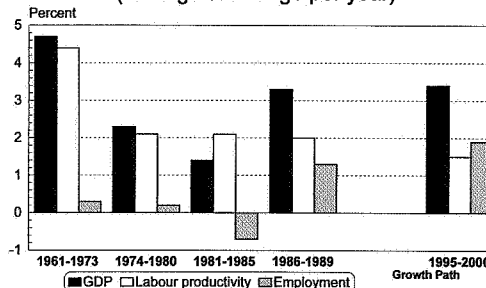
Stable monetary policies consistent with the aim of low inflation will be a constant benchmark throughout the period. They would lead to further interest-rate cuts that would make more attractive the **investment** essential to the modernization and competitiveness of our economies. Investment in infrastructures, housing and environmental improvement projects would thus be given a particular boost.

Finally, the **trends of all categories of income** should be made consistent with the objectives of monetary stability and cost moderation. During the first phase, the task would be to avert an acceleration which would frustrate the reduction of interest rates in the long term; during the second, it would

be necessary to guarantee an adequate rate of return to permit an increase in the investment ratio and hence in growth.

Growth Path compared

(average % change per year)



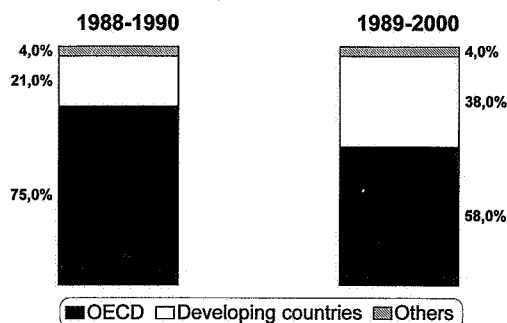
An open economy

Each of the major bursts of growth in the European economies started with a qualitative leap in international trade. The most spectacular contribution probably came from the establishment of the multilateral trading system resulting from the Bretton Woods agreements after the Second World War.

Today we are perhaps seeing the **beginnings of an equally important leap** forward with the very rapid integration into world trade of developing countries and former communist countries.

Where is the Growth?

(Percentage of world output)



The Community must be open and prepare itself for this prospect. This is why the conclusion of the Uruguay Round negotiations is of such importance for it too. For the first time, these negotiations will produce a global agreement between industrialized and developing countries containing balanced concessions aimed at fair access to all markets.

Among the issues in these negotiations, the transformation of GATT into a **fully fledged international institution designated a 'multilateral trade organization' would guarantee a sustainable and harmonious development of international trade.** The Community is attached to this idea: it regards it as the means of ensuring that GATT has the authority to stand up to hegemony, to face up more effectively to the imbalances resulting from world monetary instability, and to address other issues where the existence of multilateral rules would be invaluable. There is indeed a need to ensure better consistency between the various bodies responsible for fostering healthy competition, to deal with the inequality of the conditions for **direct investment**, and to guarantee a fair sharing-out of burdens in the area of environmental protection.

The strengthening of the multilateral trading system, its effective application and the transparency of its rules are, for the Community, the best guarantee of success with its own effort to adjust. This is part and parcel of the goal of achieving coherent world management of the problems posed by development inequalities and the concentration of poverty in certain regions.

The European Union must first demonstrate this openness of mind and recognition of the unavoidable globalization of the economy to its eastern and southern neighbours. Enormous potential exists, but it requires us to invest massively, to transfer a considerable volume of know-how and to open up our markets more widely. If all of these countries manage to pursue reasonable policies of adjustment and modernization, they will fully benefit from our action and return those benefits to us in the form of new markets and, consequently, new jobs. Only properly managed interdependence can guarantee a positive outcome for everybody.

Decentralized economy

The market economy has a decentralizing effect. This was the reasoning behind the 'single market' project (Objective 92). Its aim was not only to achieve economies of scale but also to set free the dynamism and the creativity inherent in competition.

Decentralization now also reflects a radical change in the organization of our societies, which are all confronted with the growing complexity of economic and social phenomena and the legislative or regulatory framework.

Hence the growing importance of the local level at which all the ingredients of political action blend together most successfully.

The information society

- The dawning of a multimedia world (sound — text — image) represents a radical change comparable with the first industrial revolution;
- Tomorrow's world is already with us: by the end of the century there will be 10 times as many TV channels and three times the number of subscribers to cable networks. In the USA it is estimated that six million people are already involved in teleworking;
- The USA has already taken the lead: 200 of its biggest companies already use information highways;
- At the heart of the development model for the 21st century, this issue is a crucial aspect in the survival or decline of Europe;
- It can provide an answer to the new needs of European societies: communication networks within companies; widespread teleworking; widespread access to scientific and leisure databases; development of preventive health care and home medicine for the elderly.

Hence also the decentralization movement affecting the business world. SMEs are

often cited as models because they embody operational flexibility and a capacity for integration which the units which make up the big companies are now trying to imitate. Hierarchical and linear empires are gradually giving way to interactive organizations.

This movement towards decentralization, supported by the new technologies, is taking us towards a veritable information society. The corollary to decentralization is information sharing and communication.

The European dimension would give the information society the best possible chances of taking off. The Commission is therefore proposing, in the context of a partnership between the public sector and the private sector, to accelerate the establishment of 'information highways' (broad-band networks) and develop the corresponding services and applications (see Development theme I).

A more competitive economy

Drawing maximum benefit from the single market

While industrial policy continues to be controversial no one is in any doubt as to the responsibility of governments and of the Community to create as favourable an environment as possible for company competitiveness. The single market is now a living reality. However, where companies are concerned, progress is needed in three areas.

The first concerns the body of rules (laws, regulations, standards, certification processes) which assure the smooth functioning of the market. The rules have to be supplemented in line with the initial target (whether they concern pharmaceuticals, intellectual property or company law, for example). But, above all, how it then develops has to be guaranteed against the risk of inconsistency between national and Community laws. This means fresh cooperation between governments at the legislative drafting stage. Likewise, care should be taken to ensure that the Community legislation affecting companies is consistent, especially the environmental legislation.

The second condition revolves around **small and medium-sized enterprises**. While they are a model of flexibility for big companies, they are also increasingly a factor of competitiveness as a result of 'farming-out' and subcontracting. Hence the measures taken on the initiative of big companies to galvanize their suppliers and clients. However, the 'demography' of SMEs, i.e. their birth, growth and regeneration, is also a matter of national policy. In some countries it will be necessary to adapt their tax systems, rights of succession and access to equity and to simplify intercompany credit regulations and practices. While most of the work has to be done at national level, the Community, for its part, must help to fit SMEs into the dynamics of the single market. The immediate task, therefore, is to work towards simplification and information. A Community initiative will shortly be proposed in this connection.

The third condition concerns the accelerated establishment of **trans-European infrastructure networks** (see Development Theme II).

The trans-European infrastructure

Why?

- Faster, safer travel at lower cost;
- Effective planning in Europe;
- Bridge-building towards Eastern Europe.

How?

- Remove regulatory and financial obstacles,
- Get private investors involved in projects of European interest (applying the provisions of the Treaty, 'declaration of European interest');
- Identify projects on the basis of the master plans adopted (transport) or in preparation (energy).

In order to establish these networks, promote the information society, and develop new environmental improvement projects,

the Commission proposes to accelerate the administrative procedures, act as a catalyst, and use the existing cooperation instruments. This represents an investment programme of ECU 20 billion per annum from 1994 to 1999 (see Annex).

Stepping up the research effort and cooperation

Without eschewing competition, the ability to cooperate and share risks is increasingly becoming a sign of creativity. Our laws, our tax systems and our programmes have to be adapted as a result, both at national and at European level. Community competition policy has thus made broad allowance for these new forms of intercompany cooperation.

Encouraging intercompany cooperation will gradually become a basic principle and not just one 'aspect' of **Community research and development policy**. This principle will help to identify major priorities and to promote meetings between the operators involved. The Commission will propose that Member States implement this new form of 'vertical cooperation' on the basis of a restricted number of large joint projects geared to the following:

- **New information technologies**, the importance of which has already been emphasized.
- **Biotechnology**, where the early use of research resources will make for greater synergy between chemical companies and the big potential users in the health and agri-foodstuffs sectors.
- **Ecotechnologies**, meaning radical innovations targeting the causes of pollution and aiming at environmental efficiency throughout the production cycle. Ecotechnologies will soon provide a major competitive advantage.

An economy characterized by solidarity

These options show how the dynamism of the market can help boost growth.

Experience has also shown, however, that the market is not without its failings. It tends to underestimate what is at stake in

the long term, the speed of the changes it creates affects the different social categories unequally, and it spontaneously promotes concentration, thereby creating inequality between the regions and the towns. Awareness of these insufficiencies has led our countries to develop **collective solidarity mechanisms**. At Community level the Single European Act has helped to restore the balance in the development of the single market by way of joint flanking policies as part of economic and social cohesion.

However, the social welfare system is now being re-examined in many Member States to reduce costs through greater responsibility. The new model of European society calls for less passive and more active solidarity.

Solidarity, first of all, between those who have jobs and those who do not. This key concept has not figured at all in the collective discussions and negotiations of the last 10 years. That is why we are proposing a sort of European social pact, the principle of which is quite simple but whose detailed arrangements would be adapted to the specific circumstances of each country and each business; in the spirit of a decentralized economy and of subsidiarity, new gains in productivity would essentially be applied to forward-looking investments and to the creation of jobs.

Solidarity also between generations, with an eye to the repercussions of a demographic trend which will see falling numbers of persons of adult working age. It is absolutely essential that all decisions taken today take account of this demographic dimension. That is why we must not only tackle unemployment, which is jeopardizing all our social security systems, but also expand, and not reduce, the volume of work which generates wealth and so finances solidarity.

Solidarity, once again, between the more prosperous regions and the poor or struggling regions. Hence the conformation of economic and social cohesion as an essential pillar of European construction.

Solidarity, lastly and most importantly, in the fight against social exclusion. If only one proof were needed that our economies have not yet reached maturity and that there are still needs to be met it would be

the existence in Europe of some 40 million people below the poverty line. This is a matter for the Member States, but it is also the business of each citizen to practice 'neighbourly solidarity'. We need a comprehensive policy, preventive as well as remedial, to combat the poverty which so degrades men and women and splits society in two. The areas of action are familiar: renovation of stricken urban areas, construction of subsidized housing, adaptation of education systems with extra resources for children from disadvantaged backgrounds, and an active employment policy which attaches high priority to the search for an activity or training accessible to everyone rather than the registration of and payment to the unemployed, even though, in the last resort, this is still essential where all other means of social reinsertion seem, for the moment, to be exhausted.

Action on jobs

As we have seen, the Community has failed to match the substantial increase in generated wealth with parallel improvements in job opportunities. Looked at more closely, however, the performances of individual States differ quite considerably. For instance, Germany and Spain have enjoyed a comparable rate of growth over the last 15 years of around 2.3%, yet their average levels of unemployment are 6 and 16% respectively. Over the same period, meanwhile, the United Kingdom, France, Belgium and Italy have all had an unemployment rate of around 9% of the active population, but with growth rates ranging from 1.8 to 2.5% on average. These disparities tell us a lot.

In a general manner, they show that growth is not in itself the solution to unemployment, that vigorous action is needed to create jobs. However, such action must take account of national circumstances. More specifically, the inflexibility of the labour market, which is responsible for a large part of Europe's structural unemployment, can be traced back to specific institutional, legal and contractual circumstances in each country. **The educational system, labour laws, work contracts, contractual negotiation systems and the social security system form the pillars of the various 'national employ-**

ment systems' and combine to give each of them a distinctive appearance. In each case, the entire system must be mobilized to improve the functioning of the labour market. This goes to show, once again, that there is no miracle solution; nothing short of coordinated action by the various players responsible for the components of these systems can effect the necessary transformation.

Moreover, in each country the methods of social dialogue will reflect national traditions.

Priorities for action on jobs

- lifelong education and training;
- greater flexibility in businesses, both internally and externally;
- greater expectations from decentralization and initiative;
- reduction in the relative cost of low-qualified work;
- thorough overhaul of employment policies;
- efforts to meet new needs.

Investment in education and training: Knowledge and know-how throughout life

Our countries' education systems are faced with major difficulties, and not only of a budgetary nature. These problems are rooted in social ills: the breakdown of the family and the demotivation bred by unemployment. They also reflect a change in the very nature of what is being taught. Preparation for life in tomorrow's world cannot be satisfied by a once-and-for-all acquisition of **knowledge and know-how**. Every bit as essential is the ability to learn, to communicate, to work in a group and to assess one's own situation. On the other hand, if tomorrow's trades require the ability to make diagnoses and propose improvements at all levels, the autonomy, independence of spirit and analytical ability which come of knowledge will once again be indispensable.

Lifelong education is therefore the overall objective to which the national educational communities can make their own contributions. Difficult choices will have to be made, between increasing university capacity or quality, between higher education and vocational paths. However, each country should be aiming towards **universally accessible advanced vocational training**.

As is shown by the Member States' contributions, principles and methods of financing may differ. In some cases, the emphasis is on equal opportunities for all individuals and the proposed response is the provision of training capital or cheques financed by the redistribution of public resources. In other cases, advanced vocational training is linked to businesses and so contractual mechanisms will be proposed for training investment or for co-investment with the participation of wage-earners. In any event, public and private efforts must be married to create the basis in each Member State for a **genuine right to initial or ongoing training throughout one's lifetime**. This should be a key area of social dialogue at European level.

The need for double flexibility — both internal and external — in labour markets

Generally speaking, the flexibility of the labour market has deteriorated under the effects of an accretion of partial measures designed to reduce registered unemployment. All of these measures now need to be re-examined by all the players with a view to removing obstacles to employment.

The question of labour flexibility needs to be examined from two angles: that of the external labour market, where supply meets demand, and that of the market internal to each business, i.e. the human resources at its disposal which it adjusts according to its needs.

Improving **external flexibility** means making it possible for more unemployed persons to meet the identified requirements of businesses. The first step here is to improve geographical mobility. This could be encouraged by injecting new impetus into the accommodation market and, in particular, by removing obstacles to the construction of rented accommodation.

The provision of a framework for exercising the right to advanced vocational training has already been mentioned. This is a major pillar of flexibility, which also calls for initiatives, sometimes radical, from the two sides of industry in cooperation with the public authorities:

- In certain countries of the north of Europe the campaign against undeclared work involves reducing certain unemployment benefits and cutting direct taxation on low incomes. However, unemployment benefits can only be reduced so far before the poverty line is reached. These limits have already been reached in several countries;
- In several southern countries, the laws on the conditions under which workers on unlimited contracts may be laid off need to be made more flexible, with greater assistance being given to the unemployed and with less recourse to precarious forms of employment;
- In many countries, in both north and south, labour compartmentalization is detrimental both to the mobility of the active population and to the retraining of the unemployed. Bridging access needs to be established through collective negotiation.

Internal flexibility is the result of optimum management of a company's human resources. The aim is to adjust the workforce without making people redundant wherever this can be avoided. Focusing on the continuity of the link between the company and the worker, it maximizes the investment in human resources and staff involvement. It is up to individual companies to improve internal flexibility by means of staff versatility, the integrated organization of work, flexible working hours, and performance-related pay. Tailored to the European company model, it should be central to negotiations within the company.

The virtues of decentralization and initiative

The optimum operation of the labour market calls for a large degree of decentralization within 'employment areas'. In

return, the national authorities should focus on the quality of training and the homogeneity of qualifications. The successful experience of several Member States shows the importance of effective participation of the social partners in the decentralized management of employment areas.

Likewise, it is only by a decentralized approach, i.e. at company level, that adjustments to working hours can lead to improved competitiveness, and thereby encourage job creation and job retention.

Thus we can see how at Volkswagen imaginative negotiations based on a four-day week have led to a sensible, socially responsible form of part-time working. More flexible retirement schemes, more diversified working years, and greater provision for part-time working correspond in many situations to the wishes of salaried staff and the interest of undertakings which are concerned to make better use of their capital. Very often, such 'downward' adjustments in working hours are blocked by inflexible practices which standardize the working week in Europe at between 37 and 39 hours. To remove these obstacles, it is necessary, on the basis of the specific provisions of each country, to review labour legislation (role of legislation on working hours) and contractual practices (overtime pay), and in many cases simplify the way in which pension rights are calculated.

Reducing the cost of unskilled and semi-skilled labour

In eight out of the twelve countries of the European Union, social security contributions are relatively more onerous on low incomes. These countries suffer the most from what is one of the most severe structural causes of unemployment and undeclared employment in the Community.

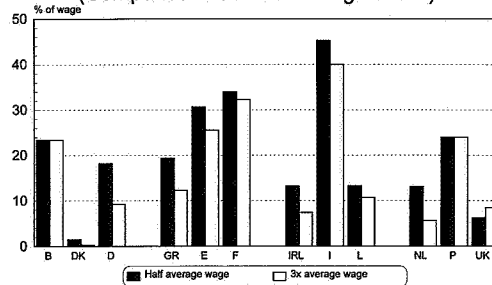
Studies have been carried out in several countries with very high levels of security contributions. These studies show that a reduction of 30 to 40% in social security contributions for low-paid workers would increase employment by 2%. In other countries, the possibility of replacing existing forms of income guarantee payments with a system of negative tax deserves close attention.

For all countries of the Union, it is essential to reduce the cost of unskilled and semi-skilled labour by an amount equivalent to 1 or 2 points of GNP by the year 2000. The improvement in tax revenue resulting from this measure would offset the cost by up to 30%. The remainder should be financed by savings or other revenue. Irrespective of its intrinsic merits, the CO₂/energy tax proposed by the Commission is one of the best ways of offsetting reductions in the cost of employment. Homogeneous taxation at source of investment income as proposed by the Commission since 1989 would be another possibility.

A full-scale overhaul of employment policy

Investing in human resources is not the task of business alone. It is also the task of government. It is no longer possible to leave masses of unemployed people in Europe unoccupied. Such is, however, the structure of government spending on unemployment: roughly two thirds of public expenditure on the unemployed goes on assistance and the remainder on 'active measures'.

Employers' Social Contributions (Comparison at different wage levels)



Source: European Commission.

A complete reversal of attitude is required, the aim being to prevent long-term unemployment. On the one hand, the unemployed should be offered, according to how long they have been unemployed, first training leading to meaningful qualifications, then the possibility of working, poss-

ibly in the public sector, for a number of months. In exchange, unemployed people who are thus given real assistance in returning to employment would make a personal investment in this training and employment. This, too, is a question of a social dialogue in which the unemployed should themselves be involved.

Such a substantial change would require a considerable increase in public employment services, the objective being for every unemployed person to be monitored personally by the same employment adviser. The job of the employment service would become more diversified but comprise three main tasks: provision of information, job placement and support.

Contrary to popular opinion, such an overhaul of employment policy would not be prohibitively expensive. For example, it has been calculated that the cost of tripling operational expenditure on the public employment services in the countries of the Union would mean an increase from 0.17 to 0.5% of GNP. Spread over a period of three years, the corresponding expenditure would be almost entirely offset by the fall in unemployment, estimated at 100 000 in the first year, 400 000 in the second year, and a million in the third year.

Bringing the long-term unemployed — those who have been unemployed for more than 12 months — back into employment is a difficult but not impossible task; this is demonstrated by the success of initiatives in several countries aimed at creating a real route back into employment for such people. These initiatives should be generalized, in cooperation with various associations and the local authorities.

Finally, active employment policy should cross a new threshold in promoting youth employment. Anyone who leaves the school system before the age of 18 without acquiring a meaningful vocational certificate should be guaranteed a 'Youthstart'. It is proposed that a scheme should be progressively established at national level which will give everyone access to a recognized form of training, whether or not accompanied by employment experience. Moreover, at Community level, 'European

Union civilian voluntary service' could be introduced, comprising a training element and public utility work in another Member State of the Union, to be financed by European Social Fund pilot initiatives. This initiative could back up the 'Youthstart' arrangements.

Dealing with new needs

Many needs are still waiting to be satisfied. They correspond to changes in lifestyles, the transformation of family structures, the increase in the number of working women, and the new aspirations of the elderly and of very old people. They also stem from the need to repair damage to the environment and to renovate the most disadvantaged urban areas.

Sources of new jobs

Local services

- Home help for the elderly and handicapped, health care, meal preparation and housework;
- Minding pre-school-age children and schoolchildren before and after school, including taking them to and from school;
- Assistance to young people facing difficulties, comprising help with schoolwork, provision of leisure facilities, especially sports, and support for the most disadvantaged;
- Acting as caretaker for blocks of flats;
- Provision of leisure and cultural facilities, provided they are thereby made more accessible to all (adjusted opening hours, lower prices, travelling shows, art schools, etc.);
- Local shops kept in business in rural areas, and also in outlying suburban areas.

The objection will be voiced that if such needs exist, the market should rapidly provide for them. In fact, the development of both the supply of and demand for such new services comes up against barriers:

- on the demand side there is the problem of price, already referred to in connection with the costs of employment;
- on the supply side there is reticence to take jobs which are perceived as being degrading, because they are often synonymous with domestic service and unskilled or semi-skilled work.

As a result, the development of the services in question is either left to the undeclared employment market, or is publicly funded, which is expensive. A new initiative could stimulate both demand and supply, thus creating a 'continuum' of possibilities ranging from supply totally protected by public subsidies to totally competitive

Improvements in the quality of life

- Renovation of old housing with a view to increasing comfort (installation of bathrooms and noise insulation) and safety;
- Development of local public transport services, which should be made more comfortable, more frequent, accessible (to the handicapped) and safe, and the provision of new services such as shared taxis in rural areas.

Environmental protection

- Maintenance of natural areas and public areas (rubbish clearance, street cleaning, path clearance, etc.);
- Water purification and the cleaning-up of polluted areas;
- Monitoring of quality standards;
- Energy-saving equipment, particularly in housing.

supply. Thus a new 'social economy' would be born, benefiting:

- on the demand side, from incentives such as income tax deductibility, or the local issuing of 'vouchers' along the lines of luncheon vouchers, issued instead of providing the social services normally provided by employers and local authorities, which can be exchanged for local services ('service vouchers');
- on the supply side, from traditional subsidies for the setting-up of undertakings, which could be increased in cases where a 'social employer' undertakes to employ formerly unemployed people. Specific training would be provided to develop the skills needed for these new professions.

The scope for job creation depends largely on the existing structures and services in each country, lifestyles and tax rules.

However, several estimates agree that some three million new jobs could be created in the Community, covering local services, improvements in the quality of life and environmental protection.

Call for action

The analyses out in this document and the possible solutions identified should guide us towards a sustainable development model, both from the viewpoint of the effectiveness of the triangular relationship growth-competitiveness-employment and as regards the environment and the improvement in the quality of life.

The effort to be made calls for adaptations in behaviour and policies at all levels: the Community level, the national level, and the local level. Since we are aware of the differing situations in Member States, we deemed it preferable not to formulate the possible solutions in unduly concise terms. It will be for each Member State to take from the document the elements it regards

as making a positive contribution to its own action.

Nevertheless, in the Commission's view, the individual chapters of Part B should provide the basis for work in the various specialized meetings of the Council of Ministers. If conclusion along these lines were reached at the forthcoming European Council meeting, this would facilitate and actually set in motion the mobilization of the Community institutions in the pursuit of the objectives set.

As for Community action proper, it is proposed to impart a new impetus or give a new form, but only in accordance with five priorities:

- Making the most of the single market;
- Supporting the development and adaptation of small and medium-sized enterprises;
- Pursuing the social dialogue that has, to date, made for fruitful cooperation and joint decision-making by the two sides of industry, thereby assisting the work of the Community;
- Creating the major European infrastructure networks;
- Preparing forthwith and laying the foundations for the information society.

These last two priorities hold the key to enhanced competitiveness and will enable us to exploit technical progress in the interests of employment and an improvement in living conditions.

It needs to be stressed that the implementation of these two priorities in no way calls

into question the financial decisions taken as part of Package II by the Edinburgh European Council. There is, therefore, no need to review the ceilings on resources.

Recourse to saving is the only other source of financing. It would be modest in magnitude since the borrowings envisaged would account for less than 2% of total market issues.

For the rest, what we are advocating is not only economically indispensable but also financially viable and hence carries no risk of adding to national public deficits.

Through these forward-looking measures, the Community will lay the foundations for sound and lasting economic growth the benefits of which will far outweigh the cost of raising the funds required.

As a parallel development, and this is also one of the far-reaching changes made to our growth model, the new-found consistency between macroeconomic policy and an active employment policy will eliminate all the behavioural or structural rigidities that are partly to blame for the underemployment with which we are having to contend. It will then be possible to satisfy the numerous needs that have not yet been met as well as those to which the changes both in the organization of our societies and in the organization and sharing-out of work will give rise.

The Commission thus calls on everyone to conduct a lucid analysis of our strengths and weaknesses and to adapt behaviour to the rapid changes taking place in today's world, setting our sights and focusing our determination on what the future holds.

Development theme I

Information networks

1. Why?

Throughout the world, production systems, methods of organizing work and consumption patterns are undergoing changes which will have long-term effects comparable with the first industrial revolution.

This is the result of the development of information and communications technologies. Digital technologies, in particular, have made it possible to combine transmission of information, sound text and images in a single high-performance system.

The dawn of the multimedia world

This will have far-reaching effects on production structures and methods. It will spell changes in the way companies are organized, in managers' responsibilities and in relations with workers. Small businesses will benefit most. Working conditions will be transformed by the greater flexibility possible with regard to working hours, the place of work itself (teleworking) and, inevitably, terms of contract and pay systems. According to some estimates, six million Americans already work at home. New data transmission systems will enable companies to globalize their activities and strategies, forging forms of partnership and cooperation on a scale never possible before.

The change will also affect consumption patterns.

The need for physical mobility will be reduced by the availability of products and services combining the advantages of mass

production with consumers' specific, and even individual, requirements. A new, far richer range of novel services in the form of information, access to databases, audio-visual, cultural and leisure facilities will be opened up to everyone. More specifically, it will be possible to gain access to general information directly, without any complicated technology, via a portable computer connected, if need be, to a television set or telephone.

The same phenomenon will affect us as citizens.

It will be possible to make the services provided by the public authorities faster, more selective and less impersonal, provided measures are taken to safeguard privacy. Certain services in which the public authorities have traditionally played a leading role (health, education, social security, etc.) could be provided far more widely, rapidly and effectively. Market forces will be able to play a greater part. Doctors, teachers and students will have instant access to vast databases.

This is not a technological dream for the next century.

Some aspects of this new society are already being put into place; many people are beginning to reap the benefit. Naturally, these changes will be led by the Triad powers first, but will gradually extend to the rest of the planet. They will be dictated, above all, by the needs of the users, both companies and consumers alike. Industry is already beginning to adapt to these new prospects. large-scale reorganizations are in train. They are making the traditional distinctions, for example between electronics, information technology, telecommunications and the audiovisual sectors, increasingly obsolete. They are blurring the borderlines between the secondary and tertiary

sectors, between industry and services. They are transforming the balance of power in industry: the capitalization of Nintendo, the video game maker, is already one third of IBM's and its turnover is almost twice that of Microsoft, the leading software producer. This process has already started in the USA, where it is giving birth to unprecedented partnerships and mergers between companies.

It will gain ground in Europe. It is forcing the public authorities to review the regulatory framework.

Concern has been expressed about employment, but it is difficult to assess this factor precisely.

Rapid dissemination of new information technologies can certainly speed up the transfer of certain manufacturing activities to countries with distinctly lower labour costs.

However, the productivity improvements which these technologies will allow throughout industry will also save large numbers of jobs which would otherwise have been lost.

We are witnessing rationalization of the service sector. However, the enormous potential for new services relating to production, consumption, culture and leisure activities will create large numbers of new jobs.

For example, the services generated by Minitel in France have created more than 350 000 jobs. The foreseeable growth in the number of audiovisual services will considerably increase the demand for new programmes. By the turn of the century there should be 10 times as many television channels as now and three times the number of subscribers to cable networks.

In any event, it would be fruitless to become embroiled in a fresh dispute about the 'machine age', as was the case with the first industrial revolution. Worldwide dissemination of new technologies is inevitable.

The aim must be not to slow down this change but, instead, to control it in order to avoid the dramas which marked the adjustments in the last century but would be unacceptable today.

Above all, these changes have been brought about by market pressure and companies' own initiative. The government decisions taken in the USA and Japan aim at organizing and speeding up the process, by supporting companies' efforts. The emphasis has been on establishment of the basic infrastructure and support for new applications and technological development. The US programme to establish the 'National Information Infrastructure' provides for a total investment of x times the spending on the Apollo programme.

It is in Europe's interests to meet this challenge since the first economies which successfully complete this change, in goods conditions, will hold significant competitive advantages.

Compared with its leading competitors, Europe holds comparative advantages from the cultural, social, technological and industrial points of view. Since 1 January 1993 its market has been largely integrated, although too many monopolies and too much overregulation persist. Interoperability has not yet been achieved.

Already, the States which have taken the lead with deregulation have the fastest growing markets and falling consumer prices.

Europe's main handicaps are the fragmentation of the various markets and the lack of major interoperable links. To overcome them, it is necessary to mobilize resources and channel endeavours at European level in a partnership between the public and private sectors.

2. How?

The action plan is based on five priorities:

Priority	Means
1. Promote the use of information technologies	<ul style="list-style-type: none">— launch European projects on applications and public services (transport, health, training, education and civil protection) and strengthen cooperation between administrations (IDA programme)— promote teleworking— ensure closer involvement of users in the drafting and implementation of technology policies
2. Provide basic trans-European services	<ul style="list-style-type: none">— develop the basic networks (ISDN and broadband)— ensure network interoperability— ensure closer coordination between telecommunications policies and aid from the Structural Funds
3. Create an appropriate regulatory framework	<ul style="list-style-type: none">— end distortions of competition— guarantee a universal service— speed up standardization— protect privacy and ensure the security of information and communication systems— extend intellectual property law
4. Develop training on new technologies	<ul style="list-style-type: none">— encourage acquisition of the basic knowledge required in order to use new technologies and exploit their potential— ensure widespread use of new technologies in teaching and training— adapt the training for engineers and researchers
5. Improve industrial and technological performance	<ul style="list-style-type: none">— increase the RTD effort and adapt it to the new market conditions (fourth framework programme)— promote industry and technology watch— take up the results of RTD in industrial applications— negotiate equitable conditions of access to the competitive market at world level

The keys to the success of this plan are to define the measures clearly, to specify a timetable and to put in place the resources.

It is proposed that a task force on European information infrastructures be established with a direct mandate from the Euro-

pean Council. This task force will have the job of establishing priorities, deciding on procedures and defining the resources required. It should report to the President of the European Council by 31 March 1994 so that the plan can be put into action by mid-1994 after consultation with the parties concerned and the approval of the European Council.

3. Which networks?

The transport network has motorways with several lanes, and access roads and service areas allowing motorists to drive wherever they choose.

The communications network will also have:

- **highways** along which information will move: these will be the broadband optical fibre networks
- **access roads and service areas:** these will be the services (disks, files, databases, electronic mail services and host computers);
- **highway users** who will choose applications for their work or private life.

Europe's telephone networks are already international, but the digital networks for carrying information in the form of text, data or images are mainly being developed on a purely national basis.

In order to provide greater access to a wide range of interactive services and create a common information area, action must be taken:

- to ensure coordinated project management;
- to interconnect the various networks and make them interoperable;
- to invest and innovate in order to provide a wide range of information in the shortest possible time.

Such an approach is essential to stimulate the creation of new markets. New projects must be undertaken rapidly and resolutely

in order to break the vicious circle perpetuated by the weaknesses on both the demand and supply sides.

To this end, the eight strategic projects listed in the Annex are proposed.

They cover infrastructure, services and applications alike.

Establishment of a high-speed communication network

This infrastructure is necessary for the development of multimedia services. It would use the most advanced data transmission technologies (optical fibre) and fully capitalize on the digitization and high-speed transfer of information (high definition, interactive and multifunction systems).

This would extend the integrated services digital networks to be established throughout the Community by the year 2000.

Initiation of three programmes to develop electronic services

These services are necessary for diversification of the applications on a given infrastructure network:

- **Electronic images:** interactive video services will revolutionize working methods, training and leisure activities. The objective is to ensure Europe-wide interoperability of these new *à la carte* services by 1997.
- **Electronic access to information:** this will entail bringing together information (administrative, scientific, cultural or other data) in databases to which all users in the Community should have access.
- **Electronic mail:** the various commercial electronic document transmission services must be made interoperable; development of this service is particularly important to make small firms more competitive.

Promotion of four priority applications: teleworking, teletraining, telemedicine and links between administrations.

- **Teleworking:** Projects are already under way in the Member States. The Community would support pilot programmes on the establishment of a transfrontier network for the management of human resources.
- **Teletraining:** The objective is to establish a network linking more than 100 universities or colleges by 1996 and giving them all access to common training modules.
- **Telemedicine:** By the year 2000, multimedia links are to be established between the main cancer research centres, bone marrow banks and social security centres.
- **Links between administrations:** To ensure smooth operation of the internal market (taxation, customs, statistics), it is essential to improve the interchange of data between administrations and to provide companies and the public with easier access to this information.

4. What decisions?

At the moment, the Council of Ministers and the European Parliament are continuing their discussions on the development of data communications (IDA) networks. In the autumn the Commission submitted two proposals on telecommunications networks containing a series of guidelines (master plan) on the integrated services digital network (ISDN) and broadband networks.

The biggest difficulty encountered in the discussions concerns the content of the work: some Member States feel that it should cover the infrastructure only but most think that it should cover not only the infrastructure but also the associated services.

5. Financing options?

The estimated funding needed over the next 10 years will be ECU 150 billion. Some ECU 67 billion will be needed between 1994 and 1999 for the priority projects selected. They will be covered mainly by private investors. Financial support from the national and Community authorities will play a marginal role to provide an incentive, as with other networks.

The Community could provide ECU 5 billion over the entire period from its budget for networks, from the Structural Funds and, in particular, from the research programme. This could be supplemented by EIB loans and European Investment Fund guarantees and the new financial mechanisms described in the Annex.

Trans-European telecommunications networks:

Information highways	Target area for Strategic Projects	Investment required 1994-1999 <i>(billion ecus)</i>
Interconnected advanced networks	— establishment of high-speed communication network	20
	— consolidation of integrated services digital network	15
General electronic services	— electronic access to information	1
	— electronic mail	1
	— electronic images: interactive video services	10
Telematic applications	— teleworking	3
	— links between administrations	7
	— teletraining	3
	— telemedicine	7
Total		67

Development theme II

Trans-European transport and energy networks

1. Why?

Europe's ascendancy in the past was due to the quality of its communications networks, which gave its inhabitants easy access to natural and technical resources. By developing the movement of people and goods, Europe has been able to marry economic prosperity, quality of life and commercial efficiency; it has also been able to remain at the forefront of technology and to back highly successful industry, Airbus being a good example. Our transport, energy and telecommunications systems are clear evidence of this tradition.

We need to continue along this road, to enter a new phase and to visualize other frontiers in the light of the globalization of markets, the growing mobility of capital and technology and the investment needs which are becoming apparent in the East and the South. The development of trans-European transport, telecommunications and energy infrastructure networks answers

Promoting new or better designed infrastructures, accessible to all citizens, will permit:

- faster, safer travel at lower cost, and thus an increase in trade, while reducing costs and distances and creating scope for other activities;
- effective planning in Europe in order to stem the emergence of serious socio-economic disequilibria in all Member States;
- bridge-building towards Eastern Europe, which is essential in order to meet the immense investment requirement resulting from the state of decay of communications and to organize the necessary economic complementarities.

this need which all the Member States emphasized in their contributions.

This is also a chance to:

- give our industries the opportunity of engaging in promising medium- and long-term projects and of developing new products;
- seek the optimum combination of existing transport modes (multimodality), in order to enhance performance and at the same time reduce their environmental impact.

Making traffic faster, safer and more environmentally compatible, facilitating and boosting trade, and bringing Member States closer to their eastern and southern neighbours would herald the advent of the European Union.

These networks are the complement to the single market. After the huge collective effort made to eliminate frontiers between the Member States, it is now necessary to increase physical links, including those with the most distant countries. This is also a key factor in competitiveness, minimizing costs to businesses and private individuals, and optimizing existing capacities by improving their compatibility.

2. Why now?

Our investment in infrastructures has been slowing down over the last 10 years.

This is particularly true of transport; the result is rigidities, procedural slowness and malfunctions, which are blamed by economic circles as being one of the main causes of the current decline in competitiveness. This can now be remedied with the aid of the new provisions of the Treaty on European Union (Article 129).

The fact that not enough attention has been paid to developing infrastructures is one of the reasons for the deterioration in the quality of life.

Time wasted because of traffic congestion, under-utilization of the new communications media, environmental damage owing to the failure to use the most efficient technology are all to some extent contributory factors in the present malaise of our cities and the resulting social discord. The same is true of the thinly-populated rural areas, whose isolation is a threat to their very existence.

The rapid progress made in data processing, environmental engineering, propulsion methods and new materials completely change the outlook. We are living with separate, compartmentalized networks, with means of transport which are often environmentally damaging. It will henceforth be possible to combine different transport modes, to use electronics to organize links and traffic better, to connect networks in all sectors for which different national authorities are responsible and to integrate stringent environmental standards in infrastructure projects. A wholly new generation of projects is emerging, and a completely different development logic.

Countries such as the USA and Japan are making significant, targeted efforts to renew their infrastructures. New industrial powers such as Singapore, Taiwan, certain parts of China and Argentina are creating networks which integrate the latest technological advances.

By focusing the necessary resources on trans-European projects, we shall maintain our capacity to compete with the rest of the world and improve the quality of life in Europe.

Equally, it is inconceivable that we should develop an economic partnership with the countries of Central Europe and Russia as a preliminary to a deeper association

without, at the same time, embarking on bold infrastructure projects. The two are complementary.

Finally, potential investments by the end of the century, which are put at more than ECU 250 billion, are a key factor in the economic recovery of Europe.

3. How?

Article 129 of the Treaty on European Union spells out the Community's tasks and instruments relating to the establishment of networks.

Within the framework of a system of open and competitive markets, action by the Community shall aim at promoting the interconnection and interoperability of networks as well as access to such networks. It shall take account in particular of the need to link island, landlocked and peripheral regions with the central regions of the Community (Article 129b).

It shall establish a series of guidelines covering the objectives, priorities and broad lines of measures (master plans); these guidelines shall identify **projects of common interest**; it shall support the **financial efforts** made by the Member States for the projects identified, particularly through feasibility studies, loan guarantees or interest rates subsidies; it may also **help coordinate** the policies pursued by the Member States and cooperate with third countries (Article 129c).

The European Parliament and the Council of Ministers decide on the guidelines and projects of common interest by qualified majority; Member States must approve the guidelines and projects that concern their territory.

The Community has two tasks:

- encourage private investors to take a greater part in projects of European interest;

- reduce, to this end, the financial or administrative risks involved.

It is therefore recommended that **priority** should be given to projects of Community interest, the financial and administrative arrangements for which have been well prepared, and for which environmental impact assessments have been carried out.

Project evaluation will concern the financial risks, the possible sources of financing, the legal status (duration of concessions), management and the environmental impact.

An administrative and financial action plan will be drawn up for each project, in order to guarantee investors the necessary predictability and stability.

4. Where are we now?

a) Transport

The plan for high-speed trains had already been accepted by the Council in 1990, and it will be updated in 1994 for integration in a multimodal perspective.

On 29 October 1993 the Council and the European Parliament approved three master plans on:

- **combined transport**, with work in two stages of 6 and 12 years;
- **roads**, with 55 000 km of trans-European links including 12 000 km of motorway to be built in 10 years;
- **inland waterways**, with the establishment of an interoperable network in 10 years.

Three other plans will be presented in 1994 on:

- the **conventional rail infrastructure**, with a view to integrating lines for passenger traffic (regional, urban) and freight in the intermodal network and to extending links towards Central and Eastern Europe;
- the **airport infrastructure**, with a view to improving the linking-in of the Community network internationally and of

advancing the opening-up of certain regions of the Community;

- **seaports**, with a view to promoting intra-Community trade and trade with the rest of the world and relieving congestion on certain inland links, with beneficial environmental effects.

b) Energy

A master plan and projects of common interest for electricity and gas will be presented at the beginning of 1994.

5. What are the priorities?

The projects will focus above all on the trans-European transport network. This is the sector which will require the most substantial investment, and where the gap between available financial resources and needs is biggest. The aim is to develop a truly multimodal strategy, which is essential in order to improve the efficiency of the economy and the quality of life.

It is proposed that major priority projects of Community interest should be selected on the basis of the master plans already approved, in order to bring all the countries of the European continent closer together. These concern:

- new strategic transfrontier links (Brenner rail link, Lyons-Turin rail link, Paris-Barcelona-Madrid rail link, Berlin-Warsaw-Moscow motorway link);
- improving connections between the various transport modes (Heathrow-London-Channel Tunnel link);
- improving interoperability and efficiency of networks by installing traffic management systems (air, sea, land) and thus significantly reducing nuisance factors.

The development of energy networks reflects two priorities: the reduction of costs by making better use of existing capacities, and enhancing security of supply. The first priority is more particularly concerned with electricity, while the second applies to gas.

This will permit more rational overall use of the available energy throughout the whole European continent.

As far as electricity is concerned, the objective is essentially to increase interconnection of networks and thus avoid their saturation in some cases and, in others, provide a better service to the more remote areas.

Making better use of existing electricity capacities will help protect the environment.

With regard to gas, Europe must come to terms with growing consumption which will increasingly be covered by imports from the North Sea, Algeria or Russia.

It is essential, in the interests of economic security, to speed up construction of trans-European gas pipelines capable of guaranteeing supplies and creating avenues for long-term cooperation with the producer countries.

Eight major programmes will shortly be proposed to the Council with this in mind. The success of all these projects is closely linked with the deepening of the internal market.

6. Financing options

The financial requirements for the next 15 years can be put at more than ECU 400 billion; by the end of the century alone, they will probably amount to ECU 250 billion (ECU 220 billion for transport and ECU 30 billion for energy).

The total investment involved for the proposed projects amounts to ECU 82 billion

for transport and ECU 13 billion for energy.

The purpose of the above assessment is to create the best possible conditions for financing by the market in the framework of a public- and private-sector partnership.

Financing is based on three principles:

- **financial equilibrium:** this can to a large extent be ensured by private investors;
- **compatibility with public finances:** any contributions from Member States will respect the guidelines relating to the public debt;
- **subsidiarity:** the Community will support feasibility studies, provide loan guarantees or promote the closing of missing links in the framework of projects of common interest.

With regard to the 26 transport projects already examined in the framework of the master plans (23) or in other Council bodies (3), the Community has already financed feasibility studies and work to the tune of ECU 332 million.

It could provide almost ECU 15 billion over the period 1994-99 from its various instrument,¹ which would be added to loans of an equivalent amount (growth initiative facilities).

The eight major energy programmes will require ECU 13 billion, of which 10 must be provided by the market. The Community could provide ECU 1.2 billion over that period through the structural policies and the instruments for interest-rate subsidies and financing of feasibility studies. Under these conditions, the Member States' contribution will be marginal.

Annex

Investing in the competitiveness of Europe

The trans-European networks are an essential element for the competitiveness of the European economy and the smooth functioning of the single market.

1. Transport and energy networks — ECU 250 billion by the year 2000

These networks of transport infrastructures will enable our citizens to travel more quickly, more safely and more cheaply. They will also form a link to eastern Europe and to north Africa. In total some ECU 400 billion of investments in the transport and energy trans-European networks will be required in the next 15 years, of which some ECU 220 billion by 1999.

Article 129b of the Treaty makes clear how to proceed. The Community¹ establishes a set of guidelines that identify projects of common interest. It then supports the financial efforts of the Member States (feasibility studies, loan guarantees, or interest rate subsidies). It can also contribute to the coordination of the Member States' policies and cooperate with third countries.

The principal guideline networks (*schémas directeurs*) have been proposed by the Commission or adopted by the Council and the Parliament. The Commission has identified a series of priority projects for the next five years (25 transport projects amounting to ECU 83 billion and 10 energy projects costing ECU 13 billion) covering the Community, but also extending to central Europe and north Africa (energy).

2. Telecommunications — ECU 150 billion by the year 2000

A system of information highways for the Community will allow the best means to

¹ The Council decides by qualified majority in co-decision with the European Parliament (Article 189b); guidelines and projects of common interest which relate to the territory of a Member State require the approval of the Member State concerned.

create, manage, access and transfer information. It involves:

- the creation of infrastructures (cable and land or satellite-based radio communication), including integrated digital networks;
- the development of services (electronic images, databases, electronic mail);
- promoting applications (teleworking, teletraining, telemedicine and linked administrations).

The amount of investments that could be put into effect by the end of the century has been estimated at ECU 150 billion.

3. Environment — ECU 174 billion on large environmental projects by the year 2000

The environment is an integral element of the trans-European networks, for example concerning combined transport networks designed to get traffic off the roads onto rail. The Commission has nevertheless environmental programmes of sufficient size to merit eligibility for financial support from the Community. These concern urban waste water treatment and renovation of water supply distribution systems at an estimated cost of ECU 280 billion in total over 12 years or ECU 140 billion by the end of the century. The Community could help finance some ECU 25 billion in this area of environmental concern over the period 1994-99.

4. Financing the trans-European networks and large environmental projects

The major portion of finance for these investments will be raised at the level of the Member State, either through private investors (especially in the telecoms sector) or via public enterprises. The Community can, however, play a role, as foreseen in the Treaty, by supporting the financial efforts

of the Member States and mobilizing private capital¹. This requires a panoply of financial instruments, as set out in the table below, some of which exist already and two of which are new ('Union Bonds', 'Convertibles'). The new instruments are needed for projects specifically included in the Master Plans and complement the lending of the European Investment Bank, which is more general. The budgetary elements remain

within the Edinburgh ceilings. National budgets would not be required to support additional financing. In the case of the new instruments, the capital and interest would be repaid by the promoters of the projects, with the Community budget available to back the repayment of the Union Bonds and the capital of the European Investment Fund available in the case of the Convertibles. There would be no risk of destabilizing the capital markets given that the amounts concerned represent less than 1% of the Eurobond and bank credit markets.

¹ In addition the EIF can guarantee up to a total of ECU 6 billion of private loans for large infrastructure projects, averaging 1 billion per year to 1999.

**Community financing of the trans-European networks
(average financing per year 1994-99)**

<i>Source:</i>	<i>Amount in billion ecus</i>	
Community budget:	5.3	
of which:		
TENs		0.50
Structural Funds:		
	(TENs):	1.35
	(environment):	0.60
Cohesion Fund:		
	(TENs):	1.15
	(environment):	1.15
R&D:		
	(telecommunications):	0.50
	(transport):	0.05
EIB (loans):	6.7	
Union Bonds¹ (esp. transport and energy):	7.0	
Convertibles¹ guaranteed by EIF (esp. telecoms):	1.0	
	Total	20.0

¹ See box.

New facilities

Union Bonds

'Union Bonds' for growth would be issued on tap by the Union for long maturities to promote major infrastructure projects of strategic interest covering the trans-European networks plus cross-border projects with EFTA, Central and Eastern Europe and North Africa. The beneficiaries would be project promoters (public sector agencies, private companies) directly involved in TENs. The EIB would be invited to appraise and advise the Commission on the overall structure of the financial arrangement and act as agent for individual loan contracts.

'Convertibles' guaranteed by the European Investment Fund

Bonds issued for long maturities by the private or public company promoting the project, guaranteed by the European Investment Fund. These would be either:

- convertible wholly or partly into shares or investment certificates; or
- by accompanied by subscription warrants giving the holder a right to buy shares at a certain price; or
- performance-related through a share in the profits of the company or venture concerned.

The maturities of the bonds and of the exchange terms would be coherent between the expected returns of the project and the exercise period of the option. The EIF would create a special window for this type of guarantee, especially for major projects linked to telecommunications networks.

PART B

The conditions of growth, competitiveness and more jobs

(Preparatory work)

I — GROWTH

Chapter 1

The macroeconomic framework

Community unemployment has increased steadily since the beginning of the 1970s with the exception of the second half of the 1980s, when nine million jobs were created through a combination of appropriate national policies, a favourable external environment and the dynamism resulting from the prospect of the single market. Overall, however, since the early 1970s demographic factors have led to an increase in the number of people seeking jobs, while the number of jobs available stagnated or increased only modestly. Other developed economies have been patently more successful in responding to the challenge of increasing job creation.

The causes of the Community's poor relative performance in this area are numerous and deep-seated. The most important ones can be summed up under the headings of a suboptimal macroeconomic management of the economy and of an insufficient effort of adaptation to the changes which have taken place in the structure of the Community's economy and in its international environment. The 1980s saw a change of policy orientation. The emphasis shifted towards creating more stable macroeconomic conditions and towards easing the pain associated with structural change rather than slowing it down. This reorientation brought positive results in the second half of the decade, providing good growth but not enough new jobs. In 1992-93, however, there was a loss of confidence brought on in part by actions outside the economic sphere. This and other errors put the economy into its worst recession.

To the extent that the present problems are the result of inadequate policies in the more or less recent past, there is nothing inevitable in this state of affairs.

In addition, there is a number of factors which are favourable to a rapid return to sustained growth and which can and should

be exploited. The Community's achievement in creating the world's biggest single market is a major asset on which it will be possible to build once the recovery sets in. The recession, painful as it is, has speeded up the process of adaptation of firms to the new environment.

The world economy has continued to grow over recent years and a number of developing countries have experienced very high rates of growth. The presence of new vibrant economies in Asia and, soon, in Eastern Europe constitutes a huge opportunity and not a threat to our standard of living. These countries will be buying on world markets as much as they will earn with their exports. The rest of the world is now experiencing again positive rates of growth of between 2 and 3% while world trade outside the Community is expanding by 5 to 6% in real terms. Finally, the price of oil is now back to the low levels recorded in the mid-1980s.

Over recent years, comprehensive analyses have been made. They show that there is no miracle remedy, but they point to the existence of a wide range of measures to help growth, competitiveness and employment. **The challenge is now to appreciate the order of magnitude of the likely effects of the various measures, to determine their appropriate mix and to implement the preferred strategy with determination. This will not be easy. The factors which have hindered in the past the implementation of the right policies are largely still present. Attacking the sources of the present unemployment problems requires, therefore, a clean break with the past.** This will only be possible if a large consensus on the necessary course of action to be followed can be developed: within each country, between management and the labour force in industry and among the members of the European Community.

This chapter outlines the macroeconomic framework which policies must create and within which the structural interventions outlined in the following chapters will be most successful.

1.1. Views of the Member States

In their contributions to the White Paper, the Member States broadly agree on the assessment made. They shall call for a clear analysis of the serious economic situation with a view to enlisting the help of all those involved in the economic process in finding remedies requiring sacrifices that have to be shared fairly.

The problems of employment and competitiveness — about which governments, the European Council, employers and trade unions have all expressed serious concern — are the result of developments which have been witnessed for a number of years but do not appear to have provoked an adequate political response. The pressures stemming from changes in the world economy are only aggravating the situation. At the same time, production processes and, consequently, the nature of employment have undergone radical change comparable, in certain respects, to the changes brought about by the industrial revolutions. The performance of economies depends on their capacity to adapt to these new circumstances, and it is precisely in this area that the Community is lagging behind.

The macroeconomic framework in the Community is being affected by certain **fundamental imbalances** which have caused a vicious circle to be created. The current levels of public expenditure, particularly in the social field, have become unsustainable and have used up resources which could have been channelled into productive investment. They have pushed up the taxation of labour and increased the cost of money. At the same time, the constant rise in the labour cost — affecting both its wage and non-wage components and caused, at least in part, by excessively rigid regulation — has hindered job creation. As a result, the level of long-term investment has fallen and the lack of confidence among those involved in the economic process has caused demand to contract.

The vital need to restore a **stable macroeconomic framework** as a basis for sustainable, job-creating growth is felt by all Member States. They all point to the link between the efforts to redress the economic situation and the process of economic convergence

within the framework of economic and monetary union, which is generally viewed as the right instrument for addressing structural problems. A number of Member States advocate use of the economic policy guidelines provided for in the Treaty on European Union as a specific means of tackling these matters.

1.2. The problem

The level of unemployment in the Community has reached very serious proportions. After five years of steady decline, the jobless totals in the Community started to rise substantially again at the beginning of the 1990s. In addition, Community unemployment is characterized both by a high rate of long-term unemployment, which is nearing almost half of the unemployment total, and by its impact in particular among low-skilled people.

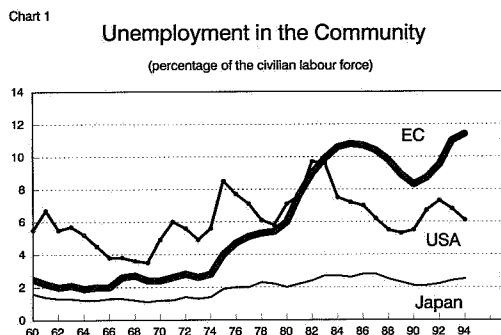
Particularly worrying is the substantial loss of ground in the recent past. There are, of course, identifiable economic reasons for this, in particular the effect of very high interest rates on investment, excessively high budget deficits in some Member States, unsustainable exchange rates and the problems of monetary instability. But the rapidity of the downturn indicates also the importance of the 'confidence factor', the decline in consumer and business confidence linked both to economic pressures and to the uncertainties arising from other causes, in particular the difficult ratification of the Maastricht Treaty. On present trends, a stabilization of the rate of unemployment cannot be expected before the end of 1994. By that date, more than 18 million citizens could be out of work: a figure equal to the total populations of Belgium, Denmark and Ireland.

The difference between the unemployment rates currently experienced in the major global economic areas — 11% of the civilian labour force in the Community against rates of about 7 and 2.5% in the USA and Japan respectively — has given rise to questions about the existence of a specific European unemployment problem. An examination of the Community's past performance and a comparison with the other major areas, however, suggests that no hasty negative conclusions ought to be drawn.

Before the first oil-price shock unemployment was low and the Community compared well with its principal competitors. The rate of unemployment in the Community was lower than that in the USA in each year of the period 1960-80. Even compared with Japan, which has successfully held down unemployment over a long period, the Community's performance only started to diverge radically in the period following the first oil-price shock.

To understand how the Community's unemployment performance deteriorated over time it is necessary to take a long-term perspective. To this end it is useful to distinguish between four main periods: (a) the period up until the first oil-price shock, (b) the period from the first oil-price shock to the mid-1980s, (c) the second half of the 1980s, and (d) the present period of slow growth or outright recession.

(a) The 1960-73 period was highlighted by very high rates of GDP growth (4.8% a year). While growth was high, the employment content of that growth was quite low. However, the low rate of job creation (0.3% a year) was not a problem over this period as the labour supply continued to grow at similarly modest rates (also 0.3% a year). As a result, unemployment in the Community remained relatively stable over this period and its average level was 2.6% (see Chart 1).



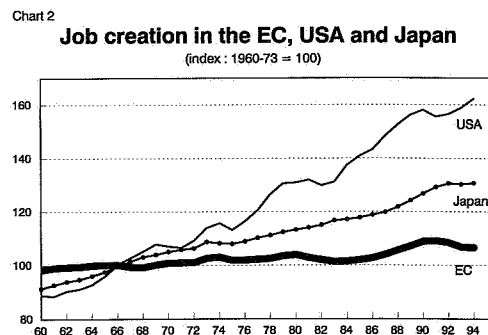
(b) During the subsequent period 1974-85, the rate of growth dropped substantially to a figure of 2.0% a year. The employment intensity increased, but not enough to maintain positive rates of increase in employment. As a result, employment creation stagnated (private-sector employment

actually declined, but this decline was offset by an increase in the public sector) just at the time when demographic factors led to sharp increases in the labour force (0.7% a year). This led inevitably to a continuous and sharp rise in the rate of unemployment from a rate of less than 3% in 1974 to a peak of 10.8% in 1985.

(c) During the years 1986-90, the fruits of the structural adjustment and policy re-orientation which had taken place since the beginning of the 1980s were reaped and the Community experienced stronger rates of growth: 3.2% a year. Even if this average rate of growth was a far cry from that experienced during the 1960s, it was sufficient to generate a very strong increase in jobs since the employment intensity remained at the higher level reached during the previous period. Employment increased by 1.3% a year during this period, and unemployment was reduced from 10.8% in 1985 to 8.3% in 1990.

(d) Since 1991 the rate of increase of GDP slowed down substantially and in 1993 it became negative for the first time since 1975. Unemployment started its present worrying upward path which accelerated sharply when employment declined in 1992 and 1993.

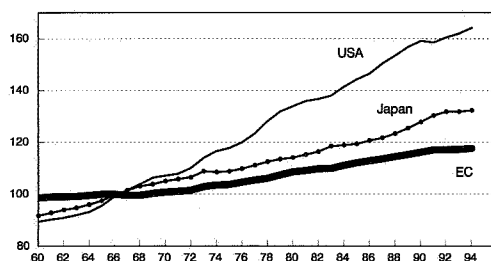
This rapid overview of the Community's past employment performance shows clearly that the Community's economy, with the exception of the period 1986-90, has always been characterized by low employment creation (see Chart 2 and point (b) above) and that the origin of its unemployment problems go back to the



beginning of the 1970s, when it proved unable to increase its rate of job creation to match the increase in the number of people seeking employment.

By contrast, the USA has been able to respond to an even larger increase in the number of people looking for jobs with a strong increase in employment creation. Japan has also managed to increase its rate of job creation. The increase was less substantial than that recorded in the USA, but was more or less in line with the rate of increase in the country's active population. Where these two regions differ strongly, however, is in the way the increase in job creation was achieved. In the USA the job creation of the last 20 years resulted essentially from a modest rate of output growth and a very high employment content (low average productivity) of that growth. Japan, on the other hand, experienced an employment content of growth lower than that of the Community (a higher average productivity) but was able to couple that with a much stronger rate of output growth.

Chart 3
Active population in the EC, USA and Japan
(index: 1960-73 = 100)



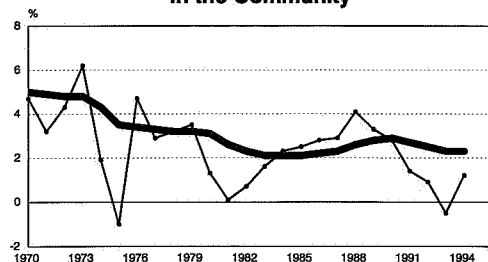
The macroeconomic causes of unemployment

As the contributions received from the Member States show, it is now largely acknowledged that the decline in the rate of job creation in the Community after the first oil-price shock is to a very large extent the result of poor macroeconomic policies. Structural and external factors also played a large role, in particular the inadequate adjustment of industrial structures towards new market opportunities both within the Community and elsewhere in the world, but the main explanation for the poor

unemployment performance of the Community over the past two decades is to be found in the constraints that unresolved distributional conflicts and insufficient structural adjustment placed on macroeconomic policies.

Low investment is one striking consequence. Lower rates of capital accumulation in turn took their toll on the competitiveness of the Community's economy and on its productive capacity which is now expanding much more slowly than in the past. The potential rate of growth, i.e. the rate of growth at which it can grow for many years without experiencing overheating problems, is now estimated to be much less than it used to be in the 1960s: just over 2% against more than 4.5% (see Chart 4).

Chart 4
Actual and potential rate of GDP growth in the Community



The present recession is, to a large extent, a consequence of the combination of a lower potential rate of growth and of policy errors which led to actual rates of growth in excess of the potential rate. At the end of 1987, the fear that the stock exchange crash might provoke a slump led to a worldwide substantial loosening of monetary policy. However, at that time the rate of growth of the Community's economy was already picking up although this was not yet fully reflected in the available statistics. The prospects opened by the single market project and the eventual feeding through of the positive effects of lower oil prices had just sparked off a period of strong investment expansion which was revealed by the statistics only in the spring of 1988.

The monetary stimulus, therefore, came on top of a positive underlying trend. Given

that no compensatory tightening of budgetary policy took place, the Community's economy experienced in 1988 a very strong rate of growth: 4.1% (against the 1.3% forecast by the Commission's services — and many other forecasters — in January 1988).

This rate of growth, although not very high in historical terms, was higher than the potential one. Given that the rate of growth remained above potential until 1990, tensions appeared. Inflation accelerated sharply in 1989 and wages followed in 1990. Since the authorities were committed to a stability course, monetary policy became more restrictive. This unbalanced policy mix had obvious negative consequences for investment and growth. The fiscal impulse resulting from German unification complicated things further. On the one hand, it sustained growth when world demand was faltering, but, on the other hand, it imposed an additional compensatory tightening of monetary policy and led to an even more distorted policy mix and a deeper recession.

The conflict between, on the one hand, budgetary and wage trends, which adapted very slowly, and, on the other hand, the continuing pressure exerted by monetary policy constitutes the single most important factor behind the present recession.

Employment intensity

The **employment intensity** is the relationship between the rate of growth of an economy and its rate of employment creation. Very often it is measured by the so-called '*employment threshold*', which is a purely descriptive measure for the employment content of growth. This threshold is the percentage change above which the growth rate of GDP leads to increases in employment. Contrary to a widespread belief — the phrase 'growth without jobs' is often heard — the employment intensity of growth has not deteriorated over recent years. In fact it is now higher (the employment threshold is lower) than in the 1960s and it has hardly changed over the last 15 to 20 years (see Chart 5).

The employment intensity of growth is determined by numerous factors, such as the relative cost of labour (especially for unskilled work) and capital, working time including part-time work, the sectoral composition of employment, technological developments and a large number of microeconomic conditions. It is difficult to isolate the effects on employment of any of these factors so it is therefore easier to focus on the broad overall relationship between growth and employment, i.e. the **employment threshold**.

The employment threshold corresponds by definition to the trend of the apparent labour productivity of the economy as a whole. Thus, lowering the employment threshold means lowering the overall productivity of the economy. But there is no contradiction between calls for increased productivity growth in all sectors open to international competition and at the same time calling for measures which increase the weight of sectors where productivity increases are low. In fact, the process whereby the increased productivity emanating from the high-productivity sectors feeds through to all sectors of the economy is at the heart of any development model. Productivity must increase to guarantee the international competitiveness of a country and to increase the amount of material wealth distributable among the whole community. At the same time, as the wealth of a country increases, so can the relative importance of certain sectors, with usually a high labour content, which help distribute the wealth so created and at the same time improve the conditions for additional increases in this wealth.

1.3. Unemployment can be reduced

The Commission recommends that the Community sets itself the **objective of creating at least 15 million new jobs, thereby halving the present rate of unemployment by the year 2000**. This can only be a **target**, but it would be of great importance for our citizens, in particular for the young who see

poor prospects of employment ahead of them. A target of this order of magnitude is the minimum required to make a significant dent in the human waste represented by unemployment.

The target, although ambitious, is not out of line with the past performance of the Community's economy or with what the performance of other economies would indicate to be possible. Over the next five to ten years, the Community labour supply will probably increase by about half a percentage point a year. Demographic trends will account for most of this increase. The population of working age is expected to increase by around 0.3% a year, a rate substantially lower than that of the last 20 years. In line with past trends, the rate of participation (0.7% a year) is also expected to increase once jobs again become available, thus providing the rest of the assumed increase in the labour supply. Half a percentage point a year is therefore the rate of increase in employment the Community needs just to keep unemployment stable. To the year 2000 this means creating almost five million jobs only to prevent unemployment from increasing. A reduction in unemployment to about half its present level (i.e. to 5 to 6% of the active population) by the year 2000 deadline requires the creation of an additional 10 million jobs.

If, as a result of structural changes, participation rates were to increase faster than what past experience suggests, then either the unemployment target would have to be revised downwards or the ambitions regarding employment creation would have to be scaled up.

Achieving the target of creating at least 15 million jobs by the year 2000 implies that from 1995 onwards, once the present recession is overcome, employment creation remains steadily a rate of increase of around 2% a year, certainly an impressive and ambitious target.

Between 1984 and 1990, a slightly shorter period of time than the one separating us from the year 2000, the Community economy was able to create more than nine million net new jobs. Between 1988 and 1990, the average annual rate of increase in employment was 1.6%. The proposed target

requires a performance better than that of these years, but the difference is not so large as to suggest that it may be out of reach. Other economies have done even better. The USA, for instance, has recorded an annual average rate of increase in employment of 1.9% over the 17-year period 1974-90!

The immediate policy objective of the Community must be to overcome the recession and start creating jobs again. Section 1.6 deals with this objective. The choice of the policies which will have to be implemented to overcome the recession is conditional, to a certain extent, on the medium-term growth pattern which is considered most appropriate to bring about the required increase in employment. It is therefore useful to identify the medium-term growth pattern which is to be aimed at before discussing the policies needed to promote a recovery since the latter must be consistent with the former.

The present recession is resulting in a large net destruction of jobs (about four million jobs lost in 1992-93). But the Community's present unemployment problem has more deep-seated causes. The combination of the current potential rate of growth and of the employment intensity of that growth is not sufficient to generate the necessary increase in the number of jobs. If growth were to return only to a rate close to the current potential rate of growth (just over 2%), the present employment intensity of growth would not even allow increases in employment which kept pace with the increases in the labour supply and consequently unemployment would go on rising.

A higher rate of job creation can be achieved through various combinations of faster growth and higher employment intensity. The contributions received from the Member States and the EFTA countries contain a wide range of measures which help to reduce unemployment. Some measures aim essentially at increasing the rate of growth, others aim to increase its employment content while a few produce positive effects in both directions.

It is not necessary, nor would it be wise, to seek to lay down in advance what precise combination of growth and of greater

employment content of growth should be achieved. Efforts must be undertaken in both directions at the same time. Given the difficulties in making progress in these areas, which both lie outside the direct control of policy-makers, there is no risk of going too far in either direction.

However, there are significant differences in the scope for progress towards faster sustainable growth and in that towards a higher employment intensity. In addition, the social implications can be quite different and there are some important trade-offs. It is therefore right to examine the degree of realism and the implications of the main different alternatives: modest growth and very high employment intensity, and stronger growth and higher employment intensity.

(a) Modest growth and very high employment intensity

Pessimism over the chances of achieving stronger growth and worries over the environmental consequences of such stronger growth lead to predictions that the necessary rate of job creation would only be attained through a relatively modest rate of growth and a much higher employment content of this growth. Some people think it more desirable to aim, for instance, for a combination of a return to rates of growth close to the present potential rate of growth of the Community (just over 2% a year) and the achievement of an employment intensity much higher than the present one (a gap between output growth and employment growth of less than half a percentage point).

This proposition is usually inspired by the performance of the USA. Indeed, between 1973 and 1990 the USA experienced a rate of growth, 2.3% per year, but labour productivity grew by 0.4% per year, hence a growth in employment of 1.9% per year on average over the 17 years. This growth practically matched a growth in the labour supply which was much higher than in Europe and held down unemployment to cyclical fluctuations around a nearly constant average (5.6% in 1972, 5.5% in 1990). During the same period, however, real wages per head grew by 0.4% a year compared with 1.5% a year in the Community.

It is not clear, however, whether an increase in the employment intensity of the order of magnitude required to achieve this growth pattern is actually possible in the European economic and social context.

An increase in the employment intensity of Community growth to match the US performance would require the implementation, on a large scale, of measures increasing the willingness of employers to hire workers and in particular:

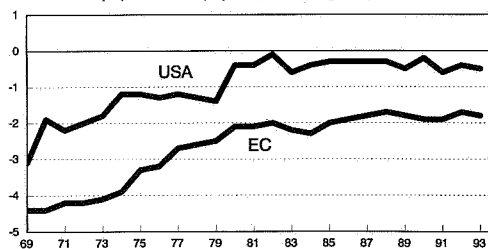
- (i) a considerable downward widening of the scale of wage costs in order to reintegrate those market activities which at present are priced out of it;
- (ii) a reduction in all other costs associated with taking on or maintaining labour, e.g. social security rules.

The experience of the last 15 to 20 years suggests that such an increase may be very difficult to achieve. During the 1980s, some progress has been made in reviewing the regulations that hinder job creation and substantial wage moderation has lowered the relative price of labour as a factor of production, but the employment intensity of growth in the Community has hardly changed (see Chart 5).

Chart 5

Employment intensity of growth

(Gap between employment and output growth)



Probably, the progress that has been made towards increasing it has only offset other factors working in the other direction such as productivity gains resulting from the introduction of more efficient production techniques and the rationalization made possible by the completion of the single market.

In addition, such a growth pattern would have important implications for wage trends. Since more employment would be created for a given rate of growth, the apparent productivity of labour (real GDP per person employed) would by definition be lower. As a consequence, the room for real wage increases would also be smaller. Given the need to improve investment profitability, at least to improve the present weak competitive position of the Community, gross real wages per head would have to remain practically stable. Furthermore, budgetary consolidation might lead to a decline of average net real wages.

Some other macroeconomic implications must also be stressed. This lower growth scenario would also be less positive for the rest of the world since it would mean slower increases in imports with detrimental effects on the developing countries and East European countries' exports and income developments. In addition, there may be some unwelcome social aspects of the specific measures leading to a more employment-creating growth. In particular, the downward widening in the wage distribution would result in a substantial real decrease in the lowest wages. This would not be possible without a lowering of unemployment compensations and social protection schemes. Combined with the expansion of part-time work, this would also, *ceteris paribus*, widen the existing income distribution towards larger inequality and, at the limit, could create 'working poor' unable to survive decently from their wages and thus lead to a form of exclusion just as damaging as unemployment. If the spirit of the European social model is to be kept, compensatory measures would have to be taken (e.g. negative income taxes for the lowest income groups) with significant budgetary costs.

(b) Stronger growth and more employment intensity

The difficulties and problems abovementioned suggest that the necessary pace of job creation is more likely to be achieved by a growth pattern combining a more modest increase in the employment intensity of growth with a stronger rate of growth. For

instance, if from 1995 onwards the Community could achieve an **increase in the employment intensity of growth of between half and one percentage point** (i.e. a gap between output growth and employment growth of between 1 and 1½ percentage points against about 2 points at present) combined with a sustained rate of growth of at least 3% a year, then the unemployment target for the year 2000 would also be achieved. Roughly two thirds of the new jobs would come from stronger growth and about one third from the higher employment intensity of growth.

Real wages per head would be able to increase moderately, but given the resulting increase in employment (2%) the real value of total wages would increase by between 2 and 2½% in real terms. This would be curtailed somewhat by the effects of the necessary budgetary consolidation, but would still leave room for a more substantial real improvement in living standards and an adequate increase in private consumption.

Rates of growth of this order of magnitude are consistent with an environmentally sustainable growth pattern. Indeed, they will make it possible to create the resources to reduce present pollution levels. In addition, stronger investment will also have positive environmental effects since it will accelerate the introduction of new, less-polluting techniques.

An increase in the employment intensity of growth of the order of magnitude of the one envisaged in this second scenario, while not being easy to achieve, would not require the drastic measures needed to reach the performance of the USA. In addition it could be achieved with the consensus of most of those concerned thus improving the chances of implementing at the same time the macroeconomic policies required to achieve higher growth.

This question of how to increase the employment content of growth is dealt with more specifically in Chapter 8.

1.4. The road to higher employment creation

Increasing the rate of growth which the economy of the Community can sustain for

many years and increasing the employment content of growth requires a strategy based on **three inseparable elements**:

- (a) the creation and the maintenance of a **macroeconomic framework** which instead of constraining market forces, as has often happened in the recent past, supports them;
- (b) determined actions in the structural area aimed at increasing the **competitiveness** of European industry and at removing the rigidities which are curbing its dynamism and preventing it from reaping the full benefits of the internal market; an adequate framework for the developing of new market opportunities should be set up;
- (c) active policies and structural changes in the **labour market** and in the regulations limiting the expansion of certain sectors (notably the service sector) which will make it easier to employ people and which will therefore increase the employment content of growth.

The necessary actions in the structural area will be discussed in other chapters of the White Paper. This section draws the attention to the most important macroeconomic factors so as to underline a series of important implications and to help identify some useful intermediate policy targets. Its conclusions help to identify the framework which must be implemented to guarantee that actions in other areas translate in actual faster job creation.

Faster growth is a necessary component of any strategy aimed at reducing unemployment significantly. The achievement of this goal depends on a series of elements, some of which are outside the direct control of Community policy-makers. A healthy world economy and the maintenance of an open trading system are obvious examples. But to a very large, and actually increasing, extent the achievement of faster growth depends on implementing the right policies within the Community.

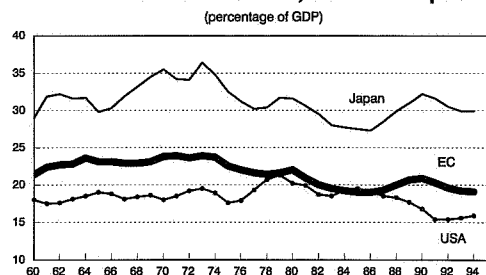
The real challenge facing policy-makers is not just to increase the rate of growth, already a daunting task, but to ensure that the higher rate of growth can be maintained over many years, i.e. to ensure that from

1995, growth remains at the required higher level up to and beyond the year 2000 and that the overheating which appeared in 1989/90 does not arise. This implies increasing the productive capacity of the Community's economy, in other words **increasing its potential rate of growth**.

Given that the capital/output ratio changes very slowly over time, a sustainable increase in production requires an **increase in the available stock of capital**. In turn, this presupposes an increase in investment leading, over time, to a much higher **share of investment** in GDP. This might have to **increase from the present 19% to somewhere in the 23-24% region** (see Chart 6). A shift of this magnitude can only be accomplished over many years.

Chart 6

Investment shares : EC, USA and Japan



Fortunately, however, the actual rate of growth of the Community can reach the target value of at least 3% faster than the potential rate of growth since during the initial years it will be possible to exploit the spare capacity created by the present period of sub-potential growth.

Economic policy must therefore aim at fostering a higher rate of growth and, at the same time at encouraging investment so that it will grow faster than consumption. This relatively slower real expansion of consumption is the price that society must pay over the next few years to ensure a more equitable distribution of the access to gainful employment and to ensure its future overall prosperity.

Higher investment would produce positive results over and above the mechanical relationship between capital and output just mentioned. It would, for instance, accel-

erate the incorporation of new technologies into the production process thus leading to more efficient and more environmentally sustainable production. The competitiveness of the economy of the Community would be greatly enhanced.

Creating the conditions for investment-led growth, however, is another difficult task. A necessary, but not sufficient condition, is to make sure that investment profitability increases. But improving business confidence is the key element.

- (i) **Increasing investment profitability** requires distributing productivity increases among capital and labour. During most of the 1980s, real wages increased in the Community on average by one percentage point less than productivity. This could constitute an acceptable rule of thumb to be followed to achieve the necessary improvement in profitability and competitiveness. Together with the expected growth in employment, such an increase would provide for a steady expansion of households' real disposable income and of private consumption.

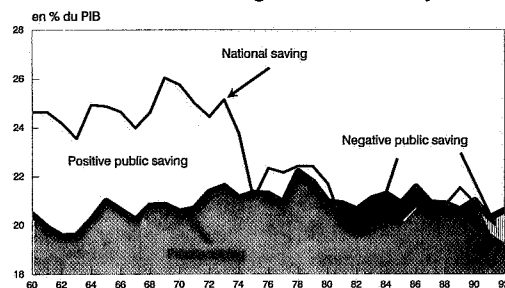
- (ii) **Improving business confidence** calls for a series of other actions which range from the maintenance of a stable macroeconomic environment and an adequate level of demand growth, to a determination to continue the process of structural adjustment and the launching of bold projects which demonstrate the will and ability of governments to promote growth (further trade liberalization in the GATT framework and the total opening-up of the single market, trans-European networks, far-sighted R&D efforts, other infrastructure projects, etc.).

An increase in investment, however achieved, has to be accompanied by a corresponding **increase in the rate of national saving** to prevent the appearance of inflationary pressures and balance of payments disequilibria. The Community's current account is presently recording a deficit while its position as an advanced industrialized group warrants a surplus so as to allow it to transfer real resources to the developing world. The necessary increase in

the rate of national saving must come essentially from an increase in public saving (reduction of public deficits) since the savings behaviour of the private sector (households and enterprises) is very difficult to influence (see Chart 7 which shows how little it has changed over time). The deterioration in national saving which has taken place in the Community over the last 30 years is due almost entirely to the deterioration of the position of the public sector.

Chart 7

National Saving in the Community



1.5. The policies to reduce unemployment

The analyses conducted over many years have identified many policy actions which influence the rate of growth and the employment intensity of growth. Most of these actions have already been tried and have achieved some success. Their implementation is not painless as very often these actions imply a trade-off between sacrifices now and rewards at a later date. It is not surprising, therefore, that their implementation has almost always been discontinued or not pursued for a sufficiently long period of time.

Combination of macroeconomic and structural policies

The combination of the measures is also important. Very often an appropriate combination yields a result greater than the sum of the gains to be expected from each individual measure. In addition, **there are strong interactions between macroeconomic and structural policies**. Structural policies increase the effectiveness of macroeconomic policies through the removal of some of the constraints that limit their use; the positive effects of structural policies become

apparent only in a sound macroeconomic context which allows stronger growth and, finally, implementation of structural policies becomes easier in a context of stronger growth.

The policies required to consolidate growth and to increase its employment content coincide to a large extent, with the policies which are needed to bring the Community's economy out of the recession. The seriousness of the present situation increases the likelihood that these policies will be implemented with sufficient determination. **But the most serious challenge facing policymakers will be to maintain the awareness of the need to implement appropriate macroeconomic and structural policies even when the recession is overcome.**

Once the best policy mix for the attainment of the medium-term goal of higher growth with a higher employment intensity is identified, it will be necessary to assess the extent to which it also contributes to achieving the immediate objective of overcoming the recession. Should it prove insufficient, it will be necessary to examine whether other policy actions of a shorter-term nature are possible without endangering the achievement of the more important medium-term goals. This assessment will be conducted in Section 1.6.

(a) Structural policies

The depth of the present crisis is largely due to insufficient progress in adapting the structures of the Community's economy to the changing technological, social and international environment. Although a consensus emerged during the 1980s on the need to accompany and accelerate structural change instead of trying to slow it down, the pace at which the European economy adjusted to change was only able to match, but not to surpass, that of its major competitors, with the result that vulnerability to cyclical downturns and external shocks remained high. Nevertheless, a mentality in favour of change and willingness to undertake a fundamental reassessment of corporate performance has grown up in Europe over the past decade. In order to achieve optimal results, however, this positive development must now be assisted and fostered by public authorities through the

identification and removal of remaining barriers and obstacles to the successful implementation of strategies for change by firms. Only through the structural adaptation of industry can the twin requirements of higher productivity and more jobs be achieved.

Action in the structural area is essentially the responsibility of Member States. However, many of the policy areas that have a decisive impact on structural adjustment and competitiveness are either influenced by various Community policies or are primarily dealt with at the Community level. The Community can therefore play a very useful role in implementing appropriate actions in the fields where it has primary responsibility such as trade and competition policies.

A competitive environment is basic to an efficient allocation of resources and stimulates investment innovation and R&D. However in rapidly changing economic circumstances (globalization of markets, speed and cost of technological change) major restructuring and adaptation by firms is necessary. To meet this challenge they need to be able to restructure unilaterally or bilaterally in cooperation with other firms (mergers, strategic alliances, etc.). This restructuring can be facilitated and speeded up by the timely and judicious use of the available instruments such as State aids, cooperation between companies, etc. This proaction by firms and States needs to be distinguished from anti-competitive practices by firms or States that can slow the necessary structural adjustments.

Structural action can equally help to create the right business and consumer environment by making sure that the legal and regulatory infrastructure that has been created as the basis for the single market operates fairly and efficiently. In particular, the Community can **make sure that the regulatory environment in which business and consumers operate is stable and predictable, and places the minimum bureaucratic burden on economic operators**, particularly small and medium-sized businesses. Finally, the Community can support, encourage and coordinate efforts by Member States to accelerate the diffusion throughout the European economy of those technologies, like infor-

mation technologies and biotechnologies, that will shape our society in the future and represent the key factor in shaping global competition in the decades to come. These policy issues will be further examined in the following chapters.

The Community needs an adequate framework for the developing of new market opportunities. In Europe some sectors are traditionally the exclusive preserve of non-market services or public utilities, in particular when it comes to the fulfilment of public needs. Reforms aiming at separating the different functions of public authorities with regard to the supply of such services, as producer, purchaser and regulator, in sectors such as health care, telecommunications, etc., should enable the needs of users to be better served at less cost for public finances and with market creation potential.

In recommending actions to be implemented in the Member States it is sometimes not very useful to make general statements since the individual situations are very different. Calls for a specific type of action to solve one particular problem in a country, where the problem is very serious, are resisted by individuals in other countries where the problem never arose or has already largely been solved. The following paragraphs attempt to identify areas for action common to the largest possible number of Member States. The recommendations must be seen as a framework within which Member States will have to identify their individual scope for action.

The necessary structural measures will be discussed in the other chapters of the White Paper. Here it will suffice to mention that action will have to be taken in **three main areas**:

- (i) **Greater flexibility** should be introduced in the economy as a whole. In particular, the **regulatory framework** should become more enterprise-friendly.
- (ii) Strategies should be developed to create an **efficient labour market** able to respond to new competitive situations.
- (iii) The **international environment must be kept open** to allow the Community to participate fully in the development of those areas of the world where the biggest potential of unsatisfied demand presently exists and which are likely to experience the highest rates of growth over the next decade.

(b) Macroeconomic policies

The main task facing macroeconomic policy-makers is to eliminate the conflicts among policy objectives which have plagued the Community over the last 20 years and, more acutely, over recent years. Eliminating these conflicts will make growth, employment and real convergence compatible again with price stability and nominal convergence and will ensure that progress towards EMU will go hand in hand with stronger employment creation. In a stable and supportive macroeconomic framework market forces will be able to deploy themselves unhindered and the possibilities opened up by the internal market will be realized.

At the macroeconomic level, the first medium-term objective will be to maintain the **stability of monetary policy**. Monetary authorities have, over recent years, behaved in a way which is consistent with an inflation target of between 2 and 3%. It is necessary that budgetary policy and wage behaviour adapt to this objective as soon as possible and remain compatible with it. Interest rates will come down once inflationary expectations are stabilized and the perspective of lower budget deficits is established.

In addition it will be essential to make policy coordination more effective and to maintain exchange-rate stability and the EMU perspective. This will help to reinforce the stability of the macroeconomic framework, it will increase the credibility of policy-makers and will shorten the delay until it will be possible to reap the full benefits of monetary union. The implementation of a growth-oriented strategy, such as the one presented in this document will add credibility to the commitment to exchange-rate stability.

Budgetary policy will have to contribute to the medium-term goal of more growth and employment essentially in two ways: i) achieving debt sustainability and ii) contributing to the necessary increase in national saving. The first goal is necessary to **reduce the burden that unbalanced budgetary policies exert on monetary policies and on fiscal flexibility**. The Maastricht criterion for budget deficits (less than 3% of GDP) will constitute a useful reference point in the pursuit of this first goal. With a return to stronger growth the budget deficit criterion could be met by the Community as a whole by 1997. Individual countries may reach this target sooner or later than the Community average depending on their starting positions.

In a longer-term perspective, budgetary policy will have to contribute to increased national saving. This will require increasing substantially public saving and will imply budget deficits significantly below the 3% reference value indicated in the Maastricht Treaty (between zero and one percentage point).

An essential element of budgetary restraint policy will be the adoption of measures to improve the financial situation of the social security system.

Wages. There is a widespread consensus on the need for continued wage moderation and on the positive results it could produce. In their joint opinion of 3 July 1992, the social partners at the European level presented a consensus view for appropriate wage developments: *'The conduct of wage negotiations is under the responsibility of the social partners. The more credible and socially acceptable economic policies are, the easier the social partners can anticipate low or decreasing inflation rates in the results of their wage negotiations. This would reduce the strain on monetary policy and contribute to the reduction of short-term interest rates. Furthermore, wage developments have to take into account the requirements of the profitability of employment-creating investment, the competitiveness of enterprises on world markets and the implications of full economic and monetary union. The non-inflationary and sustainable growth process, thus generated, would provide the appropriate scope for real wage increases which under-*

lines the interrelation between the European integration process and rising living standards.' The difficulties arise when these general principles are translated into actual wage decisions.

There is evidence of **inconsistency between the stability objectives of the central banks and past and current wage behaviour** which bears part of the responsibility for the continuing high level of short-term interest rates. This can be shown by some simple calculations. Under normal conditions, nominal wages per head could increase by an amount equivalent to the inflation target of the monetary authorities (2 to 3%, as noted above) plus that part of the increase in productivity which can be distributed to labour. In the present situation, the increase in productivity results only from a shedding of labour in excess of the decline in production and does not correspond to any distributable creation of wealth. At present, therefore, nominal wages per head should not increase by more than 2 to 3% a year. However, notwithstanding a recent substantial decline, current trends in some Member States and in the Community as a whole are still higher than this figure thus giving cause for concern to monetary authorities.

The elimination of this conflict is a necessary condition for the return to growth in the present situation, but once the Community's economy is again on a sustained growth path, it will be important to ensure that wages continue to increase in line with the stability objective and the need to allow for an increase in investment profitability and competitiveness (the rule of thumb of *'productivity minus one percentage point'* identified in Section 1.4.). It must be underlined that these EC-wide prescriptions should give room for an appropriate differentiation according to Member countries, regions and vocational qualifications.

1.6. Overcoming the recession

The first requirement that the policies to be implemented must satisfy to overcome the recession is that of being consistent with the aim of the medium-term growth pattern. Within this framework, overcoming the recession calls above all for a **restoration of confidence**. Business leaders, the workforce and citizens in general must be convinced

that the authorities will be able to correct the present imbalances and maintain over many years a sound and stable macroeconomic environment.

This requires measures in both the macroeconomic and structural areas. Macroeconomic policy actions can rapidly change the environment in which businesses operate, but structural actions are essential to the improvement in their confidence. The effects of structural policies will be felt essentially in the medium term, but determined actions are now vital in convincing economic agents that action is under way which will bring results later.

In addition it will be essential to give a new and visible impetus to the process of cooperation at the international level. Rapid implementation of the provisions of the Maastricht Treaty, conclusion of the Uruguay Round of trade negotiations, and bold new initiatives *vis-à-vis* the countries of Eastern Europe and of the Third World would be very important signals.

As soon as the recovery sets in, the economy will be able to reap fully the benefits of the structural adjustment which has taken place over the last decade and of the completion of the internal market. These structural measures bring substantial efficiency gains which during periods of slow growth remain unexploited.

Improving rapidly the quality of the policy mix

Lower interest rates constitute a powerful instrument to boost the Community's economy in the short term. Interest rates have already come down significantly over the last 12 months. However, given the depth of the present recession they still remain too high in many countries, especially at the short-term end. Under these circumstances, the first requirement is to create the conditions for further substantial reductions in short-term interest rates. This calls essentially for expected budgetary and wage developments to be kept in line with the monetary authorities' stability objectives. Any lowering of short-term rates not warranted by appropriate budgetary and wage behaviours would risk being offset by expectations of higher future infla-

tion and higher long-term rates. On the other hand, if credible plans for budgetary consolidation and agreements leading to more moderate wage increases were to materialize, expectations would be favourably influenced and central banks might be able to lower short-term interest rates in advance of actual developments.

A substantial lowering of short-term interest rates throughout the Community would reduce tensions within the ERM and would improve the financial position of firms and public budgets. The scope for reductions is large: interest rates could come down substantially in Germany if the appropriate policies are implemented while in other countries the reductions could be even larger to the extent that interest rate differentials can be reduced. A further significant reduction would signal to economic agents that the worst is over, that monetary policy had been loosened as much as it was possible and that nothing would be gained by further postponing any investment decision which may have been contingent on the availability of the best financing conditions.

A lowering of short-term rates in the Community would have a positive impact on the competitiveness of European enterprises. Together with the restoration of confidence, this would trigger an export/investment-led cyclical upswing in the Community.

Budgetary policy

Action in the budgetary area depends on an assessment of the likely impact on demand and on business and consumer confidence of changes in the present budgetary stance. In 1991 and 1992, Member States have allowed budget deficits to deteriorate since it was considered that this would lend a measure of support to domestic demand. At the beginning of 1993 additional efforts at the national level took place in the framework of the Edinburgh growth initiative. By mid-1993, however, Member States reached a consensus¹ that no room for manoeuvre in the short term was available: any additional deterioration in budget deficits was more likely to depress overall demand,

¹ EPC Opinion of 8 July 1993 and EcoFin Council conclusions of 12 July 1993.

through its negative effect on confidence, than to support it. On the contrary, they recognized the need for concrete, credible, medium-term consolidation programmes.

The immediate target of these programmes should be to prevent further deterioration in budgetary positions and to create the prospects of consolidation once the recovery sets in. The severity of the necessary adjustment will depend on the specific conditions of each Member State, but efforts in this direction are required in almost all countries. In addition, all governments should attempt to switch expenditure as far as is practicable, towards those items which most directly influence growth prospects: education, R&D, infrastructure investments, etc.

Wages

The previous section highlighted the existence of an inconsistency between the inflation target pursued by monetary authorities and actual wage behaviour in many countries. The sooner this inconsistency is eliminated, the sooner short-term interest rates can be reduced. In some cases, however, the gap is so large that progress will inevitably take some time. Tripartite agreements between the social partners and governments should be exploited where possible.

Developing a broad social consensus

The continuation of the EMU process is a key element to secure a stable macroeconomic framework enabling the achievement of higher, sustainable, growth. The Community has long acknowledged the negative influence exchange-rate instability has on business confidence and there is a powerful case for arguing that the full benefits of a single market can only be reaped in a monetary union. These considerations have been at the basis of the Treaty on European Union and maintain their validity today notwithstanding the ERM crisis of the last 12 months. A group of countries so closely knit by a web of trade and financial links as the European Community needs a stable monetary environment both internally and externally.

To restore the credibility of the EMU process Member States must retheir commitment to this goal and back up their words with actions. **Economic policy coordination between the Member States must be made more effective.** This calls essentially for the development of a consensus as broad as possible on the policy framework outlined in this document and apportioning in each Member State the efforts which will be required from all parties (using social dialogue procedures wherever possible). Those in employment must be convinced that the measures called for in this document will work and that the solidarity they will show in accepting some sacrifices will effectively result in those now deprived of gainful employment being given a real chance. Increased efforts to improve the situation of the public finances in order to meet the criteria set out in the Maastricht Treaty will require an **update of the convergence programmes** which remain useful instruments for the development of a debate leading to such a consensus. The **guidelines for economic policy aimed at dealing with deficiencies identified in this paper should be agreed as a matter of urgency**, if business confidence is to be restored.

A Community dimension

The success of such a policy course in restoring growth depends, however, on various factors which are to a greater or lesser extent outside the control of policymakers; in particular business and consumer confidence and the performance of the Community's main trading partners. It is very likely that given the severity of the present situation and the size of the budgetary adjustment which will be inevitable in many countries, that the recovery will be modest and hesitant. This may call for an intensification of the Community initiatives agreed at the European Council meetings in Edinburgh and in Copenhagen. In a climate of growing business confidence, various Community projects, such as the trans-European networks, lend themselves to initiatives which can mobilize large financial resources, coming essentially from the private sector, to finance useful projects.

II — COMPETITIVENESS

Chapter 2

The conditions for growth and greater competitiveness

A. Towards global competitiveness

For the level of employment in the Community to improve, firms must achieve global competitiveness on open and competitive markets, both inside and outside Europe. It is the responsibility of the national and Community authorities to provide industry with a favourable environment, to open up clear and reliable prospects for it and to promote its international competitiveness. This responsibility is now enshrined in the Treaty on European Union. Back in 1991 the Council of Ministers adopted guidelines for a Community industrial policy geared to such an objective.

The globalization of economies and markets, which involves the intensification of international competition through the emergence of a potentially unique worldwide market for an expanding range of goods, services and factors, brings out the full importance of that responsibility on the part of national and Community authorities as regards competitiveness. We must increasingly think in terms of competitive rather than comparative advantages. Comparative advantages traditionally relate to endowment in factors such as natural resources and are therefore fairly rigid. Competitive advantages are based on more qualitative factors and can thus be influenced, to a large degree, by corporate strategies and by public policies. In such a context, factor mobility and the capacity to combine factors effectively and to organize the social consensus on the share-out of value-added are becoming much more important than the initial factor endowment.

The Community will be able to improve its global competitiveness considerably provided it achieves a substantial recovery in its invest-

ment ratio (see Chapter 1). For this, it enjoys significant comparative advantages: the potential of its labour force and the social consensus enabling that potential to be exploited, its valuable scientific and technical know-how, its integrated market, the density and quality of its infrastructures, the improved financial structures of its firms, and the diversity of its culture and regions. An economy based on the creation, dissemination and exploitation of knowledge will be one of the dominant features of the 21st century, and against such a background a number of these competitive factors will play a crucial role in generating a recovery in growth and an increase in employment.

The completion of the Europe-wide frontier-free market on 31 December 1992 and the improvements in its operation envisaged by the strategic programme will allow firms to benefit from economies of scale, reduce their administrative and financial costs, have easier and more competitive access to private-sector and public-sector procurement, and cooperate more efficiently with one another. This will give the Community a firm and well-organized base from which to tackle the new problems posed by international competitiveness.

However, the Community will also have to overcome the handicaps which have contributed to the erosion of its competitiveness within the Triad (Community, United States and Japan) in recent years: Apart from the macroeconomic policy imbalances that have contributed to the real appreciation of Community currencies, there is firstly, as emphasized by the Member States, the problem that their industries are not sufficiently well represented on expanding new markets, either in geographical terms or in terms of products, with its firms sometimes at a disadvantage in the face of the dominant positions held by certain international groups and the growth of strategic alliances. Secondly, the regulatory environment is still too rigid, and administrative and managerial traditions too centralized and compartmentalized. Lastly, government policies are often still too defensive and do not take

sufficient account of the new constraints imposed by global competition.

Four overriding objectives must be pursued jointly by industry and the authorities if the Community's industrial competitiveness is to generate the highest possible level of employment:

- **Helping European firms to adapt to the new globalized and interdependent competitive situation.**
- **Exploiting the competitive advantages associated with the gradual shift to a knowledge-based economy.**
- **Promote a sustainable development of industry.**
- **Reducing the time-lag between the pace of change in supply and the corresponding adjustments in demand.**

This chapter analyses the Community's strengths and weaknesses when it comes to tackling these challenges and then goes on to identify the main components of a policy of global competitiveness.

2.1. Views of the Member States

Among the factors having a major impact on the competitiveness of the Community economy, Member States point particularly to the following: the negative effects of public deficits on investment; impaired functioning of the labour market leading — whether in terms of cost, skills or flexibility in the organization of work — to a mismatch between supply of and demand for labour; inadequate assimilation of new technologies combined with failure to exploit properly the results of research and technological development, leading to difficulties in concentrating the production of goods and services in leading-edge and high value-added industries.

A number of Member States report market rigidities or distortions in resource allocation caused by government intervention, either through excessive regulation or through various restrictions on competition. Some Member States point to the heavier burden which the ageing of the population is imposing on the economy, and one Member State establishes a link between competitiveness and the smaller number of

hours worked on average in the Community compared with its main partners.

2.2. The Community's competitive position in a globalized economy: Strengths and weaknesses

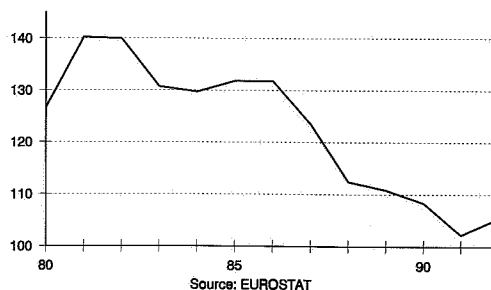
Since 1989 the Community has experienced a gradual decline in the growth rate of the production of goods and services.¹ Although the trend in its industrial competitiveness is also worrying, it does have considerable strengths on which it can draw in order to redress the position and to manage its transition to the 21st century successfully.

Weaknesses

In the fierce competition prevailing on world markets, Community industry is handicapped by the deterioration in its commercial competitiveness, by its failure to establish itself sufficiently on expanding new markets, by an unduly low level of R&D investment and by productivity rates which still lag behind those of its major competitors. Most Member States agree with this assessment.

- (a) **The trade performance** of Community industry has deteriorated since 1980, as the downward trend in the rate of cover of imports by exports shows (see Figure 1).

Figure 1: Cover of imports by exports



¹ In the remainder of the text, the term 'industry' is used to cover the production of both goods and services.

In recent years, Community industry has not only lost market shares as a result of the growing power of the newly-industrialized countries, as was foreseeable, but has also had to give ground to the United States of America and Japan.

The situation has deteriorated *vis-à-vis* the USA because of the adverse trend of exchange rates. In the case of Japan, the reason is rather a failure to move into expanding new markets as quickly as Japanese industry. The erosion in the market shares of Community industry has been accentuated by the growing proportion of world trade accounted for by the newly-industrialized countries of South-East Asia.

Community industry's trade performance is fairly uneven. A large part of industry (two thirds in terms of activity) lost market shares between 1986 and 1991, either as a result of increased import penetration of the Community market or because of losses on the export front, or through a combination of the two.

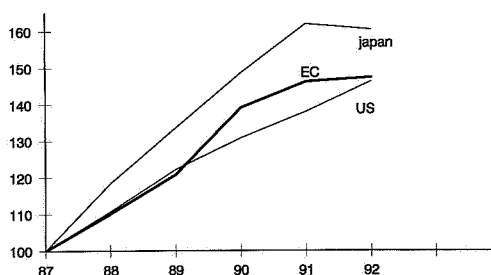
- (b) **Community industry improved its position on markets experiencing slow growth** (railway equipment, cotton, textile and sewing machinery, miscellaneous textiles, tanning and dressing, animal slaughter and meat preparation, grain processing and ethyl alcohol distillation), while **its performance deteriorated on markets with high value-added** such as office automation, information technology, electronics, and medical and surgical equipment. Its structure is therefore not yet geared to that of expanding new markets. This time-lag is all the more damaging in that these high-value-added markets are characterized by rapid growth in the apparent productivity of labour, high wages and salaries, and a diffusion of technological progress into other markets.

Apparent labour productivity in Community manufacturing still lags a good way behind that of US and Japanese industry. There is no sign of any narrowing of the gap (of more than 10%) with the USA and, despite the progress achieved, the gap between

Europe and Japan is still around 40%. Closing this gap will necessitate in particular a significant recovery in the investment ratio. Productivity growth plays a key role in international competitiveness while, at the same time, making for an improvement in domestic living standards. Both the level and the growth rate of productivity must be taken into account. The factors influencing productivity growth are technological development, investment, the rate of capacity utilization, the size and skills of the labour force, management skills, the organization of production and the use of resources such as energy and raw materials.

- (c) **Corporate investment in R&D** is one area in which the Community must make major efforts. In recent years, annual average growth in R&D expenditure has been highest in Japan (10%). Next comes the Community (8.1%), followed by the USA (7.9%). The 1992 break in the trend of corporate R&D expenditure in the Community (and in Japan) is very worrying in this respect (see Figure 2).

Figure 2: Growth of R&D expenditures



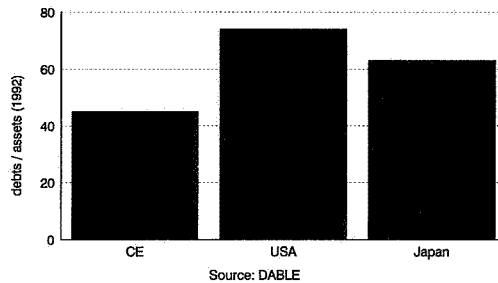
Source: DABLE

Strengths

However, Community industry can draw on major strengths to help it adapt to the new conditions of world competitiveness. It has a low level of indebtedness, and its profit margins are comparable to those of its competitors. It has been able to restructure itself in step with the moves to establish the single market. Its labour force is highly skilled. It has a high density of efficient infrastructures.

- (a) **Community firms have kept control of their level of indebtedness** in recent years, albeit at the cost of some ageing of their capital stock. Their indebtedness is at present much lower than that of their competitors. Community firms are thus comparatively less vulnerable to any increases in interest rates, but they will also benefit comparatively less from further interest-rate reductions (see Figure 3).

Figure 3: Indebtedness of firms



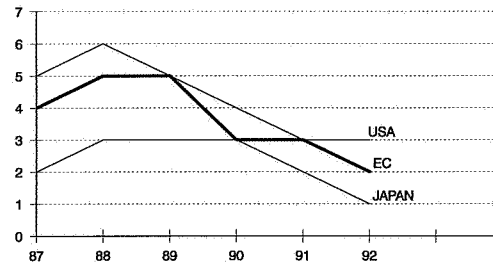
Japanese firms too face major problems in adapting to the decline in consumption and to the adverse effect of the strengthening yen on the volume of their exports.

- (b) When the competitive environment became tougher at the end of the 1980s, Community and US firms **cut their profit margins significantly**. Japanese companies, which traditionally operate with smaller profit margins than their Community competitors, also saw their profit margins squeezed, albeit to a lesser extent. These developments have had the effect of narrowing the gaps between these three trading blocs (see Figure 4).

However, in both Europe and the United States, profit margins differ appreciably from one market to another, much more so in fact than in Japan. In Europe, industries facing relatively little international competition still achieve high profit margins, whereas in industries more exposed to international competition profit mar-

gins have shrunk to worrying levels and, in some cases, have actually disappeared.

Figure 4: Trend of profit margins



- (c) Labour costs are an important element **underlying the competitiveness** of European industry, though by no means the only one. Unit labour costs depend on wage and non-wage costs compared with labour productivity. Thus high labour costs can be compensated for by high productivity to maintain competitive advantage. It is when costs are not aligned with productivity that problems for competitiveness arise. In relative terms, the large rises and falls in unit labour costs compared with those of the Union's leading competitors which have taken place since 1980 have been reflected by fluctuations in bilateral exchange rates between the ecu and the US dollar and yen.

Labour costs affect competitiveness differently with regard to other developed countries and to those in the process of industrialization. Non-cost items such as quality, delivery, design and customer focus can assist in maintaining competitiveness, but attention to relative costs, including labour costs, remains important. Compared with newly industrializing countries, particularly those just entering that path such as China, the **differential in labour cost is too great** for any significant employment gains to be made in Europe from wage reductions in manufacturing industry. Only high productivity and superior products will enable Europe to **maintain a competitive advantage**.

2.3. The main lines of a policy of global competitiveness

(a) *Helping European firms to adapt to the new globalized and interdependent competitive situation*

In the wake of the globalization of economies and markets, it is **no longer possible to divide industry and geographical areas into clearly identified and relatively independent segments**. European firms are engaged in production both within the Community and on third markets. Their competitors increasingly have subsidiaries in the Community. There is a multitude of international agreements between firms: more than 400 international strategic alliances have been entered into by large firms in each of the last five years.

European firms have to compete with international, polyvalent groups. The boundaries of traditional industrial sectors are becoming less and less sharply defined. This is particularly evident in the sphere of 'multimedia' activities. Firms engaged in telecommunications, information technology, consumer electronics, programming and network management combine and come together in extremely complex groups and alliances which will very largely determine the creation and distribution of assets, including cultural assets, over the next decade on expanding new markets of key importance for the future.

Industrial globalization means that **new balances must be sought between competition and cooperation**. Four avenues are particularly important in devising a policy of global industrial competitiveness:

- (i) **Capitalizing on the Community's industrial strengths**, so as to safeguard productive and innovatory capacities as well as a diversified, job-creating industry that is spread throughout Europe, particularly on markets with a high-growth potential, such as health, the environment, biotechnologies, multimedia activities and culture. This aspect must take account of changes stemming from the globalization of markets, production and operators and

from the industrial policies of the Community's main competitors.

- (ii) **The development of an active policy of industrial cooperation**, notably with the transition economies of Eastern Europe and with the high-growth economies along the Pacific rim. As far as the **countries in Eastern Europe** are concerned, much closer industrial cooperation is necessary in order to ensure simultaneously a rapid modernization of their economies, a better division of labour within Europe and optimum exploitation of mutual interests. Cooperation must be based on closer links between public support and private initiatives and on speedier progress in establishing the legal framework, investment conditions and guarantee arrangements which our firms require. For the industries concerned, this could be accompanied by a transitional period to allow the necessary structural adjustments to be carried out under the best possible conditions. As far as the **Pacific area** is concerned, increased market penetration by European firms can be greatly facilitated by concerted efforts on the part of the public authorities to remove the regulatory, administrative and indeed cultural obstacles which have hitherto impeded or deterred such penetration.
- (iii) **The establishment of a coherent and concerted approach to strategic alliances**, the uncontrolled development of which could result in the creation of oligopolistic situations prejudicial to competition at world level. The growing number of industrial and technological alliances will have an impact on all markets. These effects must consequently be assessed simultaneously and in a concerted manner by the competent authorities pending the introduction of appropriate international rules, particularly in the competition field, so that the Community is not placed at a disadvantage by the strict rules it imposes on itself in this connection. In addition, Community firms must be able to rely on **flexible instruments of cooperation**, in legal and tax matters as well as in others, to allow

