

Economic
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PROPOSALS FOR EMPLOYMENT

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EMPLOYMENT**

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FOREWORD

The creation of jobs has been a major objective of the European Union in 1995. Despite the efforts of the Community institutions and the Member States and the upturn in growth currently being experienced, unemployment remains disturbingly high as the year draws to a close.

We need therefore to assess the measures already taken and those still needing to be taken to meet this challenge. This is the goal which the Economic and Social Committee has set itself. In accordance with the overall approach advocated by the Commission, the Committee mobilized all its Sections and devoted the greater part of its October 1995 plenary session to employment issues.

The products of these endeavours are set out in this publication, which comprises the main work carried out by the Committee's Sections, together with the six Opinions finally adopted by the Committee on employment issues.

This publication therefore serves a two-fold purpose: it provides a reference framework for an EU-level appraisal of employment and it sets out a series of proposals and priorities - which are the fruit of a significant level of agreement between the socio-economic organizations represented on the Committee - for stimulating employment.

Carlos FERRER

OPINION
of the Economic and Social Committee
on
Youth Unemployment

On 22 February 1995 the Economic and Social Committee, acting under the third paragraph of Rule 23 of its Rules of Procedure, decided to draw up an Opinion on

Youth Unemployment.

The Section for Social, Family, Educational and Cultural Affairs, which was responsible for preparing the Committee's work on the subject, adopted its Opinion on 17 July 1995. The Rapporteur was Mr RUPP.

At its 329th Plenary Session (meeting of 25 October 1995), the Economic and Social Committee adopted the following Opinion by a majority vote, with 4 abstentions.

1. Youth unemployment in the EU: the challenge

1.1. The unemployment rate among the under 25s in the European Union is around 21.2%¹, making it double the adult rate. About 32% of the total number of unemployed are young people. The hard core of youth unemployment, which now exceeds 10% in the vast majority of Member States, is too high given its psychosocial consequences and the psychological effect it has on young people.

1.2. Compared to the peak in 1985, when 43% of the total numbers unemployed were under 25, the rate of youth unemployment relative to adult unemployment has hardly changed. The problem of youth unemployment remains particularly acute among young women and in Southern Europe and Finland where respectively 34-42% and 34%² of young people are without jobs. In 1992, one third of young people in the EU had been unemployed for over a year.

1.3. Youth unemployment is one facet of overall unemployment in the EU; it is of particular importance because it excludes new generations of potentially skilled labour from the prospect of employment in the medium and long term. This usually means that young people are denied access to skilled jobs and prevented from playing a role in society. Young people in particular need this contact if they are to identify with society and see themselves as capable of taking on risks and surmounting difficulties. Limited job prospects hamper the development of these young people reducing their prospects for a stable life. Unlike former times even a vocational qualification or a university degree is no guarantee of good job prospects nowadays.

1.3.1. European labour markets are characterized by large wage differentials and a wide range of skill profiles. Young people are not always as mobile as they should be, even though this often causes new problems (consequences of migration). These problems are encountered both at national and transnational level, necessitating strategies for action at local and regional level.

1.3.2. We must assume that, in future, lifelong learning will be a decisive factor in opening up career prospects. Vocational training must be regarded as a priority here, but it must not be seen as a panacea.

1.3.3. Times of crisis call for different forms of cooperation between business and public authorities. National differences also necessitate more comprehensive strategies.

1.4. One problem is that one out of every five young people in the European labour market is unable to find work today. In addition, many are trapped in low-paid unstable and sometimes precarious jobs without the prospect of finding anything better. Youth unemployment and under-employment represent a considerable waste of human resources and a potential threat to the social and economic cohesion of Europe, and possibly to democracy itself. The young unemployed have been robbed of the chance to contribute to society. Ever-increasing numbers of new generations of future skilled manpower have been "lost" and would appear to be permanently condemned to unemployment and exclusion from society. The symptoms of this exclusion are low income, a lack of social recognition and involvement, loss of identity, growing isolation and falling self-esteem. Insecure jobs, marginalization and exclusion provide a breeding ground for juvenile crime, drug abuse, extreme nationalism, intolerance, xenophobia and racism. Youth unemployment therefore affects us all and must not be ignored by the EU.

1.5. Too many young people in the European Union leave school without the necessary qualifications to follow a course of further education or training, or to get a job. Young people of all skill levels, ranging from the disadvantaged to those eligible for higher education, are affected to varying degrees. For this reason a wider range of training options is required, as well as programmes promoting vocational training, such as the LEONARDO and SOCRATES programmes.

1.5.1. In recent years youth unemployment has taken on many different facets, affecting all young people, ranging from the 10% who leave school with no qualifications at all at the bottom of the scale up to university graduates. With a shortage of jobs in all EU countries, it is not only the many generally disadvantaged groups on the labour market who are threatened and hit by unemployment; an increasing number of young people with qualifications are also affected.

1 EUROSTAT "News Release", No. 31/95, 12.06.1995

2 EUROSTAT "News Release", No. 31/95, 12.06.1995

2. EU initiatives and proposals

2.1. The widening gulf between education and employment and the inadequacy of training in some cases are key factors impeding young people from getting jobs and becoming properly integrated into working life. In this context, the White Paper on Growth, Competitiveness and Employment and the White Paper on European Social Policy highlighted the need for more systematic and comprehensive basic training strategies, better linking school education and working life. Particular attention should be paid to counteracting the social impact of unemployment, among young people in particular, which leads to exclusion and the loss of their place in society. On this point the White Papers suggest the following:

- more initial vocational training centres as possible alternatives to higher education establishments, with shorter, more practical forms of training linked to apprenticeship and in-service training in firms;
- anticipating skill needs more correctly and in good time;
- reorganizing educational and training resources in association with employment services;
- generally greater involvement of businesses, the social partners and public authorities in the development of “genuine” training policies and with possible fiscal and legal incentives;
- improved prevention and combating of social exclusion.

2.2. The White Papers (White Paper on Growth, Competitiveness and Employment, Chapter 8, point 8.8.(e); White Paper on European Social Policy, Chapter 6(b), Point 15) specifically called for a range of measures concerning “national” education and training structures, and the prevention of social exclusion (which were recently set out in the Commission Communications of 23 November 1994 entitled “Turning Growth into Jobs: Brussels Action Plan”). The measures included:

- a **Community-wide guarantee** that no young person may be unemployed under the age of 18: they should be guaranteed a place in the education and training system or in a linked work and training placement.

(The following texts in italics represent the Committee’s comments on the Commission’s positions).

The example of the Netherlands (cf. also Denmark and Sweden), where this kind of guarantee has been put to the text in practice for several years, should be examined to determine to what extent it could be applied in other Member States, as should the right to a training placement in the dual vocational training system operating in Germany. Any guarantee should include employment as an alternative or follow-up to training. The need for a Community-wide guarantee is supported by a great deal of scientific research which all confirms that unemployment during the transition from school to vocational training and employment has striking consequences regarding the possibility and expectation of finding a stable job and building a career. (While assuming that six months’ unemployment is the tolerable limit for

people with some work experience, all studies conclude that young people and those making the transition from school to working life should not be exposed to unemployment.)

- The **elimination of basic illiteracy** and lack of other basic skills among school leavers.

The types of measures which have proved effective here are those which set out to broaden knowledge in the transition between school and working life and seek to provide practical experience through work experience placements.

- Raising the status of **initial vocational education and training**, and the ability to use new technologies.

It should be borne in mind here that, as indicated above, different groups of unemployed young people, ranging from those with incomplete schooling to those with A-levels and university degrees, each require specific measures and corresponding access routes to using new technologies at different levels.

- Extending the **scope and range of existing apprenticeship schemes**.

What needs to be examined particularly closely here is to what extent and under what conditions the apprenticeship schemes found in the northern Member States can be applied in other Member States, and to what extent they can be made to fit in which the school systems there.

- Improving the **coordinated provision of guidance and placement services**.

The important thing here is to use the final stages of school curricula to make young people more aware of career opportunities by providing information on job profiles and training courses and improving the basis and motivation on which decisions regarding vocational training are taken.

- Encouraging universities and other higher education institutions to **collaborate more intensely with industry and commerce**;

- examining **tax incentives for firms and individuals** to persuade them to invest in their continuing training;

- encouraging the social partners to conclude collective agreements, including agreements at European level, in order to **extend access to, and participation in, continuing training**, drawing appropriately on Objectives 3 and 4 of the European Social Fund which places a strong emphasis on **anticipative training**;

- preventing and **combating social exclusion**, which requires comprehensive mobilization of all forces and the combination of economic and social measures.

2.3. As regards the age limit for a Community-wide guarantee, which the Member States will have a political obligation to honour, there is a proposal which has the agreement of Commissioner FLYNN to raise the age from 18 to 20. This will provide a guarantee for young people in Member States with arrangements for post-secondary school training, who face unemployment after that. Further-

more, there is a pressing need for networking in the field of vocational training in cases where state and private-sector initiatives are being developed. Private-sector initiatives must be reinforced and state support measures and action to set standards for vocational training must also be introduced.

2.3.1. Finally, there is the question of whether it will be advisable to recommend that Member States provide basic vocational training as a first step after secondary education and prior to practical on-the-job training. This would provide an opportunity to gain a basic qualification in selected areas of activity, thus improving access both to vocational training and work.

3. European action against youth unemployment

3.1. The recent Brussels, Corfu and Essen European Council Summits all identified the fight against youth unemployment as a key priority for the European Union. The Council Resolution of 5 December 1994 on the quality and attractiveness of vocational education and training³, drawing on the White Paper proposals, established a basic framework of principles necessary for the development of effective and efficient vocational training policies which should help combat youth unemployment. In the meantime, Objectives 3 and 4 priorities have been clearly set out in terms of anticipated labour market trends, training and guidance. The LEONARDO programme should also help to improve access to training and jobs and avoid the undue proliferation of programmes.

3.2. Alongside a skills-acquisition offensive, the most important goal of youth employment policy initiatives must be to find or promote new employment opportunities for young people so as to make a visible contribution to reducing the shortage of jobs in the countries of the EU.

3.3. The Economic and Social Committee has already commented extensively on such matters. It has also registered, in general Opinions on growth and employment, that in the final event, whilst improved training is vital, it is the number of real jobs open to young people which ultimately counts. It is not the purpose of this Own-initiative Opinion to cover all these major points again.

3.3.1. The concept of a Community-wide guarantee that no young person may be unemployed under the age of 18 should be extended to become a Community-wide guarantee to all young people under the age of 20, so that they are offered a viable remunerated alternative to unemployment and inactivity. Nevertheless, the best way to prevent youth unemployment is to improve choice and to increase the training opportunities on offer in business and industry.

3.3.2. Further proposals for other EU schemes, programmes and actions must be part of a comprehensive EU employment policy with the same criteria as hitherto, e.g.:

- inclusion of at least 50% training in the measures;

- low-threshold schemes must be made available to particularly excluded groups (e.g. to fund literacy courses and the opportunity to retake school-leaving exams);
- equal promotion of vocational and social integration;
- improvement of work placement opportunities;
- measures geared towards women and disadvantaged groups such as the disabled, ethnic minorities, etc., who have particular difficulties in gaining access to the labour market, finding a place on training courses or acquiring qualifications;
- these objectives are translated into programmes such as “Education for all”, etc. in Denmark, combining training with new work organization methods as in the Belgian construction industry collective agreement, aids to accompany training as in Germany and other examples;
- the European Commission collects information on the experience to date in the Member States with a view to drawing the necessary conclusions and making sure that these conclusions are translated into policies.

4. The proposals of the Economic and Social Committee

The Economic and Social Committee also discusses and recommends other proposals which do not come under labour market initiatives exclusively, but which constitute an extension to European employment and labour market policy and the fight against youth unemployment.

4.1. Wage-cost subsidy scheme for young people

The Committee recommends setting up a wage-cost subsidy scheme for young job seekers. The aim of the scheme should be to contribute to the creation and safeguarding of new jobs and to the implementation of a guarantee of employment for young unemployed persons by supporting newly-created jobs for the young over a limited period.

4.1.1. Young people who have been out of a job for longer than six months and who have not started some form of training should be given the chance to gain access to the mainstream labour market by means of practical work experience.

4.1.2. This support should continue for at least a year and cover up to 50% of the wage rates laid down by collective agreement. An unlimited contract of employment should be a prerequisite for such support. Transnational employment should merit special consideration in the scheme.

4.2. European Community Service scheme

4.2.1. The Committee proposes to explore the idea of a **voluntary European “Community Service Scheme”** open to all under 25-year olds. This could be supplemented

³ OJ No. C 374 of 30.12.1994, pages 1-4

by a trainee programme with the emphasis on business exchange experience. The Economic and Social Committee and the Committee of the Regions must be involved in putting together the Community Service Scheme. Once again, see the Commission's proposals of 23 November 1994 entitled "Turning Growth into Jobs: Brussels Action Plan" and the medium-term social action programme of 12 April 1995.

4.2.2. This could include the same sort of public/private partnerships, but within a more comprehensive European framework. The Commission is urged to involve the European Youth Forum and other corresponding NGO forums to an appropriate degree in the implementation of the scheme.

4.2.3. The starting point for such a scheme could be a **kind of social partnership** (rather like a social contract) between the public authorities, businesses, the social partners and young volunteers in the regions in order to combine, as touched upon in the White Paper proposals, public/private **partnerships**, part **work** and part **income support models**. Such "**partnerships**", encouraged by tax exemptions and social security schemes and involving socially useful activities, could be "sponsored" at the European level through transnational pilot projects, as in other programmes. An examination should be undertaken of whether the existing MECU 300 Youthstart programme, which supports young people under 20 in transnational experimental projects, should be opened up to include a programme of the kind described from 1996 onwards, when there will be an interim appraisal of on-going European Social Fund programmes. This would achieve one of the original objectives of the Youthstart programme.

4.2.4. When implementing the Community Service Scheme, there will have to be some regulation of the legal basis for voluntary service by young people, and these regulations will have to be agreed upon by the social partners. At the same time, minimum benefit payments must be prescribed for young people so that they can make ends meet while doing voluntary work.

4.3. "Workplace Europe" action programme

4.3.1. The Committee also suggests setting up an action programme entitled "Workplace Europe". The purpose of this new European labour market policy initiative would be to provide young people who are preparing for a career, receiving vocational training or who have qualified with no job to go to, with the opportunity to do a traineeship leading to qualifications, of at least three months in an EU company. When the "Workplace Europe" action programme is implemented, the necessary networking with

the LEONARDO programme should be established, allowing the programmes to be exploited together.

4.3.2. This action programme is particularly intended to support: the preparation, realization and follow-up of traineeships within companies, if these last at least three months, as well as the improvement of language skills (a second initiative running concurrently with the traineeship taking up at least ten hours per week) and the exchange of ideas between young people. Traineeships may be arranged along national, transnational or European lines.

4.3.3. The results of the proposed traineeship lasting a minimum of three months, coupled with the language support scheme, should be officially recorded and acknowledged by means of a recognized certificate. As an additional element, participants could follow a one or two-week internship in a European organization to familiarize themselves with its work and to deepen their European thinking.

4.3.4. The programme should be open to all groups of young people and it should be financed out of the European Social Fund budget. It should be based on experience gained in the SESAME programme, or indeed incorporate the latter.

4.4. A coordinated procedure should be followed to identify, encourage and select commendable "community service" pilot projects and transnational exchange schemes, both in urban and rural areas, with a view to engaging young unemployed people in a tangible, identifiable and worthwhile European-wide community project for:

- environmental protection;
- urban and rural regeneration;
- restoration of cultural heritage;
- social services;
- caring and service activities not properly catered for by the traditional labour market.

4.4.1. The proposed voluntary **European "Community Service Scheme"** and the **"Workplace Europe"** action programme would also require a generalized and versatile system of official diplomas recognized throughout the Union.

5. The Economic and Social Committee's Opinion on Youth Unemployment draws attention to the growing difficulty of integrating young people into working life. It sets out to increase awareness of the need to network labour-market initiatives and programmes to tackle youth unemployment, thereby launching a political offensive to guarantee a better future for young people.

Done at Brussels, 25 October 1995.

The President
of the
Economic and Social Committee

Carlos FERRER

The Secretary-General
of the
Economic and Social Committee

Simon-Pierre NOTHOMB

OPINION
of the
Economic and Social Committee
on
Local development initiatives and regional policy

On 23 February 1995 the Economic and Social Committee, acting under the third paragraph of Rule 23 of its Rules of Procedure, decided to draw up an Opinion on

Local development initiatives and regional policy (Own-initiative Opinion).

The Section for Regional Development and Town and Country Planning, which was responsible for preparing the Committee's work on the subject, adopted its Opinion on 4 October 1995. The Rapporteur was Mr MASUCCI.

At its 329th Plenary Session (meeting of 25 October 1995), the Economic and Social Committee adopted the following Opinion by a large majority, with three dissenting votes and three abstentions.

1. Introduction

1.1. The scale of the mass unemployment currently besetting Europe is not unprecedented. However, it is quite different in character because it is much more concentrated in weaker categories such as young people, in less developed areas and in declining industrial areas.

1.1.1. Although the level of unemployment and the nature of underemployment in the EU differ from those of the United States, the exclusion generated by long-term unemployment is common to both.

1.1.2. The root cause is the restructuring prompted by the globalization of markets. However, mass unemployment in Europe cannot be solved by the partially successful remedy used in the United States, where income levels and the social protection situation have pushed an increasing proportion of employed people into conditions of virtual exclusion.

1.1.3. The remedy cannot lie solely in a list of things to avoid (protectionism, feather-bedding) or the creation of the right macroeconomic conditions including wage moderation, or changes in the labour market. The need to protect the European social model calls for an active employment policy to create permanent jobs.

1.1.4. According to the Commission's economic policy strategists, unemployment will fall from the present 11% to 7% by the year 2000 if the planned conditions - sustained growth lasting beyond the end of the decade and redeployment to low productivity sectors of labour shed in high-tech sectors - are met in full.

This makes it all the more necessary to focus attention on policies for boosting local development and providing new types of employment.

1.2. The Delors White Paper assigns a fundamental role to small and medium-sized firms, which it sees as offering the greatest job creation potential, and it proposes a series of actions to help them.

As regards the creation of new jobs and economic activities, the White Paper mentions the need to "strengthen the role of local economic and employment development through the decentralizing of public agency and government decision-making and expenditure, and support this by

Community-wide inter-area cooperation designed to transfer know-how and experience"¹.

1.2.1. The Corfu European Council conclusions concerning steps to boost employment laid great stress on the role of local development, which was considered an essential element of the new sustainable development model advocated in the White Paper.

1.2.2. The measures for improving the employment situation recommended in the Conclusions of the Essen European Council of 9 and 10 December 1994 include "the promotion of initiatives, particularly at regional and local level, that create jobs which take account of new requirements, e.g. in the environmental and social services spheres."

The Council also noted "the experience of Denmark, Ireland and Portugal in developing a framework at national level and structures and procedures at local level, in order to support an integrated concept for development at local level."

1.3. This concern for small businesses and local development is not new; it has been the subject of specialist debate for at least twenty years. On 7 June 1984 the Council issued a Resolution on the contribution of local employment initiatives (LEI) to combating unemployment². The Resolution stated that such initiatives should be supported and stimulated by the Member States' policies accompanied by specific measures at Community level. Today, however, the phenomenon is taking on new and wider dimensions.

The widespread interest in this subject, with a view to the development of practical projects and targeted policies, springs from a recognition that business growth founded on large firms no longer regulates the overall development of society. This recognition has been triggered by the confluence of three equally important phenomena which began to emerge in the 1970s and subsequently took hold.

¹ White Paper on Growth, Competitiveness, Employment (page 149 of the English version).

² OJ No. C 161 of 21 June 1984, page 1.

1.3.1. The first of these is the gradual sapping of the vitality of businesses run according to the Taylorist and Fordist principles which characterized the earlier major advances of the present century: scientific division of labour, mass production, large size and economies of scale.

Large industrial firms have diversified and smaller businesses have entered the arena. Organizational systems are moving away from the traditional tenets of Fordist standardization, in order to be more flexible and multi-skilled.

1.3.2. A second important factor is what sociologists have termed the move to a post-industrial society. Aside from the continuing debate as to what part industry plays in the development of the advanced countries, there is no denying that the integration of different production sectors (particularly, though not exclusively, between manufacturing and services) plays a large part in the consolidation of local systems.

1.3.3. The third factor is the impact which the globalization of the economy - and the greater competitiveness which it generates - has on large businesses. These are obliged to carry out continual restructuring processes, bringing in new technologies, decentralizing production, and relocating. All this reduces their workforce.

The tendency among large and medium-sized firms to concentrate on their core activities encourages the establishment of new small and medium-sized manufacturing and service firms.

1.4. In its Opinion on the role of the public authorities in the partnership (Article 4 of the Framework Regulation), the Committee noted (points 1.4.6 - 1.4.6.4) that the extension of the partnership to the economic and social partners represented a change in the thinking behind Community regional policy, and that this change reflected the nature of the present recession and the difficulty of combining growth and employment.

1.4.1. The development of local economies has become a key plank of regional policy, as part of an approach which combines the promotion of endogenous development with a drive to attract external resources and activity. It therefore focuses on upgrading human resources, stimulating new business skills, and improving the business environment.

1.5. The Committee endorses the view that local development is crucial for extending the employment base - an area in which the EU lags some way behind the United States and Japan. It also thinks that Europe's cultural diversity is not sufficiently exploited, and on the contrary has been stifled by an over-centralized and largely central European development model.

1.5.1. A number of studies have demonstrated that the transfer of (even substantial) financial resources is not enough to trigger endogenous development mechanisms. It has been found that, given the same level of funding, some regions remain underdeveloped while others make a successful transition to internally driven forms of development.

1.5.2. The first objective of the present Opinion is to gain a clearer picture of which factors make the difference. The Section considers that "non-material" factors play a key role, notably the creation of synergies between the various local economic players.

1.5.3. Secondly, the Opinion will seek to answer the question posed at the Corfu European Council concerning the efficiency, in local development terms, of the structural policy instruments.

The Commission has answered this by drawing up a Working Paper that gives an inventory of Community action to support local development and employment³.

1.5.4. Thirdly, the Opinion will seek to convince Governments, regional and local authorities, and socio-economic organizations that local development is one of the main paths towards job creation.

The only bodies to have contributed to this so far are the Portuguese, Danish and Irish Governments, which submitted memoranda to the European Council setting out their strategy.

2. Definition of local development

2.1. Local development does not follow a standard pattern. This is the key to the special nature of the local dimension; each local situation is a separate microcosm which has its own special features and may follow specific development paths.

2.1.1. Making an investment in a specific locality simply means placing an investment there; it is not necessarily an example of local development. If it were, any activity would constitute local development.

2.1.2. The reason why some schemes succeed while others fail does not really lie in the production choices, as successes can be found in industry, services, agriculture or in varying combinations of the three. The real distinguishing feature is that successful schemes have managed to harness all the various local resources available.

2.1.3. The purpose of local initiatives is precisely this - to boost the capacity of a specific area to find its own development path. Hence an environment that is conducive to development is built up around the special features and assets of each area.

The strength of local initiatives is thus tied to the mobilization of a mix of economic and social factors, public intervention and private initiative, advanced technologies and more traditional requirements.

2.2. **In economic terms**, local development may be defined as a process of changing and enriching the econom-

³ SEC(94) 2199.

ic structures of an area which forms a uniform cultural, social and economic entity. It also means the use for development purposes of all those resources which, from the outside and under other circumstances, would not even have been identified.

2.3. **In spatial terms**, it may be asked whether the area needs to be co-terminous with one or more administrative units, or whether it must have a certain political uniformity.

2.3.1. The area must have a minimum population and scale in order to reach a critical mass.

The area must, if possible, include both a population centre and its hinterland, so as to ensure that it includes a variety of material and non-material resources which can provide the basis for creation of a more developed, complex society.

2.4. **In social terms**, local development is characterized by the leading role of the local socio-economic players.

Local control of the development process is the factor which makes investment - whatever its source - into a local development action. This, then, is the key factor.

2.5. **In terms of its ultimate aim**, local development must seek to improve the living standards and quality of life of the local population.

2.5.1. This improvement cannot be assessed solely in terms of the increase in capital and labour deployed. A more important yardstick is the extent to which it reduces local reliance on outside aid and boosts local communities' confidence in their own resources, and the manner in which it harnesses individuals in pursuit of shared community objectives.

2.6. The idea of "new forms of work" to meet the needs created by the recent socio-economic changes, fits into this well-established, systematic vision of local development.

2.6.1. The section of the White Paper entitled "Dealing with new needs" (Part A, page 19) mentions needs which "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", as well as the need to repair damage to the environment.

2.6.2. This mainly involves labour-intensive services which the private sector is only able to satisfy via the informal market and which are often too costly for public funding.

The establishment of a "social economy", in which private initiative and public support combine to match supply and demand, is a new departure.

2.6.3. A Commission study has estimated that three million jobs could be created in these "new employment sources", which can be broken down into 17 service sectors: home help; childminding; local shops and craft-work; assistance to young people facing difficulties and

integration; improvement of housing; security; local public transport; refurbishment of public urban areas; tourism; the audiovisual sector; the cultural heritage; local cultural development; waste management; water resource management; protection and maintenance of natural areas; regulation and monitoring of pollution and related plant; new information and communications technologies.

3. General comments

3.1. Local development, the factors underpinning it, and the paths it follows, are currently a central concern of social scientists and economic policy makers.

3.1.1. Since the 1970s in particular, social scientists have produced a large body of research and theories on the conditions which allow strong local systems to emerge and prosper. Economists, sociologists and political scientists have combined forces to produce solid political economy work. Their interest is triggered by the question of whether such systems can be generalized. They therefore concentrate on the problem of disseminating the more advanced models and experiences.

3.1.2. Interests have also converged in the field of economic and development policies. Governments and economic authorities - mainly in Europe, but recently in other countries such as the United States - are according increasing importance to growth which does not rely solely on large companies. At EU level, this trend received formal recognition in the guidelines of the White Paper on Employment, which gave priority to development strategies focusing on small and medium-sized businesses.

3.1.3. In many countries, the course of local development has not been mapped out in advance, and has not followed traditional, centrally planned paths.

This has led people to speak of the "socially constructed market", a term coined to stress the important role for local development purposes of factors other than the input of institutions and economic planning. These latter aspects obviously have their place, but are less important than others such as the capacity of the social partners (business and labour), in many respects acting independently, to create the conditions for market growth and local development.

3.1.4. The problem for the public authorities - principally the **local** authorities, but also those with a wider remit - is therefore to decide what instruments to deploy in order to nurture this "socially constructed market".

3.2. Although studies of this issue single out differing factors as being of particular importance, they all agree that the success of local development systems depends on a combination of factors.

The reasons for success are generally considered to be systemic. The main reason why some regions are more economically successful than others is that in these regions,

many factors work in concert to give individual and group efforts a systemic coherence.

3.3. The most successful growth strategies have been founded on small and medium-sized enterprises. Such growth has generally also involved a technical and organizational modernization of production systems, enabling a transition from a relatively simple, low-cost economy to a capital-intensive, high productivity and high-pay economy.

3.4. However, taking the firm as the reference unit gives an incomplete picture of this type of development. The strategic capacities and potential of local economies spring from the fact that in various ways, small businesses can act like large ones. The most basic of these is the tendency, which has developed in these distinctive areas, to set up systems of firms.

3.4.1. The systems are often made up of neighbouring businesses. Here the unit of reference is the industrial district, as defined by Marshall. The simplest of these districts are characterized by a traditional specialization based on a pre-existing craft sector. They face greater market uncertainty, are concerned to keep costs low, and need to deploy their labour force more elastically.

3.4.2. There are also more complex systems producing several types of product, which may be interlinked. These systems are more like system-areas, in which businesses producing different goods, and different production sectors, are closely integrated. Linkage is often fostered by shared values and by the cohesive role of the public authorities.

In more complex cases, specialization by firms becomes more important, alongside greater diversification of production.

The related production cycles may be quite complex and varied, but they still centre on small and medium-sized production units.

3.4.3. As specialization grows, so the market served expands. Indeed local firms may even become world leaders in a given niche-market (or at least be one of the few specialist suppliers).

3.5. Although such development starts with manufacturing industry, the systemic functions tend to increase over time, with growing integration of different production sectors. Urban areas - even quite small towns - offer the most fertile sites for the growth of more complex economic structures and related service activities. As in some areas of Italy (usually on a sub-provincial level), the trigger for success has been the combination of a large industrialized urban centre with the development of industrial districts on its periphery, accompanied by the growth of various service industries, and in some cases a well developed agriculture sector too. These have combined to produce both solid, durable system-areas, and high levels of per capita income.

3.6. The switch to systemic organization is vital if growth is to be sustained over the longer term. It entails constant flexibility - as regards products, product mix and use of labour. Hence it requires businesses from different sectors to be able to operate as networks.

3.7. The network must also be in a position to constantly adapt and innovate. Only by regular renewal, by enhancing the synergy between the various members, and by updating its organization and technologies, can it hope to meet the outside challenges which may confront it from two quarters. Firstly, from poorer countries enjoying lower labour costs and more flexible production. Secondly, from large companies which still have a propensity to influence economic trends and economic policy decisions.

4. Factors in local development

4.1. It is worth first examining the factors which have produced successful spontaneous local development in given areas.

4.2. A basic factor is the existence of a widespread business culture, very often based on skilled or craft workers. It tends to spring up in and around small or medium-sized towns which are culturally open and have a cosmopolitan knowledge of the markets. The distinguishing feature is a highly cohesive social fabric based on the rural family, and on community values conducive to contacts and cooperation between the different operators.

Such development cooperation gradually permeates local society in general, partly as a result of cultural factors such as the presence of shared political traditions or community features.

4.3. **The family** thus plays an important role, acting as a bulwark against business risks (through the presence within the family of other income sources or of other service activities which it provides directly at low cost). The family can also become a full-scale economic unit, acting as a decision-making and activity centre, and providing the cheap, elastic labour force that is very important in the initial stages of local development. The pooling of family resources allows it to concert investment strategies and establish family businesses. Although the small businesses mainly originate in urban areas (small towns), family businesses manned by people formerly in agriculture make up the wider fabric of small craft firms.

4.4. An important factor in this network of cooperation is the attitude of the employees, as well as that of this swathe of new and micro-businesses. Their industrial relations system is based largely on the prevalence of common interests and of shared development objectives. The pre-existing community structures and relations of reciprocity make industrial disputes unlikely. The work force shares in the benefits of development, and the growth process is rooted in consensus and coordination.

4.5. A virtuous circle is thus established between various elements, all of them important for launching the development process. They must then be put on a new footing in order to sustain the process. The following are crucial: craft traditions which have not been wiped out by Fordist development; a long-standing familiarity with international markets; financial skills and resources, honed over time;

and infrastructure which, even if limited, covers the whole reference area.

4.6. There are other, quite different, cases of spontaneous (but extremely disorderly) development which rely chiefly on the availability of a pool of cheap labour which can be exploited in undeclared or home work.

In such cases - especially when the industrial fabric is first being built - the mutual benefits for business and local communities are less clear, and are difficult to view positively.

4.7. It is only at a later stage that the intervention of the public authorities at various levels and in various ways becomes important.

4.7.1. Explicit policy moves at national level in support of local development are not widespread enough. Measures to assist small business systems - sometimes via a spin-off effect - do exist, such as the reduction of costs or certain fiscal and monetary policies. They generally provide incidental support which, by removing market constraints rather than introducing new ones, keeps up development momentum.

4.7.2. Greater influence is exerted at local level, both by district authorities and by larger bodies such as the regions. Here too, the public authorities' role, at least originally, was to create conditions conducive to development rather than actually to provide direct assistance. Public decisions have followed spontaneous development rather than shape it. Among the preferred forms of assistance we may cite the promotion of local financing bodies, the establishment of consortia of businesses and public authorities, the planning of local infrastructure, provision of economic information, support for craft businesses, and vocational training. The local authorities may also promote new initiatives. Spatial planning influences business location decisions, and the local authorities can help by ensuring speedy administrative procedures and proper management.

4.7.3. However, the role of the authorities does not only concern the public economic assistance. It is even more important in other spheres, since it is they who can ensure that health, education, transport and household services run smoothly. The presence of an efficient network of services, and a soundly structured welfare system, sets the scene for balanced development and the reduction of certain costs. Institutional support thus aids modernization, while also encouraging social integration by reducing imbalances, disadvantages and possible sources of conflict.

4.8. Another characteristic of these development processes is the presence of non-material resources, to which attention has been drawn more recently. Local characteristics and cultures have enhanced human resources (both entrepreneurial and labour), and have also fostered the establishment of locally based specializations. These socio-cultural factors look set to assume increasing importance in the future.

4.8.1. The removal of excessive technological constraints has also had an effect. Technological innovation is no

longer restricted to large firms, but may be within the reach of - or even promoted by - small, locally based businesses.

However, for this to be so, it is increasingly important to possess and nurture a solid human-resource capital.

4.8.2. Here too, the development of skills and knowhow, which has hitherto been largely spontaneous, now requires active intervention by the public authorities and by training agencies if it is to retain its beneficial effects.

There is now an overriding need for specialist but flexible craft and other skills, and this has implications for the training system, for company life and for industrial relations.

It is now established practice (and a practice which is vital in local systems too) to entrust people, at the various levels, with a share of responsibilities and decisions, giving them a greater say in managerial matters and a degree of self-supervision. In contrast with the past, these new skills will not develop spontaneously and will require a training drive by the public authorities and others, including specialist private bodies.

4.9. The pioneering days of local development systems are over. They are at a transitional stage, especially as regards efforts to prepare the ground for them scientifically by coordinating the contributions of the different public and private parties concerned. The requisite network of activities, skills and support must be carefully planned with a view to establishing a framework of sustainable social and economic regulation that will offer local development a solid future.

5. The players involved in local development

5.1. Local initiatives seek to bring together a variety of groupings and factors in order to ensure effective mobilization around development projects.

In some areas whose development course is firmly established and better structured, this synthesis of factors has occurred over a long period thanks to the accumulation of resources which have combined naturally and spontaneously.

A similar process must now be replicated in many regions which have not experienced it and which do not have an established approach to cooperation between different players and factors.

The key question is thus who or what can provide the locomotive for this development process.

5.2. Community and national assistance will undoubtedly be an important source of support, both financial and otherwise.

However, the real locomotive should be sought within the regions concerned, from among the players who can play an important ongoing role in organization.

A close partnership between public authorities and socio-economic groupings is vital here.

5.3. The role of the public bodies in galvanizing the key socio-economic categories - first and foremost, the social partners - of a given community is particularly crucial and delicate. By successfully interpreting the economic and cultural aspirations of their communities, the various tiers of public authority can achieve the social cohesion and harmonious cooperation which is vital for local development.

5.3.1. In general, these authorities can help the social partners to act by eliminating red tape, revising legislation, reforming the labour market, spatial planning, promoting vocational training (especially for new types of work), providing financial assistance and new financial instruments, and setting up advisory and support facilities.

5.3.2. More specifically, they can:

- act as fully fledged development agents;
- contribute to the preparation of innovative activities and projects;
- establish discussion, liaison and decision-making bodies for the social partners and other local players who can contribute resources and interests;
- identify and channel various financial sources, local or otherwise;
- select, with the best expert help, the most realistic projects, to obtain the best guarantee of success.

5.3.3. Here it will be necessary to identify the respective roles of the local, regional, national and Community authorities.

5.3.4. The role of the local authorities is often underestimated, but is in fact crucial for:

- the successful launch of development activities;
- the cohesion needed to ensure their durability.

5.4. Equally important is the presence of social partners who are well versed in local traditions and procedures. They too can fulfil a number of key functions:

- they provide an organizational base which is conversant with all the problems, potential and resources;
- they can mediate between all the relevant interests to produce a synthesis of the social aspirations of a given community and give a concrete direction to development;
- by bringing together different interests, they can ensure an optimum balance between the needs of the more vulnerable groups (and hence of the social and welfare authorities) and the more able groups, notably entrepreneurs and innovators;
- they contribute to the drafting and selection of worthwhile projects;
- they are careful to ensure the maximum development benefits for the lowest possible social costs;

- they allow the use of the funds to be more transparent.

5.5. Voluntary associations have broadly the same role as the social partners, except that their role is confined to their particular sector of interest.

Environmentalists, for example, can contribute to sustainable development or identify products and services that both help protect the environment and create jobs.

5.6. Economic bodies such as chambers of commerce can play a valuable advisory and promotional role, and can provide links with the market.

5.7. Cultural bodies, both public and private, such as schools, research institutes, vocational training centres, libraries and museums can play an important role by channelling their activities to support the development initiative and forming an intrinsic part of it (e.g. technology parks, archaeology parks).

5.8. Lastly, the involvement of the general public is vital not just as fellow players but as the beneficiaries of a development which must be cultural as well as economic.

Their involvement may take various forms.

At the very least, they should be informed. In some cases, however, as occurs in West Connemara (Ireland), they could be asked to make a financial contribution.

5.9. In other words, the implementation and growth of local development initiatives provides a practical check of how the partnership system is operating, and of its potential as an additional development resource. Aside from finer methodological considerations, all local players are agreed that partnership is a key to getting development schemes off the ground. The incentive and promotional role played by the public authorities must be backed by that of the social partners and all the other local players in order to ensure social cohesion and a shared purpose.

6. Benefits of local development

6.1. Aside from job creation, the principal target and effect of local development should be a fairer distribution of material well-being with a minimum transfer of resources.

6.2. This increase in material well-being will be reflected throughout the country, both through the decongestion of the main urban areas and through prevention of the abandonment of rural areas.

The increasing reluctance of workers and their families to emigrate in search of employment will find a response in their home areas.

6.3. The use of local resources - both material and non-material - enhances and helps to preserve the rich diversity of cultures within Europe.

In the age of global competitiveness, there are clear advantages in a local approach which uses the typical

resources of the area and focuses on the quality and individuality of the goods and services offered. At the same time, it counters the tendency for the price and quality of mass-produced goods to become standardized.

6.4. For the national purse too, there are clear benefits in a move from an assistance-based approach to active measures that will help an area to join the employment, production and market circuits and eliminate the costs of local non-development.

In short, as well as patching the patient up, the main task must be to boost his immune system.

7. Community instruments

7.1. As mentioned in the introduction (1.5.3), it is useful to address the question posed at the Corfu European Council concerning the efficiency, in local development terms, of the instruments offered under Community structural policy.

7.1.1. The Commission has responded by producing a working document entitled *Inventory of Community action to support local development and employment*⁴.

7.2. The Structural Funds began to show a concern for local development in the early 1980s, and as early as 1984 the objective of promoting internally generated development was included in Article 15 of the ERDF Regulation⁵. This objective was given further prominence in Article 1(c) of the Regulation, when the Funds were reformed in 1988⁶.

7.3. The inventory lists three functions performed by Community instruments: support for pilot schemes; promotion of European initiative networks and dissemination of good practice; transposition of local development into the structural policies.

Three budget instruments are deployed on these:

- specific support measures for experimentation (including Leda, Ergo, Eglei, Elise, Turn, Poverty III, LEI and SPEC), designed principally to improve the innovation process;
- Community initiatives for the dissemination of good practice (including Leader, Now, Horizon, Interreg and Regis);
- Community support for national structural policies.

Mention should also be made of the European Business and Innovation Centres which, since they were launched in 1984, have helped to establish or consolidate some 5,600 innovative businesses generating 27,000 direct jobs.

7.3.1. It is calculated that during the programming period 1989-93, local development received respectively 64% (albeit of a modest total), 30% and 5% of the total aid allocated under the three instruments.

7.4. The Commission document emphasizes that little use has been made of the instruments for promoting local development. But even this assessment seems over-optimistic in the light of the definition of local development given in Point 2 of the present Opinion. The Commission's analysis is purely quantitative, and seeks mainly to show the capacity of the present instruments to support a local development policy and establish a solid basis for future advances in that policy.

7.5. However, the Committee is prepared to endorse this approach on condition that the period under examination is treated as a trial period, and that proposals are now formulated for adjusting the methods and instruments at Community, national and local levels.

7.6. The fact that the estimates for the local development share of the three budget instruments for the 1994-99 programming period have been increased to 70%, 51% and 10% respectively is not enough. The figure for the most important area, namely the Community Support Frameworks, is still too low. And more importantly, here too the forecasts are purely quantitative, and do not answer the question of how many of the schemes supported will be real local development actions.

7.7. Of the instruments mentioned, only two appear truly calculated to support a local development policy. These are Leader and the global grants.

7.7.1. Leader is a Community initiative designed to support the development of rural areas. Its methods have proved their worth, and make good use of the initiative of local operators.

7.7.1.1. A key ingredient of the projects is the Local Action Group. Each group covers a small area for which, working on an initial analysis, it draws up a business plan setting out the project selection criteria and the strategic focus of development in agreement with the intermediary body or authority responsible.

7.7.1.2. The groups are linked by a regional, national and Community network which has enabled them to pool experience and methods, highlight good practices, and clear up difficulties.

7.7.1.3. The main difficulties concern:

- the internal organization of the group, and its relations with the local community;
- relations with the intermediary body and administration;
- finding financial resources and finding the right path through Community funding procedures;
- the length of the programming period.

4 SEC(94) 2199 of 19 December 1994.

5 Council Regulation (EEC) No. 1787/84 of 19 June 1984.

6 Council Regulation (EEC) No. 4254/88 of 19 December 1988.

Some of these difficulties have been resolved by Leader II.

7.7.2. The global grant has proved to be the financial instrument which best meets the needs of the approach described above, because it allows the Local Action Groups a more independent managerial role. The hallmark of the global grant is the application of the subsidiarity principle.

The intermediary body responsible for managing the grant must enjoy local support. It may be public, private or a combination of the two, it must be based in the region concerned, and it must involve the socio-economic players.

The financial management of the grant is more autonomous and better geared to the pace of operations on the ground.

7.7.2.1. However, use of this form of financing has been rather limited (31 global grants for a total of MECU 687 over the programming period 1989-93), both because of lack of information at local and regional level, and because national Governments prefer to retain centralized control of funding channels.

7.7.3. It is clear that much still can and must be done at Community level to adapt instruments, rules and procedures and improve the organization of assistance and information.

However, the most important step is for national Governments and local and regional authorities to appreciate the potential and effectiveness of local development schemes that are based on a proper methodology and founded on partnership.

7.7.3.1. Before the experience gained in the pilot stage can be disseminated, the Commission must reorganize facilities for access by interested parties and adjust existing instruments by extending the pilot methodologies.

The creation within DG XVI of a separate Directorate for local development suggests that the Commission is moving in the right direction.

7.7.3.1.1. Coordination is also needed of the wide variety of departments that are concerned with local development and in particular with SMEs, cultural assets, the environment, alternative energy sources, rural tourism, and research and development, so as to achieve close interlinkage between the different instruments and Community policy.

7.7.3.1.2. The Commission inventory stresses the key role that technical assistance could play if it were not almost totally absorbed by the national authorities.

There is thus a need to rethink the role of technical assistance and expand it to cover training courses for local development operators. This would also give an effective boost to the establishment of regional development agencies.

7.7.3.2. If national and regional authorities were to give solid support to the promotion of local development actions, for instance through structured measures, the

process would speed up incalculably and benefits in terms of social innovation and employment would soon materialize.

7.7.3.2.1. A similar contribution could be made by the steps envisaged by the Essen Council for an employment action plan using the multilateral surveillance procedure, under the aegis of the revamped Standing Committee on Employment.

8. New employment sources

8.1. It is worth giving special consideration to exploitation of the 17 new employment sources mentioned in Point 2.6 above, and the removal of obstacles to the creation of "new forms of work" which, while designed to meet the needs brought by socio-economic changes, logically fall within the local development sphere.

8.1.1. In June 1995, when work on this Opinion was already well advanced, the Commission issued a Communication entitled A European strategy for encouraging local development and employment initiatives⁷. The Communication focuses on the many financial, legislative, occupational and administrative barriers to such a strategy, and on practical ways of remedying these barriers.

The Communication reiterates the finding of previous studies that the importance of such a strategy can be assessed in terms of the quantitative impact on the employment intensity of growth, which can be estimated at some 0.2 points per annum (between 140,000 and 400,000 jobs), or around 40% of the objective set by the Delors White Paper.

8.2. The Committee broadly endorses the analysis and suggestions made in the Communication although it has a general reservation about its approach, which does not situate initiatives for creating "new jobs" in the broader context of local development processes and techniques.

8.3. Among the sectors mentioned (Point 2.6.3), home-help services and child care seem particularly promising; home care for the elderly, infirm and disabled should also be included here. Many countries' social spending is unable to provide adequate help for any of these categories, while private assistance is selective and excludes the most needy.

8.3.1. This offers an opportunity to create a major intermediate "social economy" sector comprising private companies, cooperative and non-profit undertakings to provide home help and other services (including crèches, ironing, cleaning and gardening, simple maintenance jobs, help with administrative procedures, preparation of meals) at relatively low cost thanks to public involvement and to negotiation between the social partners in the case of services for workers in large and small/medium businesses.

⁷ COM(95) 273 final

8.3.1.1. In the social market sector, such businesses should operate according to competition conditions regulated by precise quality standards. These should be laid down by the State and monitored by the local authorities.

8.3.1.2. The services could be paid for by service vouchers issued locally to families in lieu of a social benefit, as has been tried out in parts of France, Belgium and now Finland (schemes are also in the pipeline in the Netherlands and Germany).

Such a system would have clear advantages in terms of savings for the public purse, stimulus for the creation of new jobs, combating undeclared work, and administrative simplification.

8.4. The initiatives proposed in the 17 sectors would come up against a number of obstacles in national regulations.

8.4.1. Firstly, there would be financial obstacles, such as the cost of the initial investment, the difficulty of gaining access to credit for micro-undertakings (whose problems are even greater than those of SMEs), and the ability of the household receiving the services to pay for them.

8.4.1.1. Alongside the service voucher, the Communication proposes the establishment of joint local investment funds. This is an excellent idea which should be extended to all local development actions, because such funds establish a direct link between household savings and development projects for the savers' area.

8.4.2. Another problem is the difficulty of finding multi-skilled operators who can handle the delicate tasks of assistance and back-up, and who are able to use new information technologies.

8.4.2.1. Here it is necessary to extend vocational training and education to include the study of communication techniques, telematic instruments and environmental protection instruments, and to introduce new diplomas and qualifications for these multi-skilled occupations.

8.4.3. There are also a large number of legislative and regulatory obstacles which:

- often make no provision for, or do not permit, multijobbing or the combination of several income sources;
- do not provide an appropriate legal status for joint public/private organizations.

8.4.3.1. The following are proposed:

- legal arrangements which facilitate multijobbing;
- possibility to combine paid work and unemployment benefit;
- establishment for directors of non-profit making undertakings of a legal and tax status equivalent to salaried staff.

8.4.4. Lastly, the greatest difficulties derive from the excessively centralized and hierarchical structure of public-

authority procedures and the lack of knowledge of local development processes.

8.4.4.1. This again highlights the need to apply the subsidiarity principle in the Member States, by decentralizing administrative activity and setting up local machinery such as development agencies based on a socio-economic partnership and involving both the public and private sector.

9. Conclusions

9.1. The development guidelines which held sway in western society for much of the post-war period are now being redefined. As the Commission White Paper also shows, aggregate development based on large business and led by demand is no longer feasible, or at least no longer furthers the social and employment side of growth.

A judicious blend of growth and qualitative elements (employment, endogenous development, an increase in rights and opportunities) can only be secured by diversifying traditional development models.

In this context, local development is one - but not the only - locomotive of renewed, balanced economic development. Local development can have a number of ingredients, in isolation or - preferably - in combination: small size of business, concern for product quality, flexible specialization, inter-sectoral action, linkage of private and public sector, positive employment spin-off.

Local development is thus a broad concept that epitomizes a type of development which brings widespread benefits, both economic and social.

Although local development is not the sole solution to the employment problem, it can make a significant contribution by introducing a sustainable development model. It also strengthens the links between growth, participation and responsibility. It supports and generates new entrepreneurial skills. It respects cultural roots, and provides an optimum blend of dedicated resources, self-generated development and employment. In this latter sense it can also provide a means of tackling the problems which will follow the accession of the central and eastern European countries. A regional policy focusing on major infrastructure and local development.

9.2. As has been seen, many players and factors help to shape a type of development which is:

- endogenous, being based on optimum use of the best resources (material and otherwise) in the areas concerned;
- diversified, because it is able to attract and give practical form to quite specific, original socio-economic activities.

9.3. To be sound, local development should not mean local bias, but an ability to operate smoothly in the single market through (i) integration of the various production

sectors; (ii) linkage with externally generated development; (iii) inclusion in European spatial planning; and (iv) linkage to a network of local development areas.

9.4. There is no denying that the factors listed in chapter 4 are generally lacking in precisely those areas which are peripheral in development terms, but whose social fabric is already suffering the adverse effects of development. The entrepreneurial spirit is thin on the ground; community values have weakened; pooling of family resources is increasingly difficult; rural families have not generally had an opportunity to take up craft activities.

9.5. Such situations are widespread, and call for remedial action from the socio-economic and voluntary organizations to rebuild community values, while the social economy should take over the economic role of the family. As stated in point 4.9, this means scientifically recreating the conditions for a socially constructed market by means of intelligent planning in which the various public authorities play a central role.

9.6. But what is it that allows often fragmented elements to cohere and secure maximum productivity and more sustained results, and trigger self-propelling development? The crucial factor is the role of the public authorities and the social partners, with differing degrees of prominence and responsibility. As has been seen, their role is vital, especially the coalescing role which the various tiers of public authority play in order to produce a leap forward and stabilize development paths: to replace spontaneous but often irregular forms of development by more structured, stable mechanisms for generating activity and employment. These parties thus perform a crucial function - and one that deserves particular attention - as locomotives of development, providing a stimulus for the various local players and an institutional framework for cooperation which gives the local communities a greater say in the objectives and results achieved.

9.7. The Commission appears to realize its potential role in this context, where subsidiarity is an important factor. One activity which the Community authorities must be encouraged to give particular thought to is the dissemination of information and know-how among the relevant players, so that they can work as a fully fledged network of development agents able to mobilize the forces and resources deemed vital for worthwhile projects and results.

To this end, the Commission should define more clearly the essential features of a local development action, with the local players playing a central role. DG XVI's working document on innovative measures in the context of the structural funds 1995-1999⁸ sets out ways of stimulating and promoting local development schemes eligible for funding under Article 10 of the ERDF. The Committee considers that the approach is right but that the resources committed (MECU 270) are insufficient, and that resources from Article 6 of the Social Fund and Article 8 of the EAGGF should also be used.

9.7.1. Much more needs to be done to inform the local and regional authorities and the socio-occupational and voluntary organizations; to train public officials and experts; and to overcome the resistance of the national authorities. The objective could be to channel a larger proportion of the CSFs towards the employment objectives of the White Paper (local development, small businesses, new employment sources) and to gear the Community initiatives more closely to this end.

9.8. The Committee believes that it has a role to play here, working via the socio-economic organizations and its dealings with its national counterparts to improve awareness of these matters in the Member States.

8 XVI/261/95

Done at Brussels, 25 October 1995.

The President
of the
Economic and Social Committee

Carlos FERRER

The Secretary-General
of the
Economic and Social Committee

Simon-Pierre NOTHOMB

OPINION
of the
Economic and Social Committee
on the
*Coordination of research and
technological development policies*

On 21 February 1995 the Economic and Social Committee, acting under the third paragraph of Rule 23 of its Rules of Procedure, decided to draw up an Opinion on the

Coordination of research and technological development policies.

The Section for Energy, Nuclear Questions and Research, which was responsible for preparing the Committee's work on the subject, adopted its Opinion on 26 September 1995. The Rapporteur was Mr BERNABEI.

At its 329th Plenary Session (meeting of 25 October 1995), the Economic and Social Committee unanimously adopted the following Opinion.

1. Recommendations of the Economic and Social Committee for the coordination of research and technological development (RTD) policies

The Committee

1.1. given the failure to use in practice the instruments for coordinating national and Community RTD policies provided for under Articles 130H, K, L and N of the Treaty on European Union;

1.2. whereas the Treaty on European Union explicitly requires the Commission and the Member States to implement their RTD policies within a coherent Community framework;

1.3. whereas Article 130b of the Treaty on European Union requires that the formulation and implementation of all Community policies, thus including Community policy on research and technological innovation, should take into account the objective of economic and social cohesion;

1.4. whereas the White Paper on Growth, Competitiveness and Employment emphasizes the lack of coordination of RTD strategies in Europe, and the limited capacity for quickly converting scientific and technological achievements into industrial and commercial successes, and considers these amongst the most important weaknesses of the EU research system;

1.5. whereas it is vital fully to exploit the research-innovation-market process, in order to enhance the competitiveness of European industry and boost employment throughout the EU, with a view to economic and social cohesion;

1.6. whereas RTD policy objectives and implementation measures in most Member States and in the US and Japan are tending to converge;

1.7. whereas there are still shortcomings in the internal and external coordination of Community RTD policy, despite the Community's attempts to provide consistency through multiannual programming of Community research activities;

1.8. whereas 87% of public research funding in the EU is still decided and managed independently by the Member

States, and only 13% is used in European cooperation frameworks;

1.9. whereas, in order to bring consistency, transparency and clarity to the European added value of Community RTD, all parties involved in research must participate in voluntary, suitably- equipped cooperation frameworks;

1.10. whereas the current intelligence revolution requires a joint effort from all sectors of the Community to constantly update technology-innovation processes and skills, with the full participation of the social partners at the various levels of social dialogue,

recommends:

1.11. creation of a network for the systematic exchange of relevant, intercomparable information on EU research and technological innovation activities which can be freely accessed by all the players in research and innovation, especially innovative SMEs which create new employment opportunities;

1.12. mapping out scenarios for joint consideration at regional, national and Community level, and for subsequent RTD strategies, and providing a transparent framework of opportunities for the various players involved in research;

1.13. an overhaul of the existing bodies for shaping and implementing Community research programmes, such as CREST and the Programme Committees, to ensure that they can meet the need to link national and Community policies;

1.14. rapid activation of European technology assessment and industrial assessment mechanisms, and encouragement for the establishment and/or strengthening of Member State assessment bodies;

1.15. creation of an advance information system between the Member States, comprising a network of open, readily accessible databases covering proposed national research and innovation initiatives and their back-up measures, in close cooperation with the European CORDIS network; full implementation of the conclusions of the "research" Council meeting of 9 June.

1.16. preparation of Tableaux de Bord, such as those currently used by the European Employment Observatory, which give a general overview of the measures adopted by

each EU Member State, and provide a systematic comparison;

and would urge

1.17. a more flexible, interdisciplinary approach for the current Community Framework Programme, making for greater transparency and improved coordination with national research actions on a concentrated number of key priorities, in preparation for management- streamlining and drafting of the fifth Framework Programme;

1.18. development, in parallel and in close cooperation with the programmes, under the Framework Programme, of industrial association projects which further the main medium-long term strategic objectives decided at Community level; under these projects, research players and end-users would participate in bottom-up coordination right from the start;

1.19. definition of common criteria for the inclusion of industrial association projects in a "package deal". This should take account of the need to improve the competitiveness of European industry, of the need to promote economic and social cohesion, and of the need for concrete prospects of rapid economic benefits and employment spin-off;

1.20. establishment, for each individual project, of memoranda of understanding - signed by the Member States, the Commission and all other interested parties, both public and private - which will be subject to a political consensus to be reached in discussions between the Member States, the Commission and the European Parliament;

1.21. submit the "package deal" of projects for formal approval by the Council (research and industry) and the European Parliament, using a simplified, accelerated procedure;

1.22. creation of inter-DG Task Forces for each project, to act as "problem solvers" and generate synergies between financial, legal, tax, managerial and operative instruments at national and Community level;

1.23. establishment, both under the industrial association projects and outside them, of machinery to speed the translation of RTD achievements into industrial and commercial successes;

1.24. implementation of a coordinated Community policy framework to achieve convergence and consistency of instruments and actions which further the functional research-innovation-market process needed for industrial competitiveness, employment growth and economic and social cohesion.

1.25. in order to ensure coordination with similar EU initiatives, establish systematic procedures for preliminary consultation on multilateral and bilateral RTD agreements between Member States, third countries and international organizations;

1.26. establish, along the lines of the EU-CERN agreement, systematic, coordinated links with all other European bodies, particularly EUREKA and COST;

1.27. promote inter-company cooperation and the free movement, exchange and trade of technology - especially between SMEs - in order to provide: better access to world markets; an active policy on standards, quality and intellectual property; new financial engineering measures and low-cost mechanisms for speeding up the research-innovation-market process;

1.28. ensure greater consistency, visibility and transparency of all aspects of EU external relations involving research and innovation policy, particularly for the neighbouring areas of Eastern Europe and the Mediterranean.

See Figure 1 on next page.

2. Introduction

2.1. The Treaty on European Union (Article 130f) provides for the **full integration** of Research and Development policy with all other Community policies, with the fundamental aim of strengthening the scientific and technological bases of Community industry in order to make it more competitive internationally. Equally, Article 130g of the Treaty refers explicitly to the need to coordinate national and Community RTD policies.

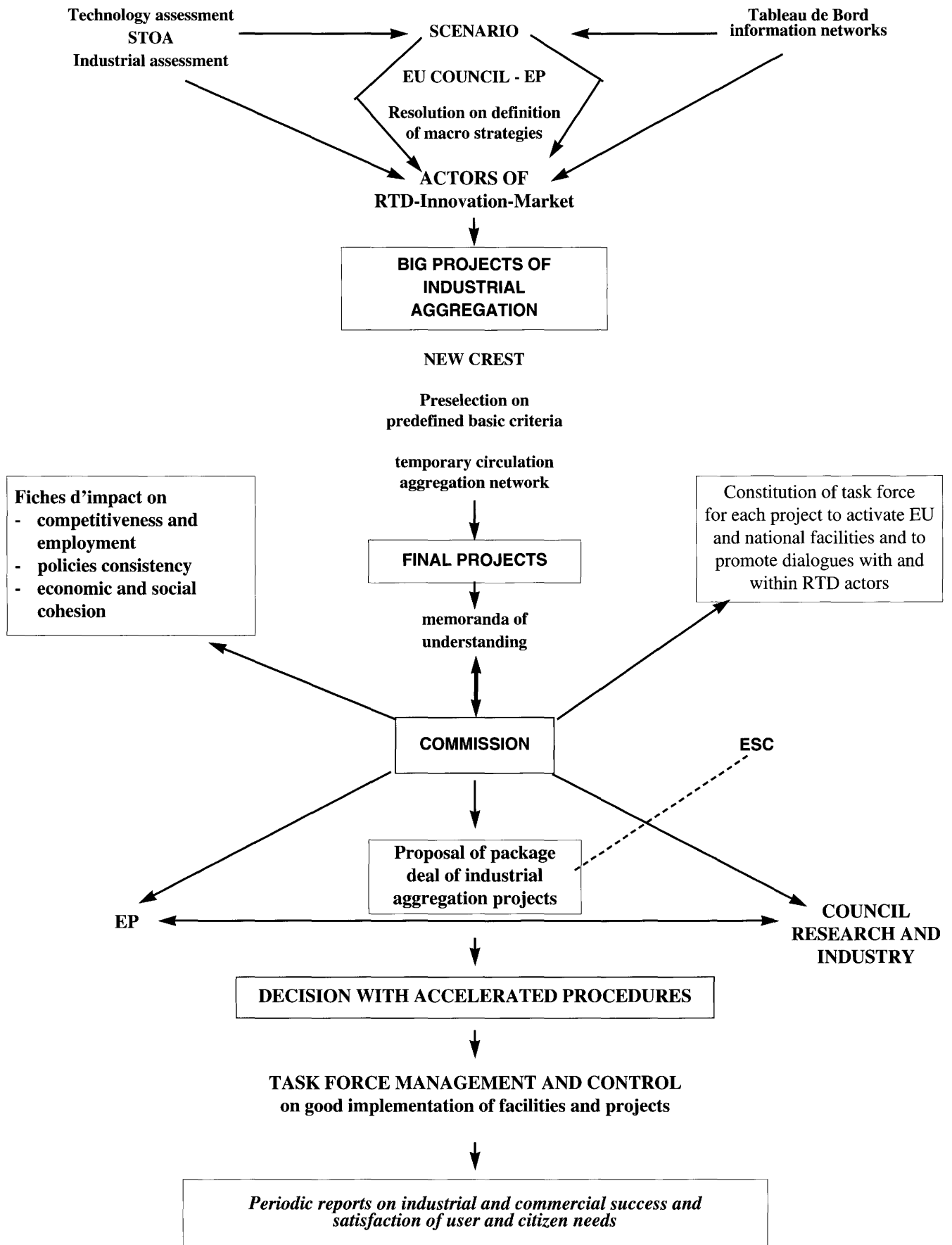
2.2. Article 130h of the Treaty recognizes the Commission's *right* to take any initiative to promote coordination between national and Community RTD policies. In addition to the Commission's still largely unspecified scope for action, the same Article enshrines the Community's and Member States' explicit duty to coordinate "their research and technological development activities so as to ensure that national policies and Community policy are fully consistent."

2.3. Since the early 1980s, the Framework Programme has been the Community's multiyear strategic planning instrument for structured coordination of RTD actions which Member States decide to carry out jointly.

2.4. In implementing the Framework Programme, the Community may refer to Articles **130k, 130l and 130n** of the Treaty. So far, as the Court of Auditors has pointed out¹, the Commission "has not launched any initiative outside the existing Community programmes nor in connection with the implementation of Articles 130k (supplementary programmes) and 130n (joint undertakings) of the Treaty on European Union". The report condemns the lack of efficient coordination.

¹ Court of Auditors Annual Report (OJ C 327 of 24 November 1994), p. 185 foll.

FIGURE 1



2.5. Finally, in order to ensure the conditions necessary for the competitiveness of the Community's industry, the fourth indent of Article 130(1) of the Treaty on European Union states that Member State and Community action must be aimed at "fostering better exploitation of the industrial potential of policies of innovation, research and technological development".

2.6. Coordination of Community research activities has so far been restricted to the "de facto" coordination provided for under the Framework Programme. The latter's role in ensuring consistent EU research action has been hindered by the rather rigid boundaries between the specific programmes and by red tape. Consequently, the framing and management of RTD programmes have often been left to restricted groups: "the programmes are designed within a circle which remains closed. The elaboration of proposals is very unresponsive to outside influences".

2.7. Moreover, "another element with negative effects is the compartmentalization of administrations and ministries which is noticeable in the Member States"² and the associated **lack of any systematic, rapid exchanges** between the authorities responsible for research and industry. This has negative effects on the transparency, visibility and efficiency of the research action and makes it difficult to identify the research and technological innovation needs of European consumers and industry.

2.8. Thus there is still a risk of financing projects "through pure inertia", and of the "tendency of the programmes to self-perpetuation"³. An earlier Committee Opinion considered it "essential that the bureaucracy inevitably associated with the wide-ranging responsibilities for coordination [be] kept under the strictest control, if innovation and initiative are not to be affected adversely"⁴. Despite the Commission's efforts to group together and coordinate partially overlapping specific research programmes, there has often been a tendency to **dispersion** and to the inclusion of marginal sectors.

2.9. This is the position as regards administrative practice where legislative and institutional mechanisms are concerned, "mention should be made of the complex and lengthy procedure followed" - only partly alleviated by the inter-institutional agreement - and "the fact that it overlaps with the annual budget procedure, giving rise to a perennial source of potential inter-institutional conflict"⁵.

2.10. Rather than assessing Community research by reference to the dissemination of findings and their impact on European innovation, **Community research evaluation reports** tend to concentrate on the internal workings of the individual specific programmes, and not on commercial and industrial achievements in terms of global competition.

2.11. COST (European Cooperation in the field of Scientific and Technical Research) seems to be the only valid support vehicle for concerted European cooperation actions, but the Commission has not yet given it priority status⁶.

2.12. There is still considerable scope for improving coordination with other Community policies, particularly

regarding global strategy. This strategy should give top priority to the **research-innovation-market process**, in order to speed up the economic and employment spin-off from common research and innovation throughout the Community.

2.13. The White Paper identifies, inter alia, **two major weaknesses** which could well jeopardize the efforts - in terms of human and financial resources - made by the European taxpayer to make economic growth and job creation more stable and competitive: the lack of coordination at various levels of RTD activities, programmes and strategies in Europe; and the comparatively limited capacity to convert scientific and technological achievements into industrial and commercial successes in a short space of time.

2.14. The speed and scale of the changes facing Europe, global competitiveness, high unemployment and the pace of technological innovation make it essential to pursue a coordinated RTD policy. Given this background, it is both **anachronistic and risky** for Europe to continue to implement unrelated policies to deal with RTD, which is an indivisible process.

2.15. The Commission, in its Communication on "Research and Technological Development: Achieving coordination through cooperation"⁷; the European Parliament in its 15 June 1995 resolution⁸ on the above Communication; the individual Member States in the latest definition of their RTD policies; our partners across the Atlantic and the Pacific, and the "Research" Council at the meetings of 10 March and 9 June 1995, all stressed their **intention to concentrate** their thoughts and actions on improving coordination in order to speed up the research-innovation-market process.

3. General comments

3.1. Technology has become the key to success, but, as experience has shown in the USA and Japan, it is the coordinated drive to translate technology into growth and employment which must permeate the entire economic and social system. It is necessary to bring about a real "intelligence revolution" which will ensure continuing innovation and an ongoing upgrading of the quality of the labour force, especially its younger members.

2 Communication from the Commission on Research after Maastricht: an Assessment, a Strategy, SEC(92) 682 of 9 April 1992, point 78, p. 26

3 cf. note 2

4 ESC Opinion of 26 May 1993, OJ C 201 of 26 July 1993, p. 36

5 cf. note 2

6 Court of Auditors Annual Report, OJ C 327 of 24 November 1994, p. 185 foll.

7 COM(94) 438 of 19.10.1994

8 awaiting OJ publication

3.2. Set against this backdrop, industrial and technological cooperation offers a whole range of opportunities:

- to sharpen the competitive edge, by pooling efforts and creating synergies, in order to attain a critical mass which will allow innovative technological results to be achieved rapidly;
- to find the right balance between competitiveness and cooperation in order to achieve positive results for the economy and employment;
- to step up and consolidate European strategies and the modus operandi: in other words “**to think European**” and “**act European**”;
- to develop the necessary interaction between individual policies, in order to create a clear, consistent, informed and attractive European system, in which it will be possible to coordinate a Community cooperation framework which is open to the global market.

3.3. Both the EU/US/Japan triad and the individual EU Member States see coordination as a key instrument for achieving these objectives, and for ensuring that policies, instruments and practices interact in a synergic and consistent manner.

3.3.1. Coordination has, however, taken different forms, according to the differing cultural and historical backgrounds, socio-economic structures, and institutional and administrative systems.

3.4. Seen in this light, there are **three basic options** in dealing with RTD policy coordination, the ESC feels that the third option is the only feasible one, given the current state of play in the EU.

3.4.1. The **first**, most obvious option for the EU would be to organize itself along the lines of its main competitors, whilst maintaining its own special characteristics.

3.4.1.1. This would involve developing a well-funded centralized coordination policy, adapting the institutional machinery, and speaking with one voice in external relations.

3.4.1.2. This option would be inappropriate, given the existing objective and cultural diversity of Europe, the pluralist nature of its society, and the subsidiarity-based approach to EU integration: all this at a time when the EU still has a long way to go in achieving political union, institutional reforms and a thorough overhaul of its administrative system.

3.4.2. The **second** option is to update the “de facto” coordination instruments provided for under EU research programmes, and, using a flexible, broad approach, to improve the machinery for framing RTD policy and the implementation of research, and achieve a more united Member State stance on RTD in international arenas.

3.4.2.1. In this regard, the Committee feels that the urgent need to improve competitiveness and the employment situation means that it is not enough to make improvements - albeit timely and necessary - to existing machinery.

3.4.2.2. The Committee feels that, in the face of competition between well-equipped, complex continental systems, it is insufficient merely to improve Community RTD policy machinery. It is also necessary to address the general context in which that policy operates.

3.4.3. **Thirdly**, the Committee believes that, at the moment, the best, most feasible way fully to achieve the objectives of industrial competitiveness, enhanced economic and social cohesion, improved quality of life and a revival of the jobs market, is **to ensure systemic coherence between Community research and technological innovation policy**, national RTD policies and all other Community policies and instruments.

3.4.3.1. A coherent framework is essential if all those who are working for development - industry and human resources, public administrations, universities and research centres, end-users and consumers - are to appreciate more readily the added value provided by RTD coordination at European level and act accordingly in strategic-operative terms.

4. Proposals

4.1. Given the decision to ensure systemic integration of Community research and technological innovation policy, the Committee would suggest five parallel actions:

- use coordination as an instrument to meet the needs of the current Community RTD framework;
- develop a flexible, interdisciplinary approach in view of the Vth Framework Programme;
- boost international cooperation;
- exploration of new, innovative coordination methods right from the planning stage;
- boosting the coordination framework of all other Community policies in order to create an attractive and supportive atmosphere for researchers and innovators.

4.2. Coordination for RTD policy

4.2.1. A key area of intervention will be the **systematic exchange of relevant and comparable information** on EU research and technological innovation activities, in order to ensure prompt availability of an efficient, clear and transparent yardstick for joint decisions at corporate, regional, national and Community level.

4.2.2. As far as the scenarios are concerned, the Committee would emphasize the need for rapid activation of the European Technology Assessment Network (ETAN), following in the footsteps of the OTA⁹ of the American Congress and the NISTEP¹⁰ in Japan.

⁹ Office of Technology Assessment

¹⁰ National Institute of Science and Technology Policy

The ETAN network should link up with the Industrial Assessment Mechanism (IAM), which the Committee hopes will be operative shortly¹¹, and help to create and/or strengthen, on an even basis, Member State assessment bodies.

4.2.2.1. It is the Committee's belief that ETAN and IAM should not only be used by national and European administrations and MPs, but also by industry and the various social and economic players in the EU.

4.2.2.2. Simultaneously, under the umbrella of the Joint Research Centre (JRC) activities, the Institute for Prospective Technological Studies in Seville must be equipped and made operative rapidly. Its "European Science and Technology Observatory" - in its capacity as an instrument for analysing technological trends in relation to Community social and economic requirements, - should help to provide European policy makers and industrialists with all the information they need to work out strategies for scientific development and technological innovation.

4.2.2.3. The Committee believes that the European Science and Technology Assembly (ESTA) and the European Science and Technology Forum must play a concrete, positive role in defining and implementing consistent European research strategies. Another important instrument is the European Report on Scientific and Technical Indicators: this, however, should be incorporated as soon as possible in European innovation indicators, and be published every two years.

4.2.2.4. The Committee feels that national and regional studies and assessments, based on **harmonized statistics**¹², should be published prior to the Community reports, of which they should form an integral part.

4.2.3. The Committee believes that these scenarios must underpin the future formulation of a real **Community RTD policy strategy**. This should be presented as a suggested framework, rather than an obligation for the players in technology and innovation development.

4.2.3.1. This strategy should be decided jointly by the research and industry Councils, together with the European Parliament. They should be assisted by CREST, whose new membership includes Directors-General from the Research Ministeries; membership could also be extended to the Ministeries of Industry, if necessary. CREST should revert to its original task of coordinating national and Community policies (both sectoral and general) and defining projects of Community interest.

4.2.3.2. In future, and in parallel with the deepening of the EU, the representation of the various levels of the Member States, and of the Commission on CREST, could be better balanced, and its duties should be extended to take in training and innovation policy.

4.2.3.3. The Committee feels that **IRDAC** (Advisory Committee on Industrial R&D) should also be involved in CREST's work so that, from the outset, industry can play an active part in defining strategies. In addition, IRDAC's

membership should include user representatives as well as economic and social representatives.

4.2.3.4. CREST's work should be as transparent as possible, and its reports and opinions should be sent systematically to the European Parliament and the Economic and Social Committee as well as to the Council and the Commission.

4.2.3.5. It is also important to ensure permanent interaction between CREST and the Programme Committees. In this respect, the Committee is concerned by the further proliferation of consultative committees mooted by the research Council on 9 June 1995. These are likely to get the coordination machinery wound up in red tape, and could overlap with the sub-committees which CREST is entitled to set up.

4.2.4. In addition to systematic framing and information on scenarios, the Committee recommends that a **system of advance information** be set up between the Member States, through a network of open, readily accessible databases. This information would regard proposed national research and innovation initiatives and their back-up measures, and make national RTD incentive programmes and systems more transparent.

4.2.4.1. The Committee believes that this advance exchange of information should lead to the preparation of *Tableaux de Bord*, such as those currently used by the European Employment Observatory. These would give a general overview and provide a systematic comparison of the measures adopted by each Member State and by the EU.

4.2.4.2. The liberalization of public procurement in the RTD sector (Directives 92/50¹³ and 93/38¹⁴) must be accompanied by transparent, synchronized procedures and timing, in order to simplify joint activation of national and Community programmes.

4.3. A flexible, interdisciplinary approach to the Vth Framework Programme

4.3.1. Although gradual improvements have been made to the Community multi-annual programme, it is still not coherently structured.

4.3.1.1. As the Committee has pointed out, overall funding for the fourth RTD Framework Programme is inadequate "*in so far as the Commission saw its proposal as part of efforts to revive economic growth and employment in the Community*". Thus, the funds allocated for specific programmes "*must, as a priority, focus on those areas of research which will make a direct contribution to reviving growth and employment in Europe, on the basis of a more selective approach*"¹⁵.

11 cf. Communication from the Commission on the action programme for an industrial competitiveness policy for the European Union, COM(95) 87 of 22.03.1995

12 ESC Opinion of 22.10.1992, OJ C 332 of 16 December 1992, p. 77

13 Council Decision of 18.06.1992, OJ L 209 of 24 July 1992, p. 1

14 Council Decision of 14.06.1993, OJ L 199 of 9 August 1993, p. 84

15 ESC Opinion of 14.09.1994, OJ C 393 of 31 December 1994, p. 117

4.3.2. The Committee believes that the fact that Community resources are limited makes streamlined management of funds all the more urgent. Looking ahead to the fifth Framework Programme, the aim should be a **flexible, interdisciplinary approach** linking up the various specific programmes; these should be targeted on research activities which will have a positive impact on the economy and employment throughout the Community. Rather than getting bogged down in bureaucracy, this should make for procedures which are simpler, more transparent and accessible.

4.3.2.1. This would require close internal coordination between the various Commission Directorate-Generals, and, at the same time, a more vigilant, high-profile role for the Programme Committees/Advisory Committees. This would enable them to trigger synergies between specific Community programmes, and between them and the relevant national programmes, and give greater visibility, clarity, transparency and flexibility to the **added value** of Community research and innovation policy.

4.3.2.2. These synergies could be activated by publishing the references to relevant national programmes and the means of gaining access to them in the *Information Packages* of each specific Community programme.

4.3.3. The Committee believes that the annual report on the implementation and **dissemination** of research and development activities, provided for under Article **130p of the Treaty establishing the European Community**, is important to the transparency of research policy. The Committee hopes the Commission will present its first report as early as this year and would expect to be provided with a copy.

4.3.4. With regard to this approach, the Committee emphasizes the need to develop actions to:

- create a **single European market for innovation**, i.e. eliminate the present segmentation;
- promote a coordinated European environment in respect of national tax incentives for intangible investment and innovation, especially for SMEs;
- stimulate further intertwining of **research and industry**, via new systematic machinery and a favourable legal framework;
- implement concrete **plans for speeding up** the transition from innovation to the market, in order to reduce lead times, costs and risks. This could be done by exploiting the opportunities afforded by the information society.

4.3.5. The Committee therefore feels it appropriate for the Commission to set up temporary, inter-DG task forces as a valid means of **scrutinizing** the current situation and to ensure consistent management of research actions in certain priority areas in accordance with the needs of industry and the market.

4.3.6. The Committee is also concerned about the method and the woolly presentation used in the initial selection of projects of common interest which were announced recently: education and multi-media programmes, vaccines and

viral diseases, the car of the future, the new generation aircraft, the train of the future, and inter-modal transport. Although not stated openly, the last four may be intended as part of a master plan for environmentally-friendly, integrated transport.

4.3.7. The Committee recognizes that these options are consistent with the principles of transparency and clarity. It cannot, however, disguise its disquiet at the method used, if the existing internal coordination frameworks are simply to be replaced by enforced research priorities which win the support of industry and end-users because of the potential funding which could be made available.

4.3.8. Although machinery to facilitate and streamline Commission services is necessary in order to ensure the feasibility of large industrial projects, the Committee would point out the **inherent weaknesses of a top-down approach**, which is liable to be unrealistic and to underestimate the rapidly changing nature of worldwide technological challenges.

4.3.9. There is a risk of perpetuating the inherent shortcomings of current Community RTD policy if research scenarios are to be shaped by small, bureaucratic groups, rather than in a framework which is conducive to coordination, and where public administrations, companies, users, research centres and universities are able to grasp the opportunities provided by Community added value in actions which they themselves have identified.

4.4. Boosting international cooperation

4.4.1. As far as **international cooperation** is concerned, the Committee believes that it is vital that the Union should ensure its actions are coordinated with those of the Member States, both in international forums and when taking part in programmes of worldwide interest.

4.4.2. The Committee believes that Member States could particularly benefit from more consistent scientific cooperation with the other triad partners, and from coordinated participation in big science international research programmes in areas such as the environment, the human genome and climatology. The **ITER** (International Thermonuclear Experimental Reactor) and **IMS** (Intelligent Manufacturing Systems) programmes have proved valuable in this field.

4.4.3. In particular, the Committee advocates systematic, institutionalized consultation prior to any international meeting, and a continuous exchange of information on the bilateral R&D cooperation agreements of the Member States with third countries and international organizations, in order to coordinate them with similar EU initiatives.

4.4.4. In the area of cooperation with other European initiatives, the Committee would emphasize the importance of more systematic, integrated coordination, particularly with **EUREKA** and the **COST** programme. The particularly flexible nature of these initiatives, based on voluntary coordination and a **bottom-up** approach, sets an example for scientific cooperation and European technological innovation. Furthermore, since they are essentially funded by

national programmes, they could link up with Community RTD policy in the case of joint implementation.

4.4.5. The Committee feels that the EU should promote international measures for free movement, exchange and trade of technologies, and encourage corporate cooperation, especially among **SMEs**. These measures should in particular be designed to improve access to world markets and harmonize the rules and regulations governing standards and intellectual property.

4.5. Industrial association projects: Innovative types of coordination, from the planning stage on

“It is in change that things find their meaning” (Heraclitus).

4.5.1. Apart from measures to improve the present Community framework for RTD policy, the Committee would suggest the simultaneous development of an innovative coordination method.

4.5.2. The coordination hub should be moved upstream:

- on the one hand, the EU must, with a view to ensuring coordination, provide the **framework** to assist the use of all Community and national financial, legal and technical instruments, and exploit the possibilities afforded by all relevant policies;
- on the other hand the **players involved in research** must be able, on the basis of available technological scenarios and strategies shaped at Community level, to establish their RTD action priorities and participate in coordinated, integrated projects at European level.

The method

4.5.3. The new method would involve:

- setting up, in parallel with the specific programmes and under the Framework Programme, a range of **industrial association projects**. These would benefit from the improvements made to the current Community cooperation framework;
- within the framework of the major, medium/long-term strategic objectives decided at Community level, these projects would provide a vehicle for **voluntary coordination from the outset**, by the players involved in the research-innovation-market process;
- achieving geopolitical balance, in terms of economic and social cohesion acceptable to all Member States, within the **package** of projects adopted;
- setting up **new Commission inter-DG task forces** for each individual project, to act as “problem solvers” for the project, and provide synergies between the financial, legal, fiscal, management and operative instruments at Community and national level;
- achieving the fastest possible spin-offs for industrial competitiveness and employment, by setting up machinery, both within and outside the projects, for the **swift**

translation of results into industrial and commercial successes.

Selection criteria

4.5.4. The **criteria** for the individual projects must be clearly defined and published in advance. They could be as follows:

- consistency with the key strategic options of Community research and innovation policy;
- involvement of operators from several Member States;
- boosting the Community’s industrial competitiveness and innovation capacity of Community industry, and that of society as a whole, and promoting intangible investment in research and training;
- strengthening economic and social cohesion by means of balanced geographic participation;
- a scale which is commensurate with the objective, ensuring that the various factors involved in research, development, demonstration, innovation and the market are present;
- balanced participation for companies (including SMEs), research centres, universities, and customers;
- machinery to speed up the translation of research findings into widely available technological and market innovations;
- concrete prospects of short and medium-term economic benefits and employment spin-off;
- prior assessment of scientific and technological risks and of the impact on market competition;
- provisional availability of enough national and Community funding to establish a critical mass.

Adoption procedure

4.5.5. The industrial association projects should first be submitted to the **new CREST** which is chaired by the Commission. This should make a preliminary selection of those projects whose form and content best match the above requirements, and help to rectify any shortcomings. Selected projects would then be publicized via European information networks in order to ensure the **greatest possible association** of interested parties.

4.5.6. Any projects selected in this way would be forwarded to the Commission, which would set up an **ad hoc Community assistance group, temporary** inter-DG Task Forces to provide assistance. The aim would be to back up and coordinate the project by bringing together all internal resources available in the framework programme and from other sources, and possibly to invoke Articles **130k** (supplementary programmes), **130l** (programmes undertaken by several Member States), and **130n** (joint undertakings) of the Treaty on European Union.

4.5.6.1. The Commission would thus act as a **catalyst** for national public resources, for contributions from other international and private organizations, and for the deployment - in consultation with the proposers - of the financial,

fiscal and training measures best calculated to maximize the viability, transparency and clarity of the project and of its European added value.

4.5.6.2. The Commission should pay particular attention to possible link-ups with financial support from the Structural Funds, the Cohesion Fund, the European Investment Bank (EIB) and the European Investment Fund (EIF). If any non-EU regions are involved, attention should be paid to possible link-ups with cooperation instruments (e.g. PHARE, TACIS, MED, ECIP).

4.5.6.3. The Commission should also ensure that resources are concentrated effectively, and **avoid an over-abundance of projects**, which might recreate the risks of dispersion which mar the Framework Programme.

4.5.7. **The memoranda of understanding** should formalize funding for each project granted by the Commission, by the Member States and by any other Community financial instruments which might be called into play, together with financial, fiscal and training back-up measures. These should be prepared by the Commission and signed by the Member States, the Commission and any other public and private bodies concerned at various levels.

4.5.8. The package of industrial association projects accompanied by the memoranda of understanding for each project is to be adopted by the Commission following a dialogue, according to pre-established procedures and timescales, involving representatives of the Commission, the European Parliament and the Member States. The aim would be to ensure geographic balance both between sectoral, development and general technology projects, and projects for the dissemination and transfer of results, and to reach a political consensus in principle.

4.5.9. Once the projects have been organized, the task forces set up and the above measures implemented, the Commission should present a **formal proposal** to the Council and the European Parliament. This proposal would set out the various projects proposed - accompanied by the memoranda of understanding - and would provide fact sheets specifying their impact on the environment, economic and social cohesion, employment, training and mobility of human resources, and on the implementation of the financial instruments for the Framework and other programmes.

4.5.10. The adoption of formal packages of industrial association projects would be the responsibility of the (research and industry) Council and the European Parliament, after consultation of the Economic and Social Committee. An accelerated decision-taking procedure would be used.

4.5.11. The procedure should ensure that decision-taking and administration arrangements should be rapid and flexible, in line with the requirements of industry and the sheer pace of change in global competition.

Assistance and regulation

4.5.12. The Commission would monitor and support assistance and regulation of the executive administration of the

project, ensure the coordinated use of all appropriate Community and national mechanisms and see that the project is carried out correctly.

4.5.13. The Commission should submit **annual reports** to the Council, the European Parliament and the Economic and Social Committee. As well as detailing the progress towards the current internal objectives of the projects, the reports should also - and above all - chart the potential spin-offs for the economy, employment and competitive innovation, and the actual contribution of all the Community and national instruments used, their effectiveness and any necessary improvements.

4.5.14. At the end of each project, a **final report** would be presented to the Council, the European Parliament and the Economic and Social Committee. Apart from assessing the extent to which technological and innovative objectives have been achieved, the reports should highlight the industrial and commercial spin-off in the short and medium-term for competitiveness and employment. They should ensure that the European public is immediately aware of the real Community added value provided by the project.

4.6. A coordinated Community policy framework for effective research and innovation

4.6.1. The Community has a range of up-and-running policies and instruments which can strengthen the research-innovation-market process and thus help to achieve the objectives of industrial competitiveness, economic and social cohesion and job creation. The Committee believes that this potential must be systematically harnessed in order to provide the attractive and supportive framework which is essential for RTD actions targeted on these objectives.

4.6.2. The Committee would here emphasize that **industrial policy** is vital in linking up research to the market. Above all, it is essential to group together at Community level those aspects of the research-innovation-market process which are already combined at national level.

4.6.2.1. The industrial assessment networks for the single market must be developed simultaneously and in close connection with the ETAN network. Legislative instruments for industrial and technological cooperation - in addition to those provided for under the EEIG - will also be needed. The introduction of the Statute for European Companies should be speeded up, and machinery established to eliminate tax and other obstacles to this cooperation. At the same time, new ways must be found to facilitate the establishment of consortia of European companies. A Community innovation and quality promotion policy is also urgently required.

4.6.2.2. The Committee would emphasize the need to strengthen European standardization policy, which should be coordinated with RTD policy in synergy with the pre-normative aspects of the various Community programmes. A substantial contribution to RTD policy could come from the establishment of a global policy for the protection of intellectual and industrial property, applied to patents, trademarks, design and models, and with particular regard to the protection of the new multimedia technologies. A

further contribution could come from regulation of the ethical aspects of research and its use in technology, in keeping with European Parliament resolutions and the Council of Europe Convention on bioethics.

4.6.2.3. To this end, the Committee feels that there should be close coordination between developments in the information society and the RTD strategic and operational framework.

4.6.2.4. Industrial policy could also provide a valuable contribution by streamlining procedures and improving the transparency of national and Community regulations, and by generally updating public intervention (e.g. the IDA telematics network, and the multiyear programme for electronic exchanges between industry and administration).

4.6.2.5. The Advisory Committee on Competitiveness should interact with CREST and IRDAC to provide a clear framework for action.

Finally, means must be found to facilitate industrial cooperation and data and partner searches, in close cooperation with RTD policy actions and bearing in mind the enterprise-policy measures already in force.

4.6.3. Special attention should be paid to coordination between RTD policy and **SME policy**, since, as emphasized at the European Council in Cannes of 26/27 June 1995, the greater flexibility, creativity and dynamism of small firms make a crucial contribution to innovation and job creation.

4.6.3.1. In this regard, the Committee would emphasize the importance of the White Paper's statement that "*small businesses working in high-technology sectors (...) or in manufacturing industry, represent a significant potential source of growth. In the USA, a very large proportion of emerging technologies was first developed by small firms which are better equipped to anticipate the needs of the market and to react rapidly*¹⁶."

4.6.3.2. The Committee would emphasize the key role to be played by innovators and those responsible for transferring the results of SME research, especially highly specialized micro-enterprises.

4.6.3.3. The Community must provide more transparency, information and assistance at grass-roots level if SMEs are to realize their full potential. In this respect, access to technology assessment and industrial assessment networks, and to simple, specially designed Community databases on projects and prospective partners are equally important. These could draw on the experience of the VALUE and SPRINT relay centres.

4.6.3.4. Synergies must be established between Community RTD projects involving SMEs, Community structural fund initiatives (especially the *SME, Adapt and Employment* initiatives) and other Community financial instruments for SMEs (EIB and EIF)¹⁷.

4.6.3.5. Streamlined administration, together with an improvement in the legal and tax environment and in credit access instruments, are vital to the encouragement of SME

research, innovation and quality policy. As the Committee has emphasized on several occasions, the Community should explore the scope for new financial mechanisms, particularly for business start-ups and speeding the transition from innovation to market. In this respect, it might be useful to consider mechanisms for accelerating and reducing the costs of the critical transition from prototype to end-product, and to launch a specific project for the creation of a European network of digital prototyping centres¹⁸.

4.6.3.6. The Euromanagement and Enterprise assistance actions should be boosted, as should links between universities, research centres and SMEs¹⁹. Even closer ties are needed with the Leonardo programme, in order to enhance apprenticeship and executive training. However, the Commission services must synchronize and simplify procedures so that RTD initiatives and these other instruments can be deployed jointly and generate synergistic benefits.

4.6.4. Article 130b of the Treaty on European Union states that formulation and implementation of all Community policies shall take into account the objectives of **economic and social cohesion**. Coordination of Community research and innovation instruments with those for regional development is thus a top priority²⁰. The inclusion of this principle in the fourth Framework Programme is in keeping with several Committee recommendations²¹. The Committee believes that the promotion of intangible investment in new technologies, quality, vocational training and work organization should receive more Structural Fund support, in close synergy with research and innovation policy.

4.6.4.1. To this end the Committee would suggest that innovative procedures and methods should be found for the coordinated, synchronized, joint use of regional and RTD policy instruments.

4.6.4.2. Furthermore, it is important to promote local development initiatives under regional policy - the Committee is currently drafting an Own-initiative Opinion on the subject - in keeping with the EU trend towards the

16 White Paper on Growth, Competitiveness and Employment, Chapter 4, point 4.3.(a)(i), 2nd paragraph

17 cf. Opinion of the Economic and Social Committee of 1 and 2 June 1994, OJ C 295 of 22 October 1994, p. 31

18 European network of digital prototyping centres: the creation of a European network of existing digital prototyping centres, to help companies, especially SMEs, keep costs down and reduce lead times from research findings to the directly marketable technological devices. Several software packages such as MEIKOS, CS TOOLS, PARSITEC, TELMAT, PERIHELION's HELIOS and IDIRIS can simulate mathematical models of the products and subject them to several tests which would be both lengthy and costly if carried out on actual prototypes. Simulation with parallel and super-computers is not only useful for the working features of the future product; it can also be used for production technology.

19 ESC Opinion of 25/26.01.1995, OJ C 102 of 24 April 1995, p. 25

20 ESC Opinion of 27.02.1992, OJ C 98 of 21 April 1992, p. 50

21 cf. note 4 above

regionalization of RTD activities. Community action to create a *European network of learning communities*²² could be helpful here.

4.6.5. Together with research, support for **training policy** is an indispensable intangible investment if we are to have a competitive European system, and keep the skills of its workforce in step with technological advances, thus avoiding the risk of social exclusion. The intelligence revolution involves all of society in a complex process in which research must go hand in hand with innovation and market requirements, in an interactive, non-linear system involving not only industry, but education systems and human resources, in a “learning society”, as emphasized in the first report by the Advisory Committee on Competitiveness²³.

4.6.5.1. As one of our most perceptive observers of economic history has pointed out, “*what Man desperately needs is a form of education which will enable him to make wise use of the know-how he has mastered. A savage trained to use advanced technology does not become civilized: at best, he will become an efficient savage. Technology and scientific know-how will only really enrich society if they are informed by knowledge and awareness*”.

4.6.5.2. Worker participation - through training - in the innovation process is therefore vital, as further-training programmes help to boost corporate competitiveness, and allow workers to keep up with new technologies and with changing production processes.

4.6.5.3. The Community instruments provided by the Leonardo and Socrates programmes and the new Community vocational training initiatives must complement each other in order to ensure, together with the structural funds, that actions are coordinated with Community RTD policy priorities.

4.6.6. Greater consistency should also be sought between RTD policy and **competition policy**. The Committee has repeatedly emphasized the need to align competition policy with the Union’s new objectives²⁴. Competition policy must be more than a mere constrictive regulatory instrument: it should help to improve competitiveness, employment and cohesion through a targeted policy on authorizations of inter-company agreements and on public funding which encourages in particular the development of SMEs, RTD actions and the creation of new jobs.

4.6.6.1. In the area of research and technological innovation in particular, a balance must be sought between the two objectives of preventing the emergence of dominant positions at world level, and promoting alliances of technological interest.

4.6.6.2. State aid rules have not been harmonized with the **GATT** provisions, which allow 75% public funding of research, and thus avoid penalizing European industry in the global market place.

4.6.6.3. The Committee notes that the Commission’s XXIVth Report on Competition (1994) provides for a suitably amended regulatory framework.

4.6.6.4. Furthermore, it is important to ensure that the inherent conflict between intellectual property rights and competition law does not end up stifling the technological innovation process. The Committee recently suggested that the regulations implementing Article 85(3) of the Treaty should provide for block exemptions, in order to promote the dissemination of technical know-how and the manufacture of new, improved products in the EU²⁵.

4.6.7. Another particularly relevant aspect is the need to ensure a consistent framework for international RTD cooperation, **external economic relations policy and development cooperation**. The Committee believes that this coordination is particularly important for those areas which are closest to the EU in geographic terms - Eastern Europe and the Mediterranean.

4.6.7.1. As far as Eastern Europe is concerned, the Commission must develop close internal coordination of PHARE and TACIS schemes and the RTD cooperation actions provided for under the Framework Programme which is open to them. This would ensure coherent, unequivocal action in a geographical area whose speedy transition to a market economy should be encouraged, with a view to future enlargement.

4.6.7.2. At the same time, consistency should be ensured with the Med 1995-1999 EU assistance programme for the Mediterranean basin. Here too, policy should be coordinated with RTD policy. EU Mediterranean policy must become multi-faceted, and cover various interconnected sectors, with the final objective of creating a Euro-Mediterranean Area. Hence the importance of a consistent EU strategy, which could benefit from the creation of the Euro-Mediterranean RTD Cooperation.

22 **European network of learning communities:** the creation of a European Network linking areal innovative systems and enabling circulation and synergies between innovation processes in the private and public sectors. The network would be based on specific communities with a finely-meshed uniform and small scale business fabric, a scientific framework and widespread technological culture, and a vanguard business which can catalyze innovate and financial resources.

The processes supplied and guided by these communities would allow the creation of a highly self-contained system (learning Community), which would be able to identify its training and information requirements, and meet them using both internal and external resources.

Information on the experience of learning communities already operating in the EU would be fed into the European network in order to boost their potential and promote their interrelation.

23 First report to the President of the Commission and the Heads of State and Government - Part IV, June 1995, p. 18 foll. -Advisory Committee on Competitiveness.

24 ESC Opinion of 21.12.1994, OJ C 397 of 31 December 1994, p. 59

ESC Opinion of 01.06.1994, OJ C 295 of 22 October 1994, p. 38

25 Additional Opinion of 21.01.1995, OJ C 102 of 24 April 1995, p. 1

4.6.7.3. In order to ensure greater consistency, visibility and transparency in all aspects of EU external relations²⁶, and particularly for these two geographical areas of strategic importance for the EU, the Committee feels that, in keeping with moves to decentralize Community management and control, the feasibility of creating "Euroterritories" should be considered. These would depend directly on Community Institutions, with the consent of the Member State concerned and of the Council of the European Union.

4.6.7.4. These Euroterritories could house decentralized European agencies handling relations and cooperation instruments with these areas, initiatives for the joint development of intangible investment in research and technological innovation and training, and coordinating extension of the European information society networks to these areas.

26 cf. European Commission Report on the operation of the Treaty on European Union, SEC(95) 731 of 10 May 1995, in preparation for the 1996 IGC.

Done at Brussels, 25 October 1995.

The President
of the
Economic and Social Committee

Carlos FERRER

The Secretary-General
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Economic and Social Committee

Simon-Pierre NOTHOMB

APPENDIX
to the
OPINION
of the
Economic and Social Committee
on the
*Coordination of research and
technological development policies*
(Own-initiative Opinion)

C O N T E N T S

1. The Treaty on European Union and coordination of RTD policies
2. The White Paper on Growth, Competitiveness and Employment and RTD policies
3. The Commission Communication “Research and Technological Development:
Achieving Coordination through Cooperation” (COM(94) 438 final)
4. Member States and RTD policy coordination
5. RTD policy coordination in the US and Japan
6. RTD policy coordination in the EU

1. The Treaty on European Union and coordination of RTD policies

1.1. The RTD policy objectives of the EU are defined in Treaty Article 130f. The fundamental aim is to strengthen the scientific and technological bases of Community industry so as to make it more competitive at international level, and to promote all research activities deemed necessary for the purposes of **other Community policies**.

All RTD actions and new-technology demonstration schemes, regardless of the **policy area** they fall within, come under the umbrella of the Framework Programme.

The Maastricht Treaty thus establishes full integration of RTD and other Community policies, i.e. Community research policy covers RTD activities relating to these other policies - such as energy, transport, the environment, agriculture and fisheries - and serves their needs.

1.2. For this purpose the Union, with a view to ensuring steady improvement of RTD, supports cooperation between undertakings, particularly small and medium-sized undertakings (enterprise policy), research centres and universities in pursuit of the following aims:

- balanced development and greater economic and social cohesion throughout the Community (cohesion policy, regional and structural policy, social and training policy);
- full exploitation of the potential of the single market, particularly in respect of public contracts (industrial, internal market, and trans-European network policy);
- the definition of common standards and the removal of legal and tax obstacles to that cooperation (standards policy, legal framework for intellectual property and technology transfers, competition and taxation).

The Treaty also refers explicitly to the need for RTD policy and other Community policies to be closely coordinated, so as to achieve consistent action.

1.3. In pursuing these objectives, Community RTD activities must complement Member State activities (Article 130g):

- by promoting cooperation with and between undertakings, research centres and universities in the implementation of research, technological development and demonstration programmes (industrial and scientific cooperation policy);
- by promoting cooperation with third countries and international organizations (external economic relations policy);
- by disseminating and optimizing the results of Community RTD activities (promotion of innovation policy);
- by stimulating the training and mobility of human resources (education and training policy).

The complementary nature of national and Community policies is thus explicitly mentioned in the Treaty.

1.4. Since 1987, Article 130h of the Treaty has recognized the Commission's right to take any useful initiative to promote national and Community RTD policies, in order to:

- eliminate unnecessary duplication of effort;
- ensure that divergent tendencies, contrary to Member States' interests, do not appear;
- improve the efficiency of national and Community projects by sharing tasks or concentrating resources;
- harmonize procedures for formulating and implementing RTD policies within the Community.

Moreover, further to the Commission's still largely unspecified potential scope for action, Article 130h enshrines the Community's and Member States' explicit duty to coordinate "their research and technological development activities so as to ensure that national policies and Community policy are mutually consistent". Apart from the "de facto" coordination currently afforded by EU research programmes, there are no Community-level measures for developing truly coordinated activities, strategies and programmes or for promoting vehicles for cooperation between undertakings. Such vehicles could ensure close links between users and potential manufacturers of new products and components right from the programme-planning stage. Furthermore, effective arrangements for technology transfers could be set up, and improvements made in corporate access to computer networks, financial services, training in new technologies and protection of innovations.

1.5. In implementing the Framework Programme for Community RTD activities, the Community may refer to Articles 130k, 130l and 130n of the Treaty, which provide for: **supplementary programmes** involving the participation of certain Member States only; **Community participation** in programmes undertaken by several Member States; **joint undertakings** or any other structure necessary for improved execution of Community RTD programmes.

Thus far, "the Commission has not launched any initiative outside the existing Community programmes nor in connection with the implementation of EC Treaty Articles 130k (supplementary programmes) and 130n (joint undertakings)", as the Court of Auditors pointed out in its latest report¹, which condemns the lack of efficient coordination, particularly in the framework programme.

¹ OJ C 327 of 24.11.1994

The document which the Commission President presented to the European Council in Corfu convinced the latter that national policy coordination was one of the six most important issues in the implementation of the White Paper on Growth, Competitiveness and Employment.

Furthermore, in order to ensure that the conditions necessary for the competitiveness of the Community's industry exist, the fourth indent of Article 130(1) of the Treaty on European Union states that Member State and Community action must be aimed at "fostering better exploitation of the industrial potential of policies of innovation, research and technological development".

1.5.1. The Council is continuing its debate on closer Community research coordination through improved national policy cooperation, on the basis of the Commission Communication "Achieving Coordination through Cooperation" (COM(94) 438 final). On 10 March 1995 the "research" Council:

"recognized that greater coordination between national and Community RTD policies could be achieved in pursuit of the objectives laid down by the Treaty, in particular the desirability of Community added value, taking account of the desirability of promoting stimulating competition between the Member States:

- with regard to determining RTD policies, such coordination could be based on better use of the existing structures, namely the specific programme committees (whose duties could be extended to include exchanging information on national RTD policies) and the reformed CREST, one of whose main tasks would be to contribute to the coordination of the RTD activities of the Community and the Member States;*
- with regard to the carrying out of research activities, the role of the programme committees continued to be important in improving cross-programme coordination. As far as the possibilities afforded by the instruments provided for in Articles 130k and 130l of the Treaty and by opening up national research programmes to research bodies in other Member States were concerned, these were complex issues which required more detailed examination;*
- with regard to international cooperation, more systematic alignment of Member States' positions concerning RTD in international organizations should be sought."*

1.6. With this in mind, the Commission Communication emphasizes that coordination is "a mechanism which promises major advantages for increasing the efficiency of all RTD activities but which also imposes greater constraints and, hence, is harder to accept", and "proposes a progressive approach to achieve better coordination by intensifying cooperation at the various stages of drafting and implementing RTD policy."

2. The White Paper on Growth, Competitiveness and Employment and RTD policies

2.1. It is now universally accepted that optimal use of RTD funding is a basic factor in squaring up to the problems involved in the international competitiveness of economic systems.

2.2. This basic factor has now become a vital element in maintaining and strengthening capacity for economic growth and job creation, particularly in connection with two interrelated developments: the globalization of the marketplace and the almost instantaneous spread of technology, which is mainly responsible for globalizing and speeding up innovation.

2.3. The high-tech factor is all the more critical since it is playing an increasingly important role in employment redistribution world-wide. It must be brought home to the general public that its contributions to national and Community budgets for RTD in the European economic system produce concrete results for the competitiveness of European businesses, and help Europe as a whole to face up to the challenge.

2.4. The White Paper identifies a major European weakness in the fact that the Community invests proportionately less in RTD - both in human and financial terms - than the USA and Japan. This datum should be treated with caution, since the use made of the funds is more important than the amount spent, just as researcher training and utilization is more important than the actual number of researchers. There are, however, a further two weaknesses in the system which could well jeopardize the efforts - in terms of human and financial resources - made by the European taxpayer to make economic growth and job creation more stable and competitive:

- the lack of coordination at various levels of RTD activities, programmes and strategies in Europe: research is often conducted within self-contained institutional frameworks (this is particularly marked in military research), and thus marred by duplication and a lack of synergy;
- the comparatively limited capacity to convert scientific and technological achievements into industrial and commercial successes in a short space of time: "in all other fields of advanced technology, with a few exceptions, European firms have failed to convert their scientific and technological achievements into products and competitiveness." (White Paper)

2.5. In order to help technology to trigger growth and employment, the White Paper recommends that the EU and the Member States should take adequate measures on these three fronts:

2.5.1. Aggregate research funding should be gradually increased to 3% of GDP; in view of current budgetary constraints in all European countries, the private sector should bear a larger share of the spending.

2.5.2. Gaps in the effective coordination of research activities, strategies and programmes in Europe must be filled:

2.5.2.1. in order to coordinate national research organizations, by taking steps to strengthen and give institutional status to machinery for concerted action (European Science and Technology Forum; European Science and Technology Assembly).

2.5.2.2. so that companies, particularly those with in-depth research programmes, can step up strategy coordination, action should be taken to set up EU-level vehicles for cooperation on precise technological goals (e.g. multimedia products, the environment, health) by potential users, component suppliers and manufacturers of new and end-products.

2.5.2.3. support should be provided for coordination of market initiatives in new geographic areas, such as the countries of Central and Eastern Europe, the Mediterranean, Latin America and Asia; this should be accompanied by effective mechanisms for technology transfers and the protection of intellectual property.

2.5.2.4. closer cooperation is needed on large-scale projects and programmes addressing the urgent needs of the planet: energy, global change and food.

2.5.2.5. improved coordination is needed between the fourth Framework Programme, national efforts and those of other European bodies, by defining new large-scale research projects in conjunction with national research bodies and companies; and by adapting the rules and instruments to be laid down by the fifth Framework Programme for Community research, since "there are clearly limits to the single formula of 50% funding of the costs of pre-competitive research projects."

2.5.2.6. in order to facilitate the adoption of converging, voluntary measures in the Member States, the possibility of agreeing guidelines at Community level on business start-ups, funding of the application of research findings and changes in social security arrangements for scientific staff will have to be studied. Steps will also have to be taken to ensure that the measures implemented are compatible with competition policy.

2.5.2.7. in order to maximize the impact of the measures taken at Community level and by the Member States, the Community's RTD, external relations and commercial policies must be made more compatible.

2.5.3. The comparatively limited capacity to convert scientific and technological achievements into industrial and commercial successes which, according to the White

Paper, is "the greatest weakness of Europe's research base", must be improved radically:

2.5.3.1. so that scientific and technical know-how can better respond to the requirements of industrial competitiveness and the market: adoption of the Green Paper on the promotion of innovation policies in the European Union. This document identifies requirements in terms of finance, taxation, human resources, technology transfer, protection of intellectual property and promotion of venture capital, particularly for SMEs and company start-ups.

2.5.3.2. to ensure that companies - particularly SMEs - have equal and quick access to new technologies and research projects, the technological audit and quality control methods used in approval procedures should be coordinated at Community level.

2.5.3.3. to move from a linear system of innovation - where innovation happens in isolation - to the complex innovation mechanisms of today. These are always interdependent, and are organized in "upstream" phases, linked to technology, and "downstream" phases, linked to the market. They should be connected to trans-European digital and multimedia networks. Also necessary are greater transparency of information and improved dissemination of technical progress among consumers and operators, and especially European, national and local public authorities.

2.5.3.4. so that all those involved in technological innovation can participate actively, investment in intangible assets must be coupled with steps to integrate data transmission/processing and education/continuing training in the latest research findings and technological innovations.

2.6. The speed and scale of the changes facing Europe, global competitiveness, high unemployment and the pace of technological innovation make it essential to pursue a coordinated European RTD policy, both for the home market and the external market. Policy should be designed to shorten lead times, i.e. the time-gap between the planning stage and the economic effects on the market, and cover all players in the process: from those involved in identifying priority action, up to the end-users of the newly-marketed technological product.

2.7. Given this background, it is both anachronistic and risky for Europe to continue to implement unrelated policies to deal with RTD, which is an indivisible process. What is needed are integrated policies which: coordinate activities at various levels and in the different sectors; focus human and financial resources, and the instruments to administer them; provide mechanisms for quick, widespread circulation of results throughout the Community markets, thus ensuring economic and social cohesion; set up arrangements which help to ensure that people will accept and play an active role in managing innovative technological processes, and involve and train the potential user right from the planning stage.

3. The Commission Communication "Research and Technological Development: Achieving Coordination through Cooperation"

3.1. The Commission emphasizes that, compared to the international competition, European research is hindered by the fragmentation of research policies in the EU and the ensuing dispersion of results. The aim of the October 1994 policy document is gradually to achieve better coordination of European research activities and policies through closer cooperation.

Currently, "only approximately 13% of public RTD resources are allocated to European cooperation, while the rest are decided and managed autonomously by the Member States."

The trend to freeze or cut public RTD budgets in most Member States since the early 90s has created a need for more efficient spending and a more consistent use of resources through closer cooperation and coordination, so as to mitigate the adverse effects of policy fragmentation, whilst ensuring that action has a greater impact and is more effective.

3.2. The Commission Communication proposes a gradual, multifaceted and flexible approach, on three different levels: formulation of RTD policies; implementation of research activities; and international cooperation.

3.2.1. The first level concerns technology forecasts and the collection and exchange of information in order to provide sound, comparable information on national RTD policies and a common basis for analysis and forecasting, and to formulate scenarios for consideration by a reformed CREST Committee and at regular informal meetings at ministerial level.

3.2.2. The second level, concerning the implementation of research activities, aims to: introduce fresh flexibility to soften the rigid barriers between Community research programmes, via the role of the programme committees, in order to coordinate the scope of the specific programmes on the one hand, and to coordinate national and Community programmes on the other; define consistent frameworks for action in specific areas and step up talks with industry, users and producers, research centres and universities; and explore the feasibility of setting up complementary programmes, involving Community participation and the creation of joint undertakings. To this end, and in view of potential pilot projects, the Commission has already set up several inter-programme "Task Forces" in areas such as the car, train and plane of the future; educational multimedia; vaccines for viral infections; and intermodal transport. More are in the pipeline, such as those on clean technologies and technology relating to the information society. Furthermore, in order to avoid repeat initiatives and to maximize synergies, the Commission recommends stepping up cooperation with European research bodies and organizations, such as the ESA, EUREKA and the EMBL, on the basis of the cooperation framework set up under the CERN-EC administrative arrangement in October 1994.

3.2.3. The third level concerns international cooperation. Given the successful coordination of European research on controlled thermonuclear fusion with ITER, the Commission recommends systematic Community consultation before meetings of international bodies. The aim is to ensure that the Union will be able to speak with one voice at international gatherings, and participate in a coordinated manner in international programmes such as those on "global change", genome sequencing and standardization.

4. Member States and RTD policy coordination

4.1. National RTD policies continue to have different connotations, given the diverse historical and cultural background of the Member States, and their different socio-economic structures and institutional and administrative systems. The globalization of the marketplace and the crucial importance of the high-tech factor have put Member States' policies under strong pressure.

4.2. It is against this background that Member States have recently effected important institutional changes in RTD:

- rationalization of RTD expenditure to accommodate budget cuts, and to comply with the economic and monetary convergence criteria enshrined in the Treaty on European Union;
- changes in coordination structures at the highest governmental levels;
- reorganization of administrative backup structures for research and innovation;
- reforms in university, education and training systems.

4.3. To give just a few significant examples, in 1992, for the first time in 30 years, the United Kingdom gave responsibility for coordination of all science and technology issues to an independent science ministry, namely the Office of Science and Technology. In Germany, as well as putting in place measures for decentralizing RTD policy management to the Länder, in 1994 the Federal Government set up a Technology Council designed to involve all players, at every level, more closely in the development of dynamic relations between the world of science and the universities, politics and industry. In the Federal Parliament, besides the Bundesländer commissions for teaching programmes and encouraging research, the TAB (Office of Technology Assessment) - which also includes independent institutes - has been operative since 1989. The other Member States, and the southern European ones in particular, have also given their university and RTD structures a thorough overhaul.

4.4. Despite the diversity of RTD institutional machinery, there has been a convergence of the objectives of these policies and implementation mechanisms².

² EUR Report 15897 EN, October 1994, European Commission.

The objectives endorsed by most Member States include:

- the need to coordinate the scientific, academic, industrial, political and administrative components of the RTD system;
- the development of technology assessment mechanisms and bases for enhanced capacity to take strategic decisions on RTD options;
- the need to coordinate intangible investment (education and training; research and technology);
- upgrading of human resources in order to extend the production base, through continuous training and informed participation in innovative technological processes;
- greater attention to the needs of society as a whole, especially the environment and quality of life;
- improved cooperation between industry and universities, and, more generally, between the private sector and public research bodies;
- improved training and mobility for researchers;
- promotion of innovation and technology transfers (exploitation of results, especially by SMEs, and development of innovative SMEs);
- support and promotion of industrial research, via legislative measures and tax incentives;
- maintenance and development of high quality basic research;
- regional development of RTD activities;
- strengthening international cooperation;
- fostering public acceptance of RTD.

4.5. A further problem the various Member States have in common is coordination between civil and military research policies. It has been estimated that about 20% of military R&D has potential civil applications, whilst military applications are increasingly dependent on civil technological innovation and “dual technology” developments.

Almost 60% of UK R&D public spending goes on military applications; the figure is over 45% for France, followed by Sweden, Spain, Germany and Italy.

At Community level, the WEU launched the EUCLID (European Cooperative Long-Term Initiative in Defence) programme of military research in 1986. The Advisory Committee on Industrial R&D (IRDAC) recently emphasized the importance of stepping up European cooperation in this area, so as to avoid duplicating ever-increasing costs and to exploit synergies between civil and military research activities.

5. RTD policy coordination in the US and Japan

5.1. An analysis of global technological and industrial indicators shows that, over the years, Europe has become

less and less competitive compared to the other two major trading partners.

Despite substantial RTD commitments, and despite certain relative technological advantages, the situation in terms of absolute advantages compared to the US and Japan is somewhat worrying, particularly in high-tech areas.

Whilst the EU has developed a single market for goods, people, capital and services, it is still some way from achieving a single market for research and technological innovation. The fragmentation of the market goes hand in hand with fragmentation of the RTD policies which govern it, and also reflects Member States’ differing national innovation systems.

Despite the unified nature of the US and Japanese markets and their research and innovation systems, each of these two countries has stepped up coordination of its policies and boosted the institutional mechanisms which regulate them.

5.2. The Clinton administration has made RTD policy coordination a key priority and introduced important institutional changes at federal level.

The institutional machinery was strengthened in 1993 by the creation of the National Science and Technology Council (NSTC). This reports directly to the President, and brings together top-level White House officials and the heads of federal RTD agencies. The President is assisted by a new Office of Science and Technology Policy, headed by his scientific adviser, and by the National Economic Council.

The NSTC’s task is to define clear objectives for RTD policy at federal level and to ensure that policies and programmes are mutually consistent. The NSTC is carrying out a horizontal survey on federal RTD expenditure, in order to coordinate it and ensure a focus on key sectors such as information technology, medical research, transport, increased basic research and international cooperation.

The definition and implementation of RTD programmes in the US is therefore extremely centralized at federal level. In 1993, 42% of total expenditure on RTD was funded by the federal administration, 52% by industry and only 6% by the state legislatures and universities.

Furthermore, half of national R&D expenditure is concentrated in six of the 50 states (20% in California alone).

In cooperation with the private sector, various programmes have been launched to promote technological innovation and steps have been taken to further quick, efficient commercialization of technology, together with the effective dissemination of technological and managerial information to SMEs.

5.3. The third major trading unit, Japan, has a cooperation-based society in which coordination, osmosis and cohesion are strongly emphasized. 2.7% of the national budget is spent on RTD. The highest decision-making government body is the Council for Science and Technolo-

gy (CST), which is chaired by the Prime Minister and is responsible for devising RTD policy options. In early 1995 the CST launched a medium to long-term basic plan for scientific and technological research which sets out 177 RTD objectives for the next ten years.

Japan's RTD objectives have been divided into seven categories: forecasting technologies and the analysis of wide-ranging complex phenomena; experimental technology on living organisms, particularly ageing and biotechnologies; experimental technologies on inorganic substances and the manipulation of atoms and molecules; results analysis technologies; multimedia technologies, especially as applied to medicine; virtual reality technologies to assist decision-making; technologies for micromachines and nanomachines.

For some time now Japan has been promoting close cooperation between the public research institutes and their private and foreign counterparts, and has established a legislative framework for this. The Science and Technology Agency (STA) has a budget heading for special funds for the coordination and promotion of science and technology. In 1993 this included 13,300 million yen for coordination of research in areas of particular national interest. With the encouragement of the CST, the STA is planning an inter-ministerial research information network which will bring together universities, national institutes and other parties involved in research. A prototype will soon be set up and this will be followed by a national network. Technological assessment in Japan is conducted via the "Delphy" framework instrument for research and data collection. Schemes modelled on the Delphy system have been adopted in several EU countries.

6. RTD policy coordination in the EU

6.1. Since the early 1980s, EU multiyear strategic planning of common research activities has been conducted via the Framework Programme. The aim of the programme is to provide separate, structured coordination of the RTD actions which Member States decide to carry out together. In 1987 the Single Act officially gave the Community responsibility for RTD policy, thus providing a legal basis for scientific and technological cooperation at Community level. As the countdown to "objective 1992" began, it became even more clear that if the Community did not pool its technology and innovation capacity, the single market would be a failure in technological terms. Even then it was felt that there was a need to have transparent instruments for reciprocal information and coordination; to boost cooperation and synergies; to eliminate unnecessary duplication; and to offer companies more favourable conditions for technological innovation in Europe.

6.2. The action launched under the RTD Framework Programmes, from 1984 right up to the current fourth programme, has been gradually refined in order to increase the efficiency and consistency of Community intervention:

- all research, technological development and demonstration activities have been grouped together in a single system;
- ties with other Community policies have been strengthened;
- structures and procedures have been made more transparent;
- participation rules have been improved;
- top-down and bottom-up mechanisms have been used in new combinations, and the end users of research have been more closely involved in programme definition;
- the specific nature of the Joint Research Centre has been enhanced, thus enabling it to act on the same competitive footing as other public and private research bodies;
- the establishment of the Institute for Prospective Technological Studies in Seville should provide the Community with an instrument for forecasting scientific developments and technological innovations;
- machinery has been set up for systematic cooperation with European research agencies, and with EUREKA in particular, in order to achieve a smooth progression from research to innovation to market;
- the exploitation and dissemination of research findings have been the subject of a specific action, as well as being catered for in the individual programmes;
- cooperation with third countries and international organizations has been restructured;
- measures to encourage more active involvement of SMEs have been introduced.

6.3. The Community has sought to establish instruments for linking Community and national RTD policy. These cover both management and the determination of priorities.

6.3.1. Involvement of national authorities, companies and research centres in the shaping of RTD policies has been entrusted to certain Commission and Council consultative bodies, such as CREST³, IRDAC⁴, CODEST⁵ and - most recently - the European Science and Technology Assembly. CREST, which brings together representatives from the Member States and is chaired by the Commission, has been entrusted with the following tasks since 1974:

- coordination of national and Community policies at both sectoral and general level;
- shaping and execution of projects of Community interest.

3 Scientific and Technical Research Committee.

4 Advisory Committee on Industrial R&D.

5 Committee for the European Development of Science and Technology.

The Commission has used priority-identification panels to help with the finalization of specific programmes and in particular the associated work plans. These panels have ensured the close involvement of experts from universities and research centres, of industry and of end-users.

Regular meetings of the Directors-General from Member State ministries for research and industry have also helped to boost cooperation on national research policies.

6.3.2. The programme committees - made up of representatives from the Member States - were intended to ensure coordination between national and Community programmes implementing the research actions.

6.3.3. Nonetheless, 87% of research funding in the EU is still decided and managed independently by the Member States, as against only 13% under European cooperation schemes. The "concerted actions" which should enable the Commission to coordinate national research projects in the areas covered by the Framework Programme, account for less than 3% of the total budget allocation. No use has yet been made of the specially-funded measures for comparing national programmes and policies, defining common strategies and pinpointing areas where the best results can only be achieved at European level.

6.3.4. Coordination of Community research activity has so far been restricted to the "de facto" coordination provided for under the Framework Programme. However, its role in ensuring consistent EU research action has been hindered by the rather rigid boundaries between the specific programmes and by red tape. Consequently, the framing and management of RTD programmes have often been left to restricted groups: "the programmes are designed within a circle which remains closed. The elaboration of proposals is very unreceptive to outside influences". Moreover "another element with negative effects is the compartmentalization of administrations and ministries which is noticeable in the Member States"⁶ and the associated lack of any systematic, rapid exchanges between the administrations covering research and industry. This has negative effects on the transparency, viability, and efficiency of the research action, and makes it difficult to identify the research and technological innovation needs of European consumers and industry. There is thus still a risk of financing projects "through pure inertia", and of the "tendency of the programmes to self-perpetuation"⁷. An earlier Committee Opinion considered it "essential that the bureaucracy inevitably associated with the wide-ranging responsibilities for coordination [be] kept under the strictest control, if innovation and initiative are not to be affected adversely"⁸.

Despite the Commission's efforts to group together and coordinate partially overlapping specific research programmes, there has often been a tendency to dispersion and to the inclusion of marginal sectors.

This is the position as regards administrative methods; "where legislative and institutional mechanisms are concerned, mention should be made of the complex and lengthy procedure followed" - only partly alleviated by the inter-institutional agreement - "and the fact that it overlaps

with the annual budget procedure, giving rise to a perennial source of potential inter-institutional conflict"⁹.

6.3.5. Rather than measuring the efficiency of the dissemination of research findings and their impact on European innovation, Community research evaluation reports tend to concentrate on the internal workings of the individual specific programmes, and not on commercial and industrial achievements in terms of global competition.

6.3.6. COST (European Cooperation in the field of Scientific and Technical Research) seems to be the only valid support for concerted European cooperation actions, but the Commission has not yet given it priority status¹⁰.

6.3.7. There is still considerable scope for improving coordination with other Community policies, particularly regarding global strategy. This should give top priority to the research - innovation - market process, in order to speed up the economic and employment spin-off from common research and innovation throughout the Community.

6 Communication from the Commission on Research after Maastricht: an Assessment, a Strategy, SEC (92) 682 of 9 April 1992, point 78, pages 25 and 26.

7 cf. note 6.

8 Opinion of the Economic and Social Committee on the Fourth Framework Programme of Community activities in the field of research and technological development (1994-1998) of 26 May 1993, OJ C 201 of 26.7.1993, page 36.

9 cf. note 6.

10 Court of Auditors Annual Report, p. 185 et seq., OJ C 327 of 24.11.1994.

OPINION

of the
Economic and Social Committee
on the

***Impact of the CAP on the employment and
social situation of farmers and farmworkers
in the European Union (15)***

On 22 February 1995 the Economic and Social Committee, acting under Rule 23(3) of its Rules of Procedure, decided to draw up an Opinion on the

Impact of the CAP on the employment and social situation of farmers and farm workers in the European Union (15).

The Section for Agriculture and Fisheries, which was responsible for drawing up the Committee's Opinion on the subject, adopted its Opinion on 28 September 1995. The Rapporteur was Mr WILMS, and the Co-Rapporteurs Mrs SANTIAGO and Mr LAUR.

At its 329th Plenary Session (meeting of 25 October 1995), the Economic and Social Committee adopted the following Opinion nem. con. with two abstentions.

1. The Common Agricultural Policy and employment

1.1. Since the 1960s the European Union has endeavoured through the Common Agricultural Policy to guarantee the incomes of its farmers. In the 1980s agricultural production, and with it the market organization costs on the most important agricultural markets, rose considerably, without the income guarantee target being consistently reached. A reform was therefore unavoidable. The 1992 reform of the Common Agricultural Policy and the GATT Uruguay Round Agreements have had a significant impact on employment in the rural areas of the Union. The decision to cut farm prices in order to lessen the EU's structural surpluses and financial burdens, and the commitments to cut production have **exacerbated** employment problems on the land, albeit with regional variations. The drop in production will in the **short and medium term primarily** affect farm workers, but self-employed farmers whose farms become uneconomic will also be affected. Job losses will occur in those sectors which were hitherto heavily subsidized. There is thus a tendency for agricultural production potential to become concentrated in favourable areas. In the long term it is possible that the number of workers on farms which increase in size may rise in these areas. Any future revision of EU agricultural policy must also take account of the implications for employment of policy changes.

1.2. The considerable effects on employment can also be seen in the agri-food sector, the food processing industry, the foodstuffs industry and the agricultural supply sector. Depending on the scale of agricultural employment (in the wider sense) in each region, there is a threat of employment spiralling downwards and this could endanger the quality of life and the attractiveness of rural areas.

1.3. More than half of all Europeans live and work in rural areas. However, such areas are very important not only because they provide their inhabitants with a living and working environment, but also because they are areas where urban dwellers can seek recreation. The countryside has an intrinsic value because of its varied landscape. It provides a whole range of biological species with a vital habitat, and acts as an ecological balance to urban centres.

1.4. Some rural populations include a significantly higher than average number of people seeking jobs in vain. Commuting to jobs in the large conurbations means long,

time-consuming and expensive journeys for many workers. The long journeys between home and work generate a high volume of additional traffic. However, in terms of the viability of rural areas this is not as bad as a complete exodus which intensifies the problems in conurbations. (...) Hence there are strong environmental arguments for maintaining viable rural areas in the European Union.

1.5. Since the "first labour market" is underdeveloped in rural areas, in many cases a "second labour market" has been formed, where a wide range of schemes, some with public support (e.g. the LEADER Programme) seek to provide jobs particularly for more vulnerable groups. An example of this are the job promotion, employment and structural development companies (ABS) in the new federal Länder of Germany.

2. Women in agriculture

2.1. Women are among the most important players in any development process forming part of the **structural transformation** of agriculture and the countryside.

2.2. Many women work on the land (700,000 of the total of 2.5 million farmworkers are women). In general they take on the least skilled and lowest paid jobs in the agricultural sector. In some rural areas of the European Union, women are dependent on working at home or doing short-term seasonal work and enjoy only minimal, if any, social protection.

2.3. Family farms are a characteristic of western civilization: 90% of holdings in the EU are family holdings in which women play a leading part. Women have taken on more and more responsibility in family holdings, and in many cases their contribution is decisive for the holdings' survival. It is the woman who keeps the farm running when the man takes on an additional job outside agriculture to boost the family income.

2.4. It is difficult to analyze women's employment and work in the agricultural sector. Such an analysis must look at the close-knit family/farm unit, where most of the farm-related tasks are carried out by family members. Because of this complex situation many Member States of the Union recognize only the head of family as the true manager of the holding, and **as an entrepreneur** he has to bear the economic and financial responsibility for the holding.

2.5. The work of a woman, especially in her capacity as a family member lending a helping hand, often remains “invisible”; it is not included in statistics or covered by legal provisions. Official recognition of this form of work and/or acknowledgment of an occupational status, e.g. as co-entrepreneur, is long overdue.

2.6. In the breakdown of tasks and responsibilities within the holding, women are given no clearly defined occupational status, and in social terms women are often subordinate to men, who normally occupy managerial roles.

2.7. 75.7% of all farm managers in the EU are men and only 24.3% are women. Yet 73.7% of all family helpers are women. In certain rural areas, especially in southern Spain, Portugal, northern France, Italy and Scotland, the female participation rate in the farm labour force is, however, on the increase. Here the official statistics for women farmers are close to reality.

2.8. The CAP reform gives women an important role in the future shaping of the countryside: the new accompanying and regional policy measures, through diversification of agricultural activity, systematically promote new sources of income (crafts, rural tourism, small-scale processing of farm products, environmental protection, nature conservation and new technologies).

2.9. Diversification of work aims to contribute to the survival of family holdings and thus to open up new job opportunities for the younger generation.

3. Social security and migration

3.1. Traditionally farmworkers have migrated, and still migrate from non-EU Mediterranean countries to the southern Member States of the European Union. The recent political upheavals in Central and Eastern Europe have significantly altered migratory patterns on the agricultural labour markets of the northern Member States. Because of the continuing deep structural crisis in the former COMECON countries, the migratory patterns have not yet stabilized, and they cannot therefore be fully defined.

3.2. It can be assumed that immigration pressure will continue. This has considerable effects on employment conditions. The number of long-term employed is falling while that of seasonal workers is rising. Standards of wages, housing and job security are under threat.

4. Agricultural insurance systems in the EU

4.1. Common legal provisions

4.1.1. The shaping of the social insurance systems remains the exclusive preserve of the Member States. Even the Treaty of Maastricht altered nothing in this respect. Who is insured, what benefits are provided, and how these are financed - all this is still decided at national level.

4.1.2. Nonetheless there are certain common legal provisions, such as Directives 86/613/EEC and 79/7/EEC on implementation of the principle of equal treatment of men and women (when self-employed, and in the field of social security), which should be borne in mind. Any direct or indirect gender discrimination is thereby prohibited.

4.1.3. The absence of any legal status as “woman farmer” in a number of Member States has the effect that women farmers have no independent right to national social-insurance benefits.

4.1.4. Also of interest in this context is Regulation (EEC) 1408/71, which is based on Article 51 of the EEC Treaty. Under this regulation, insurance or residence periods spent in different Member States must be added together when calculating eligibility for certain benefits. This expressly applies also to specific agricultural old-age pension schemes, where these exist. This provision is intended to prevent those who move jobs from one Member State to another losing the benefit of their pension contributions, and thereby serves the free movement of workers and insured farmers in the Union.

4.2. Insurance systems

4.2.1. Most Member States do not have a specific agricultural old-age pension scheme, and farmworkers and farmers alike are insured under the general pension system.

4.2.2. Belgium, the Netherlands, Ireland, Luxembourg and Portugal have no special agricultural old-age pension scheme: their farmers and farmworkers are members of the general social security system; nor do Denmark, Sweden, and the United Kingdom, where old-age pensions are paid to all citizens and are fully or mainly funded from taxation.

4.2.3. Special **old-age pension systems for independent farmers** exist in Germany (since 1995 also in the new federal Länder), France, Greece, Spain, Italy, Austria and Finland. Some of these pension schemes are however only administered separately (i.e. are otherwise part of the general social security system), and benefits are broadly the same as those of the general system (as in Spain and Finland).

4.2.4. Special **pension systems for farmworkers** exist only in Greece, Spain, Italy and France; however, some of these are only administered separately. In the other Member States they come under the rules of the general social security systems.

4.2.5. The often low level of old-age pensions for farmworkers in the Member States with social security systems is improved in some countries through contractual and/or statutory supplementary pension schemes.

5. Aims of the ESC Opinion

5.1. Promotion of employment

5.1.1. Job creation is the key to the viability of rural areas in the Union. Top priority must be given to combating

unemployment. Safeguarding and creating jobs in rural areas requires a mix of agricultural, labour, economic, social, regional and environmental policy measures with a view to equal treatment of urban and rural areas or sectors of the economy. This requires a major rethink of partnership-based cooperation. Accordingly, policy instruments such as the Structural Funds should be constantly reviewed with a view to tapping the major employment **potential** of rural areas.

New employment opportunities and sources of income could be created by

- improving the infrastructure of rural areas (which is also one of the most important prerequisites for the other proposed measures);
- rewarding special environmental achievements in farming over and above the normal obligations;
- supporting agriculture based on sustainability and ecological considerations (e.g. organic farming);
- developing the regional marketing and processing of agricultural produce into high-quality foodstuffs;
- promoting the cultivation of agricultural and forestry products to provide renewable raw materials for use in technology and energy production (e.g. by means of tax incentives);
- large-scale reforestation programmes in regions where agriculture is no longer viable; programmes to combat forest fires;
- improving the condition and management of woodland;
- making use of the opportunities afforded by biotechnology;
- developing rural tourism;
- developing service-sector jobs in rural areas (ranging from nature conservation and upkeep of roads to the use of information technologies) (e.g. teleworking);
- large-scale promotion of skills-acquisition measures (see 5.6.).

5.1.2. Particular attention should be paid to creating possibilities for combining different sources of income. There should be a review of incentive policies and tax, business and social regulations which militate against this, as well as the sometimes large amount of red tape they entail. However, the possible repercussions for existing rural trades should be borne in mind in order to preserve equality of opportunity.

5.1.3. EU resources should continue to be concentrated on particularly disadvantaged rural areas. It is important to coordinate regional and local development plans so as to avoid conflicts between projects and land-use requirements.

5.1.4. The Member States must also work together to control new patterns of migration and cross-border employment bearing in mind the commonly agreed rules on freedom of movement and the internal market. The ESC is in favour of European regulations enabling the establishment

of minimum standards by statutory instruments or collective bargaining.

5.2. Health and safety at work

5.2.1. There is an urgent need for an initiative from the Committee to encourage the transposition into national law of directives, such as those on health and safety, which have not yet been implemented in many Member States. It would seem that the minimum worker-protection requirements set out in the directives have probably not yet been fully implemented in numerous Member States, so transposing such directives can be expected to bring an improvement in health and safety protection.

5.2.2. The proposed standardization by the CEN should be speeded up to provide a package of norms which complement basic safety requirements. This will create a verifiable common safety level.

5.2.3. Health and safety provision must also be stepped up for family farms. Standards must be harmonized to prevent distortions of competition within the EU.

5.3. Equal opportunities for women

5.3.1. The European Parliament has called upon the Commission to recognize the occupational status of women farmers by modifying Directive 86/613/EEC. It is recommended that Member States accord independent rights to the spouses of farmers. Unfortunately, not all Member States have heeded this recommendation. The Commission should therefore take effective action against those Member States which do not apply the legal rules. A comprehensive obligation for women working in agriculture to have insurance cover must be introduced to combat specific “female” poverty in old age.

5.3.2. In order to enable women to take on new tasks in the preservation and development of rural areas, support should be given to the establishment of social services in the following sectors:

- care for children and the elderly,
- transport,
- health,
- relief services,
- centres to promote the employment of women and provide them with business advice.

5.4. Social security for the elderly¹

5.4.1. The Information Report by the Section for Agriculture and Fisheries dated 11 December 1985² stated that agricultural workers were a low-income group who receive less in absolute terms from social security schemes based

¹ Section 5.4. does not apply to Member States where there is no income-related social security scheme.

² CES 728/85 fin

on income than the average worker in industry. This is still true today. The level of old-age pensions for farmworkers and farmers must therefore be improved where adverse discrimination exists, especially in the case of social security systems based on income.

5.4.2. In order to bring about the necessary structural changes, the possibility of moving between different social security systems, which is sufficiently well regulated in the case of people moving to jobs in other Member States, must also be guaranteed within Member States where there are special agricultural old-age pension schemes.

5.4.3. The decline in the number of people insured under existing agricultural pension schemes because of structural changes poses a threat to the funding of such schemes which is greater than the "ordinary" demographic risks of social security in general. There is an increasing need for funding transfers from general tax revenue or from social security contributions. However, such transfers between a country's general and specific social security schemes presuppose a comprehensive harmonization of the rules governing contributions and payments in each scheme.

5.5. Early retirement

5.5.1. As part of the measures accompanying the CAP reform farm workers must at last be granted their own rights to early retirement. The existing derived rules (early retirement in the case of a business closing down or downsizing) are inadequate. Agriculture continues to undergo far-reaching structural change; the ruling allowing most EU farmers to take early retirement in return for stopping production must be extended to farmworkers as a separate right.

5.6. Training for employees and the self-employed

5.6.1. Training for employees and the self-employed in rural areas falls into three categories:

- promoting innovation in agriculture and forestry; responsible use of new biotechnologies; compatibility of technical and ecological progress and diversification of farming activities;
- promoting private-sector schemes (e.g. start-up and business courses) and non-governmental (cultural ...) initiatives and implementing governmental (administrative) action;
- promoting counselling activities.

5.6.2. There is a crucial need for regional dovetailing of relevant further training and skills' acquisition. These measures must be coordinated by employment offices, private investors, trade and employers' associations, unions and training bodies. For employees to benefit from training in real terms, agreements must be laid down in collective agreements and by law on job release and study leave. The self-employed should be eligible for grants.

5.7. Establishment of young farmers

5.7.1. In addition to arrangements for early retirement and skills acquisition, there should be an increase in start-

up assistance for young farmers and premium and quota arrangements should be made more flexible. The entry into the sector of highly qualified young farmers, able to provide a flexible and dynamic response to the challenges of tomorrow's agriculture, improves the structure of agricultural production.

6. Social dialogue in agriculture

6.1. Social dialogue in agriculture is institutionalized at European level and is complemented by nationwide social dialogues.

7. Institutional social dialogue

7.1. Social dialogue takes place through the European Federation of Agricultural Workers' Trade Unions (EFA), with employers' representatives on the Committee of Agricultural Organizations in the European Community (COPA-COGECA/GEOPA), which has been based in Brussels since 1960, under the auspices of the Joint Committee on Social Problems of Agricultural Workers (a committee with a right of initiative) and through participation in agricultural advisory committees.

8. Joint Committee

8.1. Article 2 of the Committee's statute states that the Committee is to assist the Commission in the drafting and implementation of social policy intended to improve and harmonize the living and working conditions of agricultural workers.

8.2. The Joint Committee has the right to issue opinions and to take up initiatives itself.

8.3. Following its excellent track record until the mid eighties, the Joint Committee's performance must now be seen in a more critical light. Nowadays a Joint Committee Opinion rarely has any actual direct effect on the social circumstances of agricultural workers. It is worth noting in particular that agreements reached in the working group on harmonization led over the period from 1978 to 1981 to a gradual reduction of the working week in agriculture by collective agreement to 40 hours.

8.4. The Joint Committee's working groups are currently hard at work "to exhaust all possibilities". The present working groups are particularly involved with the following areas:

- a) **Employment** (improving the attractiveness of jobs, improving social protection),
- b) **Harmonization** (lively debate on the draft European recommendation on
 - development of a plan for a gradual transition to a 38-hour week,

- introduction of a five-week minimum holiday,
 - agreement on study leave,
 - working conditions of seasonal workers,
 - agreement on annual working time.)
- c) **Vocational training** (study on initial, continuing and further training),
- d) **Health and Safety** (reduction of the problems arising from the use of pesticides),
- e) **Statistics** (survey on part-time working in agriculture, report on conditions laid down in current collective agreements and laws for agricultural workers in the EU) and
- f) **Forestry policy** (investigation into the effects of piece-working on job security).

8.5. In recent years the work of these groups has become more effective thanks to improved coordination. It has proved particularly useful that both EFA and COPA-COGECA/GEOPA have an advisor in the working groups.

8.6. It would seem to be necessary to set up a further working group on the Mediterranean and Eastern Europe to

tackle the problems caused in the EU by political developments in those countries.

9. Advisory Committees

9.1. The most important Advisory Committee in terms of social dialogue is the Advisory Committee on Questions of Agricultural Structure Policy.

9.2. The Advisory Committee meets on average twice a year. It is primarily concerned with information. Since the Advisory Committee is not sufficiently geared to regional issues and the future of rural areas, its potential cannot be adequately exploited.

9.3. The Advisory Committee may be given a key role in formulating a European employment policy within the framework of the European social dialogue.

10. The ESC asks the Commission in future to provide it with an annual résumé of the agricultural employment proposed by the Joint Committee, the Commission's Advisory Committees and the ESC.

Done at Brussels, 25 October 1995.

The President
of the
Economic and Social Committee

Carlos FERRER

The Secretary-General
of the
Economic and Social Committee

Simon-Pierre NOTHOMB

APPENDIX 1

**EMPLOYMENT TRENDS¹ (1970-1992) IN THE AGRICULTURE,
HUNTING, FORESTRY AND FISHING SECTOR**

	'000				Annual percentage change			
	1970	1980	1990	1992	<u>1980</u> <u>1970</u>	<u>1990</u> <u>1970</u>	<u>1990</u> <u>1980</u>	<u>1992</u> <u>1991</u>
EUR 12	16.322	11.896	8.603	7.619	- 3,1	- 3,2	- 3,2	- 11,4
BELGIUM	176	116	100		- 4,1	- 2,8	- 1,4	x
DENMARK	303	199	150	141	- 4,1	- 3,4	- 2,8	- 6,0
GERMANY	2.262	1.403	991	914	- 4,7	- 4,0	- 3,4	- 7,8
GREECE	1.279	1.016	889		- 2,3	- 1,8	- 1,3	x
SPAIN	3.310	2.228	1.486	1.253	- 3,9	- 3,9	- 4,0	- 15,7
FRANCE	2.647	1.784	1.248	1.142	- 3,9	- 3,7	- 3,5	- 8,5
IRELAND	283	209	167		- 3,0	- 2,6	- 2,2	x
ITALY	3.878	2.899	1.863	1.749	- 2,9	- 3,6	- 4,3	- 6,1
LUXEMBOURG	12	8	6	6	- 4,7	- 3,4	- 1,9	- 3,2
NETHERLANDS	289	244	289	305	- 1,7	0,0	1,7	5,5
PORTUGAL	1.058	1.131	846	522	0,7	- 1,1	- 2,9	- 38,2
UK	787	654	567	548	- 1,8	- 1,6	- 1,4	- 3,4

Source: EUROSTAT

¹ Persons in gainful employment, self-employed unpaid family helpers, persons employed in several sectors are listed under the section which is their main source of income.

EMPLOYMENT TRENDS (1970-1992)
IN THE AGRICULTURE AND OTHER SECTORS

	Civilian labour force		Agriculture (% of civilian labour force)		Industry (% of civilian labour force)		Services (% of civilian labour force)		Percentage of employees in agriculture	
	1970	1992	1970	1992	1970	1992	1970	1992	1970	1992
EUR 12	121.158	131.867	13,5	5,8	41,6			44,9	44,9	
BELGIUM	3.555		5,0		43,2		52,2		10,7	
DENMARK	2.345	2.626	12,9	5,4	36,5	25,4	50,9	69,2	20,5	36,6
GERMANY	26.169	28.682	8,6	3,2	49,3	38,3	42,0	58,5	13,0	24,0
GREECE	3.133		40,8		25,0		34,2			
SPAIN	12.219	12.359	27,1	10,1	35,5	32,4	37,4	57,5	31,6	32,0
FRANCE	20.623	22.032	12,8	5,2	39,3	28,9	47,5	65,9	21,3	22,7
IRELAND	1.038		27,3		30,1		42,8		13,1	
ITALY	19.312	21.270	20,1	8,2	39,3	32,2	40,5	59,6	31,9	42,8
LUXEMBOURG	140	200	8,8	3,0	43,9	29,2	46,8	67,8	13,1	25,0
NETHERLANDS	4.679	6.576	6,2	4,6	38,9	25,0	54,9	70,3		36,7
PORTUGAL	3.513	4.512	30,1	11,6	32,8	33,2	37,2	55,2		18,4
UK	24.390	25.168	3,2	2,2	44,7	26,5	52,1	71,3	60,5	50,9
US	78.678	117.598	4,5	2,9	34,4	24,6	61,1	72,5		
JAPAN	50.940	64.360	17,4	6,4	35,7	34,6	46,9	59,0	5,3	

Source: EUROSTAT

EMPLOYEES BY SECTOR ('000) (SPRING 1992)

	Agriculture, hunting, forestry, fishing		Food, drink and tobacco industry		TOTAL	
	'000	%	'000	%	'000	%
EUR 12	2.548	46	2.981	54	5.529	100
BELGIUM	11	10	106	90	117	100
DENMARK	49	33	97	67	146	100
GERMANY	630	47	698	53	1.328	100
GREECE	28	27	75	73	103	100
SPAIN	398	56	315	44	713	100
FRANCE	266	33	552	67	818	100
IRELAND	23	35	43	65	66	100
ITALY	699	70	300	30	999	100
LUXEMBOURG	6	67	3	33	9	100
NETHERLANDS	98	37	167	63	265	100
PORTUGAL	97	48	104	52	201	100
UK	241	32	523	68	764	100

Source : EUROSTAT

APPENDIX 2

LIMITED EMPLOYMENT CONTRACTS

France, Italy and Spain, the rules relating to limited employment contracts have been taken further by law and agreement. These working conditions are also subject to legal regulation in Belgium and Germany.

In addition to the information given Table 2a, it should be noted that in France, all the legal and contractual provisions applicable to employees with unlimited employment contracts also apply to employees with limited employment contracts.

Nevertheless, the provisions relating to the cancellation of unlimited contracts have no application, unless they are regarded as seasonal agreements. On expiry of the contract, remuneration for leave not taken is paid at the rate of 10% of the net wage. Where the contract expires at the scheduled time, the employees received provisional remuneration at the rate of 6% of the net wage.

Table 2a - Type of Employment Conditions			
2.2 Limited Employment Contract			
Member States	FULL-TIME	PART-TIME	
	Definition - Regulation by law or contract and other conditions differing from the unlimited contract	Average Number of Employment Days per Calendar Year	Types and Forms of Employment Conditions
B	The wages and social contributions of occasional and season workers employed in one sector for no more than 25 days a year are covered by special conditions. These have been the subject of amendments since 1 July 1994.		
DK	Limited contract or contract for a specific type of work. Same legal provisions as for unlimited working conditions		e.g. Stable work
D	Working conditions in accordance with the law on the performance of certain activities for a maximum period of 2 years. The duration of the employment relationship must be expressly stated.		Provision is made for this type of employment. Conditions are limited to seasonally-dependent peak values
E	Seasonal Workers: workers undertaking one or more activities on the basis of oral agreements. Harvesting, sewing, soil preparation. Occasional Workers: for unspecified activities; preparatory, preservation and fencing work. Oral Seasonally. Duration: up to 11 months. Replacement for absent workers. D.R. 1989/84, D.R. 2104/84 and customary contracts negotiations.		No provision made because of the difficulty of applying Law 4/83, by which the D.R. 1991/84 was recently amended.
F	Contracts are governed by Article L 121-1 c et sec. They are permissible in the following cases: representations; temporary increase in firms activities; seasonal work; jobs defined in the Regulation; action to stimulate the employment of certain unemployed categories; contracts governing alternating vocational training and contracts linked to an apprenticeship. Contracts must be concluded in writing; otherwise they are regarded as unlimited. Contracts must indicate the reason for their drafting and their period of validity. There are two types of contract: - for a limited period: maximum duration may not exceed 18 months even if the contract was extended only once; - unspecified duration: applicable to representation and seasonal work.		Provision is made for this type of contract which governs persons in unlimited employment
I	Limited employment is regulated by Law No. 230 of 18 April 1962, which applies to all production sectors in general, Law No. 56 of 28 February 1987 and Law No. 83 of 11 March 1970, which contains specific provisions on employment agencies. According to Law No. 230/62 employment is unlimited, except in the following exceptions, where contract duration can be limited: A) seasonal nature of the employment; B) replacement of absent employee whose job is retained; C) for the execution of a specific and unusual or occasional activity or service of fixed duration; D) for work processes conducted in uninterrupted sequence. If a contract lasts longer than 12 working days, its duration must be laid down in writing. Pursuant to Law No. 83/70, the duration of employment can be seasonally-conditioned and not precisely defined where this is justified by the special nature of the activities in question. On the basis of the rules governing national wage agreements, limited employment can be taken for phases in the agricultural sector. The wage agreement provides for the conversion of a limited to an unlimited contract if more than 80 days are worked in the same undertaking in a 12-month period. Legal provisions and rules of the Work Contracts.	90	The part-time working covered by Law No. 863 of 1984 does not apply to agricultural workers.

These payments are also made in Italy. As regards wages, the law provides for equal treatment of employees with limited and unlimited contracts. The covers: payment of the basic national wage, the cost of living bonus (cancelled after 31 December 1991 as being no longer effective and the supplementary provincial wage laid down under the Provincial Supplementary Contract.

In addition to these payments, employees with limited contracts receive a payment known as the "third element" in return for the benefits enjoyed by employees with unlimited contracts, namely, leave, public holidays, 13th and 14th month's wage, corresponding to 40.44%. This percentage is calculated with reference to a total of basic national remuneration, the cost of living bonus and the supplementary wage. In addition, employees with limited contracts receive remuneration corresponding to 8.63% of the above figures when their contracts expire.

Table 2a cont.		Table 2a - Type of Employment Conditions	
2.2 Limited Employment Contract			
Member States	FULL-TIME	PART-TIME	
	Definition - Regulation by law or contract and other conditions differing from the unlimited contract	Average Number of Employment Days per Calendar Year	Types and Forms of Employment Conditions
IRL	Legal Provisions		
NL	Final contract limited in time. Fruit harvest.		Provision is made for this type of contract
P	Contract for occasional workers or seasonal work or with specified date of expiry.	Fewer than 100	
UK	Contracts with specified date of expiry limited contracts are rare.		Same provisions as for full-time workers, apart from fewer weekly hours and the lack of certain rights.

No provision is made for payment to employees with a limited contract of the wage supplement paid to workers with an unlimited contract.

In Belgium, the rules governing limited contracts were subject to legal amendment with effect from 1 July 1994. As a result, seasonal workers can be employed for 45/60 days per year with a simultaneous reduction in social security charges.

OWN-INITIATIVE OPINION
of the
Economic and Social Committee
on
Working Time

The Economic and Social Committee decided on 22 February 1995 in accordance with Article 23(3) of its Rules of Procedure, to draw up an Own-initiative Opinion on Working time.

The Section for Social, Family, Educational and Cultural Affairs, which was responsible for the preparatory work, adopted its Opinion on 17 July 1995. The Rapporteur was Mrs van den BURG. The Co-Rapporteur was Mr WHITWORTH.

At its 329th Plenary Session (meeting of 25 October 1995) the Economic and Social Committee adopted the following Opinion by a majority with 12 votes against and 17 abstentions.

1. Introduction

1.1. Radical re-thinking is taking place on the subject of working time. By the end of the millennium the conventional five-day/forty hour working week is likely to be the exception rather than the norm. More diversified working patterns will evolve.

1.2. In this Own-initiative Opinion of the Economic and Social Committee the issue of working time will be approached from the following angles:

- the reorganization and extension of operating time in the production process and of opening time in the services, and the accompanying flexible scheduling of employees' working time, with a view to improving productivity, service to consumers, and competitiveness;
- the reduction of working time of the individual worker, with a view to improving the quality of life, especially as regards health and safety, extension and redistribution of time for family and caring tasks and increase of leisure time;
- the potential contribution which reduction and reorganization of working time can make to job creation and redistribution and thus to the reduction of unemployment, the key priority of the European Union.

1.3. The Opinion is part of the Economic and Social Committee's contribution to help develop more effective European policies for employment.

1.4. Since the social partners are the main actors negotiating working time arrangements at decentralized levels, they must have a key role in the development of effective European and national employment policies in this field.

2. Labour market developments

2.1. The demand side of the labour market is influenced by the internationalization of markets and subsequent competition, by the acceleration of technological developments and by more rapidly fluctuating consumer demands, leading to shorter payback periods of investment and flexibility in the deployment of people and resources. Employees are expected to be more broadly employable. Amongst other things, this may lead to working patterns that are

more adapted to fluctuations in the demand for labour and to adjustment of business hours in enterprises and branches.

2.1.1. Working patterns are becoming less and less "standard"; the full-time working week with fixed working days from Monday morning to Friday afternoon has become less and less common and suitable in those industrial and (private and public) service branches, which up until now normally do not have regular working patterns. Many flexible and part-time jobs have arisen especially in the services sectors. Frequent overtime and shift work are more and more common in the production sectors.

2.2. The supply side of the labour market is influenced by changes in the demographic composition of the working population and especially the changing patterns of participation of women and of older and younger workers; this participation is increasingly on a part-time basis, be it combined with education, with pre-pension schemes, or (also for a growing number of young fathers) with taking care of small children.

2.2.1. Various studies¹ show that considerable and fast-growing numbers of workers wish to work less than a full-time week. Besides the pro rata loss of income, there are other important barriers to achieving the desired reductions of individual working hours: fear of loss of career developments or of training opportunities, pro rata loss of pension rights and in some instances of social security rights, and a cultural environment which is often hostile to (especially male workers) who prefer to work less hours.

2.2.2. Another feature appearing from research on working time preferences is that they vary during a lifetime, being influenced by circumstances in the personal life of the worker (parenthood, educational needs, extra-professional, political or sporting activities); preferences have a temporary character and are no longer "fixed-for-life". This means that there is also a greater differentiation and diver-

1 See for example :

"Part-time Work in the European Community. The Economic and Social Dimension", European Foundation for the Improvement of Living and Working Conditions (1993)

ILO Report "World Employment 1995", Geneva, February 1995; ILO, "Promoting Employment", Report of the Director-General, Geneva, March 1995

"Employment in Europe in 1995" (draft Commission Report)

sification in desired working time patterns between individual workers.

2.2.3. It should also be noted that new working time patterns are not always “voluntary”. Many part-time jobs are low paid and cannot provide the individual worker with enough income; some part-time workers have more than one part-time job, whilst many part-time workers are under-employed. Whereas some full-time workers would prefer to work less, many part-time workers would prefer to work more hours.

2.3. These changes in both demand and the supply of labour imply that management of working time (both with respect to the number and the scheduling of hours) has become an important feature in negotiations between employers and workers, collectively and at the individual level.

3. Employment effects of changes in working time

3.1. At the macro-economic level a more suitable matching of workers’ and employers’ needs seems to be a major instrument in steering labour market and employment. Data from various studies show that the “voluntary” requests for a reduction of working hours by workers could readjust a substantial part of the demand for work from the unemployed even taking account of the extra demand for working hours from “under employed” part-time workers.

3.1.1. A reduction and redistribution of work does not necessarily have negative effects on productivity; on the contrary, if it is dovetailed accurately with the flexibility demands of the production process and with possible reorganization of work schedules and patterns, a substantial productivity growth and an increase of competitiveness might result, which as such might improve the employment situation.

3.1.2. Such a redistribution and increase of employment could also lead to savings in unemployment benefit and a broader financial basis for social security expenditure and tax income.

3.2. The subject of working time has received more and more attention in recent international macro-economic studies. The OECD Jobs Study (1994) and the recently issued follow-up study (May 1995)², focus on “de-standardising” working and operating hours, and on the necessary adaptation of arrangements for daily, weekly, annual and life-time working hours to meet both enterprise requirements and worker aspirations.

3.3. The White Paper on “Growth, Competitiveness, Employment” considered that a “generalized reduction in working hours and job-sharing at national level” was not, as also is the case for other singular methods, a “miracle cure”, and could “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. While rejecting a “top-

down”, mandatory approach seeking to legislate for a shorter working week”, it did, however, recognise the need to “remove obstacles to already changing trends, preferences and demands of employees and employers regarding patterns and hours of working which will increase the number of jobs for given levels of output.” Specific actions proposed included:

- “adjusting the legal framework so that those who are willing, and often keen, to work shorter hours do not suffer loss of social protection or poorer conditions of service”
- “encouraging the national cyclical trends towards a shorter working week per employee, where appropriate, while increasing utilization of capital equipment and ensuring competitiveness”³.

3.3.1. The Essen European Council of December 1994 highlighted the increase of the employment-intensiveness of growth in its medium-term action plan for sustainable growth and jobs. In this framework the Council called for a “more flexible organization of work in a way which fulfils both the wishes of the employees and the requirements of competition”⁴.

3.3.2. The Council of Ministers’ Resolution of 6 December 1994 likewise considered that “improving the organization and flexibility of working hours” formed part of an “active employment policy” and stated that an “effective policy of equal opportunities presupposes an integrated, overall strategy allowing for better organization of working hours and greater flexibility”⁵. It also recognized that new working time arrangements were a “social requirement which will offer both men and women an opportunity to reconcile their work responsibilities with their family obligations and personal interests”⁶.

3.3.3. The tripartite Standing Committee for Employment, at its meeting of 22 September 1994 discussed the role of part-time work in job creation. In the conclusions of the President (the German Labour Minister Norbert Blum) both the attractiveness of part-time work for employees and employers was stressed, as was the necessity of protection and equal treatment of part-time workers.

3.4. In its recently issued Medium Term Social Action Programme (1995-1997)⁷, the European Commission

2 OECD, Jobs Study, Paris June 1994

OECD, Jobs Study, The Implementation Strategy, Paris May 1995.

3 “Growth, competitiveness, employment: the challenges and way forward into the 21st century - White Paper”, European Commission 1994, ISBN 92-826-7423-1, Part A, page 9 - Page 147, Para. 8.8. (b) (iv)

4 Presidency Conclusion SN 300/94, pages 4-5.

5 Council Resolution of 6 January 1994 on “Equal participation by women in an employment-intensive economic growth strategy within the European Union”. OJ C 368, 23 December 1994, page 4, point 5 and page 3, last “Whereas”.

6 Ibid, point 5 (a).

7 Communication from the Commission to the Council and the European Parliament and to the Economic and Social Committee and the Committee of the Regions, 12 April 1995 (COM(95)134 final

announces further studies and activities on working time and work organization and productivity, the presentation of specific communications, including good practice guidelines on different aspects of flexibility and work organization, and states that it considers the scope for a Green Paper on reduction and reorganization of working time (1996-1997)⁸. According to the Commission, the consultation of social partners under the Agreement on Social Policy will take place in the second half of this year on the blocked proposals for a Directive on part-time, from the perspective of job creation.

3.5. The European Parliament has recently again taken up the issue of the reduction of working time in a draft Report and motion for a Resolution drawn up by Mr Michel Rocard⁹. The Document identifies 5 "methods" for encouraging a reduction of working hours: over a lifetime, during the year or on a weekly basis: gradual retirement, voluntary part-time work, reducing overtime, reducing the maximum length of the working week and the allocation of working time to education and training. In the activities that will be recommended to the Commission, the encouragement of negotiations between Member States and both sides of industry appear to be highlighted.

3.6. The Joint opinion of 16 May 1995 on turning recovery into a sustained and job-creating growth process, drawn up by the macroeconomic Group of the "European Social Dialogue" also recommended that the social partners examine, at the appropriate levels, whether employment can be promoted without endangering competitiveness through the allocation of productivity gains to contribute to innovative forms of work such as reorganization, reduction and new patterns of working time.

4. Some elements for the debate on reduction and reorganization of working time

In the following paragraphs some observations and analyses are presented which might be relevant to the European debate on reduction and reorganization of working time, and which in their specific national or local, enterprise- or branch-level context might offer a contribution to job creation and reduction of unemployment.

4.1. The relation of working time to productivity and its consequences for wage costs and incomes

4.1.1. The relation between a reduction of working hours and the development of productivity may be a positive one. Experiences with relatively small, collectively agreed, reductions of working hours, that have been collectively carried out in a number of European countries in recent years show that productivity gains have offset a substantial part of the vacant hours, although the reduction has contributed to a significant increase and preservation of employment volume.

4.1.2. Negotiations on the reduction and reorganization of working time should have as one of their objectives a cost-neutral or a positive effect on a competitiveness.

4.1.3. Depending on accompanying changes in the organization of work and especially in business hours, reductions of working hours per employee do not necessarily have to lead to corresponding productivity loss; they may even lead to productivity gains. Labour productivity outputs are higher during the first hours and decrease with each succeeding hour. An enlargement of business hours, for instance through the introduction of shifts and/or more adequate scheduling of personnel, may result in more optimal usage of capital equipment, faster investment cycles, etc. and thus improve productivity and competitiveness.

4.1.4. The level of wage costs does not necessarily have to rise when the number of hours worked per employee decreases, and consequently collectively agreed reductions of working hours do not necessarily have to be accompanied by proportionate pay losses. A starting point in many negotiations is the use - fully or partly - of productivity gains for a reduction of working hours. This will also serve the macro-economic objective - stated in the Delors White Paper - of keeping wage increases within the limits of productivity growth.

4.1.5. Consequently, these limits also define the possible range of collective reductions in working time, since loss of (monthly or weekly) pay is not an attractive option for workers and trade union negotiators. Only in exceptional cases, where alternatively loss of jobs are at stake, agreements have been concluded that imply more or less modest losses of pay or other financial benefits.

4.2. The reduction of working time in relation to redundancies

4.2.1. Recent history has shown several examples of solutions to redundancy measures, through reductions in the amount of the hours worked by employees. Redundancies in those cases (of which the Volkswagen case in Germany has had most attention internationally) were not handled through the collective dismissal of a certain percentage of the workforce, but through a reduction of the working time per employee with (about) that percentage. Such solutions can not rightfully be unilaterally enforced upon workers, as they imply a change in the individual contract that affects jobs and income security, covered by protection against dismissal. In collective agreements however some deteriorations are sometimes accepted for the purpose of preventing dismissals. It is important to note that in these cases only collective agreements may rightfully over-rule individual contracts of employees covered by these agreements.

4.2.2. In negotiating the cost-benefits involved, a balance is sought. There are, for example, advantages in avoiding redundancy payments. Another advantage for businesses in this type of solution is the availability of a potential reserve of trained and experienced workers to fill future vacancies, or to allow for an easy increase in production if demand goes up. In other words the result can be

⁸ Medium-term Social Action Programme, para. 4.3.2.

⁹ Draft Report PE 212.851 of 8 May 1995.

greater flexibility (e.g. Volkswagen), rather than the rigid “solution” of dismissals.

4.2.3. In some European states unemployment benefit schemes provide for the incidence of “part time unemployment”. If applied in situations where the decrease in demand for labour has a more structural character, it becomes more difficult to distinguish such “part time unemployment” from part time jobs that are not the voluntary choice of workers, but an expression of under-employment. Policies in Member States vary on this point, and are in a process of development. From the internal market point of view, European guidelines might be useful.

4.3. The relation between developments in working hours and segregation on the labour market between “men’s work” and “women’s work”

4.3.1. Part-time work is in most countries predominantly done by women. This is the case for voluntary or involuntary part-time work, for temporary work and for financially compensated schemes, such as parental leave schemes. In addition, the possibility part-time work offers for child-rearing or taking care of elderly or other dependent relations is not always really a free choice. The lack of child-care facilities and other provisions of acceptable quality and price may also play a role¹⁰. The lowest paid partner in the household (in most cases the woman) is usually the first to be inclined to give up regularly paid working hours, if such alternative provisions are not sufficiently available. Market mechanisms at the demand side result in a high correspondence of “female” sectors and part-time work, and thus a reinforcement of job-segregation. It also seems that girls and women are more inclined to opt for careers directed to such predominantly female sectors and professions, anticipating such opportunities for adaptation of working time and working patterns, if this turns out to be necessary in future.

4.3.2. Desegregation will only occur if a more flexible range of working patterns and more individual control over the number of hours to be worked could be accomplished throughout all sorts of jobs, job levels and sectors. Voluntary part-time work could occur and be implemented without adverse consequences for careers and positions in predominantly “male” sectors and professional and management jobs. Several studies and experiments show that managerial and highly responsible jobs might very well be performed in fewer hours, provided that there is a certain minimum availability (estimated in some studies somewhere between 25 and 32 hours) and flexibility. New technologies and communication techniques might prove useful in this respect.

4.3.3. A more favourable approach by male workers towards taking up a more equal share of child-rearing and caring tasks requires organizational, “technical” and political conditions, as well as a “cultural” change of attitudes, that may be stimulated through education and media campaigns.

4.4. The possible effects and models of leave arrangements of a substantial size on employment opportunities for the jobless, replacing workers on leave

4.4.1. The assignment of leaves of a substantial size (such as sabbatical leave, educational leave) to employees may lead to an increase of job vacancies, provided that the employees on leave are replaced by other workers and that overall productivity is not affected. In most cases not a full 100% of the vacant hours are substituted by extra manpower; often colleagues take up part of the duties, or the workers on temporary leave take up work afterwards, or - in case of partial absence - have a relatively higher output during the hours that they still work. It is important that such arrangements do not lead to an overall increase in employment costs.

4.4.2. Some European countries have organized schemes for leave (be it parental leave, pre-pension schemes or forms of sabbatical leave for educational or other reasons), that are linked to replacement by unemployed people, with the use of unemployment funds. For instance, Belgium and Denmark have experiences with such systems.

4.4.3. In the framework of the discussion on parental leave which the European Commission has submitted for consultation to the Social Partners on the basis of the Maas-tricht Social Policy Agreement Procedure, this approach could be worthwhile from an employment policy point of view.

4.5. The possible contribution of gradual retirement and (pre-) pension schemes

4.5.1. The same applies as regards the possible contribution of gradual retirement and (pre-) pension schemes: senior workers could gradually give way to new job applicants, partially using pension-funds and or unemployment schemes for financing. Except for the senior worker who in this way could enjoy a more gradual transfer from being a full-time worker to being a full-time pensioner, such systems might be attractive to management: knowledge and experience do not disappear all of a sudden, senior workers could be utilized as tutors and teachers for their successors. This might also be interesting in the framework of the discussions about a more flexible pension age. Care should be taken that such policies should not disadvantage unjustifiably the employment prospects of older workers.

4.6. Maximum working hours and overtime

4.6.1. Recent adaptations of labour legislation on working time in several Member States show, inter alia, that there is a change in emphasis towards annual working hours and/or longer intervals for the average calculation of maximum hours per week. The Working Time Directive adopted in 1993 by all Member States and which has to be implemented before 23 November 1996, provides for this opportunity. It offers a basis for negotiations on more flexible work scheduling. Such agreements have recently been drawn up: for example, the German Metal Industry Agreement, where a so called “working time Corridor” for actual working time was agreed in combination with an overall

¹⁰ On the need for more child-care facilities, see ESC Opinion of 28 November 1991 on “Child Care” (OJ No. C 40 of 17.2.92).

reduction of annual working hours (without loss of pay). The basic idea of this model is that, whereas actual working hours may vary per day, week, and season - within an agreed "corridor" - the weekly or monthly salaries are kept constant over the year. It is a model that combines business flexibility with job and income security, and stability for the workers.

4.6.2. Reduction of overtime is related to this trend towards annualization, especially where overtime has become a structural phenomenon. If more flexibility can be introduced in regular work patterns and schedules, the need for overtime could be kept to its essential purpose: catering for incidental and unexpected situations. Such replacement of structural overtime by regular work scheduling meeting demand and supply might create job opportunities for the unemployed. In other words, rigid in-built structural overtime, "topped up" by fluctuating recourse to casual labour, should be replaced by employment-intensive flexibility based on work scheduling responsive to demand and presupposing the regular employment of a continually up-trained and rapidly deployable work-force whose "extra" working hours should be compensated within agreed time references by time off in lieu. Furthermore a similar system of compensating part time workers for "extra hours", could stimulate a better planning and scheduling of work.

4.6.3. The above mentioned Working Time Directive might be especially useful in setting objectives for collective working time agreements that may increase employment opportunities in countries where the average working hours and the incidence of overtime are significantly higher than in the rest of the European Union. In the United Kingdom for instance, one out of four full-time employees works more than 48 hours a week (whether or not compensated by extra pay)¹¹.

4.7. Arrangements to implement voluntary changes in working hours in contractual relations

4.7.1. In most European countries, individual labour contracts define a fixed number of weekly, monthly or sometimes annual working hours, and as such offer indispensable job and income security. These contracts are a mutual agreement that cannot and may not be broken unilaterally. An alteration in the contractual working hours should only be made by mutual consent, except where legislation so provides.

4.7.2. The Dutch Labour Foundation (the permanent Social Dialogue between central employers' and trade union organizations in the Netherlands) issued a set of Recommendations in 1993 on part-time work and the differentiation of working patterns¹², amongst which the recommendation to lay down rules in collective agreements for the employer "to honour in principle a request from the employee to (re)adjust his or her working hours, unless this cannot be asked within reason from the employer on the basis of momentous business interests". The basic assumption for this recommendation is that every job at every job level and in every sector lends itself in principle to a working pattern deviating from regular (full-time) working hours. The effect is that it is for the employer to prove the apparent reasons within the work organization which

prevent him from honouring the request, to the extent and in the form, proposed by the employee. The provision as it is recommended also gives full opportunities to return to the former contract (in the case of a full-time worker opting for less hours thus to return to full time) conditioned through the same procedure; and it offers opportunities for part-time workers working involuntarily on a short part-time contract to apply for a full-time or longer part-time contract.

4.8. Equal treatment of workers irrespective of the number of hours worked

4.8.1. The above mentioned Agreement **between the social partners in the Netherlands**, with Recommendations on Part-Time Work, acknowledged and worked out in detail the importance of the implementation of the principle of equal treatment of workers irrespective of the numbers of hours worked. Equal treatment is indispensably linked to the promotion of part-time work and differentiation in working time patterns. If discriminated against and treated less favourably, a voluntary choice to work less will turn out to be unattractive, especially in those jobs and sectors that are attractive and suitable for promotions, with all the effects this has on the quality of employment.

4.8.2. The recent Convention on Part-Time Work of the International Labour Organization, adopted together with a Recommendation in June 1994 by almost all EU Member States (including new members), provides a general basic global framework for a review of regulations and practices with respect to part-time workers. Individual Member States are preparing for the ratification of this Convention. It could also focus and stimulate debate and policy development in the European Union.

4.9. Accompanying adaptations of social security, pension schemes and fiscal systems with a view to removing disadvantageous effects on changes in, and especially reduction of, working hours, and possible incentives in these fields

4.9.1. The new and more varied working (hours) patterns, outlined in this Opinion, often do not fit in different aspects of labour law, social security, pension and tax systems. Removing obstacles and making regulations for stimulating the reduction and differentiation of working hours and patterns is an important issue for research and review at the national level. The Commission could stimulate such activities as well as the exchange of information and experiences at European level. It might be a focus point in the recent Social Action Programme, which announced initiatives concerning the individualization of social security and tax rights, leading to a Communication in the second half of 1996. The subject of individualization could thus be broadened also to include aspects of differentiation.

11 Eurostat figures: in 1991 28% of UK ft employees worked 46 hours or more ; compared with an EU average of 11%; male ft workers: UK 36%; EU 14%

12 Stichting van de Arbeid, Den Haag, 1 September 1993, English translation, Publication No. 7/93.

5. General conclusions and recommendations

5.1. Reorganization and reductions of working time, as outlined in this Opinion, can offer a significant contribution to the improvement of the employment situation, and therefore to social progress and well being, in the European Union.

5.2. The management of working time is an increasingly important issue for negotiation between employers and employees, at all levels.

5.3. There is no single uniform model of reduction and reorganization of working time which the European authorities can issue by “decree”. There is however a compelling case to promote “made-to-measure” working time options.

5.4. These “made-to-measure” working time proposals must accommodate the differentiation and diversification of individual workers’ needs plus their changing “lifetime” options with respect to the quantity of working hours and working patterns. Such proposals should also match the varied and diverse flexibility requirements of modern production and service processes, and should enhance the firm’s productivity and competitiveness and the promotion of more employment.

5.5. It is in the mutual interest of employers and employees to reach a balance between individual interests from both sides, and to shape the conditions for such a balance collectively. Agreements at the appropriate levels can be reached between trade unions and employers to include:

- on the one hand, demands for a collective reduction of working hours and more access (without prejudice) to voluntary (temporary or longer term) individual reductions in working hours (a “right” to adapt working hours and to work part-time and/or rights to - fully or partially financially compensated - leave arrangements);
- on the other hand, demands for the adaptation and extension of business hours (for instance the introduction of shift-work, and scheduling of Saturday work) and a more flexible employment and scheduling of employees according to the needs of the production process or the demands of (potential) customers (for instance the widening of opening hours in the service sectors, and seasonal fluctuations in customers’ demands).

5.6. Such collective agreements also offer an opportunity to find a better balance between the interests of different groups of workers. “Externally directed” flexibility patterns designed by management, such as on call-contracts, temporary work and subcontracting, might be shifted towards “internally directed” flexibility, if management can make use of regular “core” workers in a more flexible manner. The qualitative advantages for management can be dovetailed with improvements in job security and working conditions for the “flexible workforce” (in which new labour market participants - women, youth, migrants - are over-represented), so that they might be more easily integrated in the remodelled work organization.

5.7. The gap between traditional (often small, insecure and flexible) part-time jobs and exclusively full-time jobs will be narrowed, when substantial and extensive part-time jobs with adequate living incomes become an attractive option. This might be the case if a voluntary reduction of working hours is a real option to be achieved in all sectors, at all job levels and in all sorts of jobs and professions, without damaging or jeopardizing career and educational opportunities. Another indispensable condition is equal treatment of the part-time worker.

5.8. The difference between the hours worked by men and women will accordingly decline to the extent that voluntary, shorter working time for male workers becomes more accepted, and job opportunities for female part-time workers improve. This might also narrow the segregation gap between typically female and typically male jobs, which is currently conditioned by the shorter and more flexible working patterns still desired more frequently by women. Promotion of voluntary part-time work should be directed especially towards male workers.

5.9. The principle of equal treatment of part-time and full-time workers, as is basically laid down in the ILO Convention and Recommendation on Part time Work (Convention 175, 1994), should be the starting point for “law and practice” in the European Union. With respect to fundamental workers’ rights, part time workers should receive the same protection as full-time workers. Proportional, pro rata, treatment should be given with respect to wages and financial compensations. The Convention intends to remove unjustified exclusion and thresholds, such as exist for instance in some social security systems.

5.10. In the longer term, more varied working patterns will evolve: the “standard working week” may disappear, but not the guiding principle of full employment and the objective that ideally every person who is willing and capable should be able to get a job in the “size” he or she wants. In the longer term, more varied working patterns will evolve: the “standard working week” may disappear, but not the guiding principle of full employment and the objective that ideally every person who is willing and capable should be able to get a job in the “size” he or she wants. If conditions of free choice and equal treatment are met, both the average, as well as the most commonly preferred (i.e. “modal”) “size” of the working week will tend to decrease, as several studies show¹³. In addition, the general trend to agree shorter (maximum or full-time) working hours in collective contracts will continue.

5.11. The reduction and reorganisation of working time could have a positive effect on public finances. The rate of unemployment could decrease and the financial basis for taxes and social security funds broaden. Incentives from the public authorities, such as the removal of barriers to new working time patterns, adaptations in social security and pension schemes, and collective funding or reallocation of funds to stimulate the reorganisation and reduction, would facilitate these positive results.

¹³ See Employment Report op. cit.

5.12. The re-organization and reduction of working time is primarily a matter in which the Social Partners should take the initiative, at the appropriate levels. Nevertheless the European Union and the Governments of Member States should encourage and facilitate these developments through:

- research, exchange of information and experiences, and the drafting of guidelines, drawing, inter alia, on the findings of the various international studies appended to this Opinion, notably as regards:
 - . best practices and achievements in the reorganization and reduction of working time,
 - . common principles with respect to working time arrangements in collective and individual labour contracts,

- . the reduction and reorganization of working time in redundancy situations,

- . implementation of the Working Time Directive;

- encouragement of the Social Dialogue and collective agreements, at appropriate levels, on the reduction and reorganization of working time;
- unequivocal legislation on equal treatment of part time workers drawing on the 1994 ILO Convention and Recommendation on Part-Time Work coupled with the Convention's early ratification by all Member States;
- adaptation of existing legislation, fiscal, pension and social security systems in order to remove discriminatory treatment of part-time workers and to better accommodate and possibly stimulate the variation and differentiation in working hours and patterns lifelong.

Done at Brussels, 25 October 1995.

The President
of the
Economic and Social Committee
Committee

Carlos FERRER

The Secretary-General
of the
Economic and Social Committee

Simon-Pierre NOTHOMB

APPENDIX

to the Opinion of the Economic and Social Committee

The following amendments, which received the approval of at least one-quarter of the votes expressed, were defeated during the debate.

Point 5.12.

Add the words "cost neutral" before the words "reduction of working time" appearing three times (first and second §§).

Reason

There is a presumption that higher productivity will "pay" for a reduction in working time. It might be true in some cases but not in all. So to avoid increased costs, the words "cost neutral" should be added.

Second §: add the following:

"The best solution is to leave questions concerning working hours to be decided through agreements between the company and the individual concerned."

Reason

It is of considerable and growing importance that working hours are flexible and suited to the conditions in the industry at the individual company.

Voting

For: 40

Against: 78

Abstentions: 22

OPINION
of the
Economic and Social Committee
on the
*The Economic Situation 1995 -
Cyclical and Structural Aspects of Employment*

Supplement to the Opinion on
the 1995 Annual Economic Report

On 28 March 1995 the Economic and Social Committee, acting under Rule 23(2) of its Rules of Procedure, decided to draw up an Additional Opinion on

The Economic Situation 1995 - Cyclical and Structural Aspects of Employment.

The Section for Economic, Financial and Monetary Questions, which was responsible for preparing the Committee's work on the subject, adopted its Opinion on 27 September 1995. The Rapporteur was Mr RAMAEKERS.

At its 329th Plenary Session (meeting of 26 October 1995) the Economic and Social Committee adopted the following Opinion by a majority, with 23 votes against and 40 abstentions:

1. Introduction

1.1. As we approach the century's end the reduction of unemployment appears to be the principal challenge facing the European economies. Emerging in the wake of the first oil crisis in 1973, it has steadily worsened from 3% of the European labour force to more than 11% in 1994. Besides the under-utilization of production capacity and wastage of human resources which it represents, unemployment today threatens the cohesion of the European social model and the structural stability of democracy. Furthermore, it jeopardizes the success of the single market and, in the end, the achievement of Economic and Monetary Union.

1.2. The growth of unemployment is due to the combined influence of a whole series of socio-demographic, technological and economic factors acting on the increase in the working population and the capacity of growth to create jobs. The rationalization and modernization of production plant in many sectors has led to an under-utilization of human resources, but without compensatory creation elsewhere of the jobs necessary to absorb unemployment; however, the present situation is also due to an insufficient propensity to invest in job-creating production.

1.3. Despite the favourable economic prospects for the coming two years, there is a risk of Community unemployment stabilizing at excessively high levels: if the economic recovery progresses as predicted, the cyclical element in unemployment (estimated at 2% of the labour force) will be absorbed within two years. In other words, in 1997 9% of the Community labour force will still be without a job.

1.4. The economic and social strategy set out in the White Paper and reiterated in the "Broad guidelines of the economic policies of the Member States and of the Community" is therefore still relevant. The significant reduction in unemployment between now and the year 2000 presupposes non-inflationary medium-term growth in a sound, investment-led macroeconomic framework. At the same time, structural reform aimed at boosting the endogenous growth potential of the Community economies and making the labour market more efficient will have to be implemented to generate a more employment-intensive growth mode.

1.5. The ESC welcomes the decisions taken by the European Council in Essen in December 1994, which

signalled readiness to give priority to combatting unemployment by defining the major features of an employment action plan. The ESC calls on the Member States - in their multi-annual action programme to combat unemployment - to give tangible expression as soon as possible to their intentions with regard to the five pillars of structural reform defined at Essen. The multilateral surveillance procedure for employment trends and policies in the Union - proposed by the Commission to the Council pursuant to Treaty Article 103¹ - is calculated to enhance the effectiveness and overall cohesiveness of current policies and make employment the main plank of European economic policy. Hence the ESC endorses the Commission proposal for establishing a new approach which encourages closer cooperation between the Commission and the Member States in respect of analysis, research, cooperation and action in the field of employment².

1.6. The reduction in unemployment will also depend on a continuation and spread of world economic growth. In this connection, the recent turbulence on the foreign exchange markets highlights the need for better international cooperation on both economic policies and trade. As far as liberalization of trade and investment flows are concerned, only international cooperation is a prerequisite for sustainable, job-creating growth. "Non-cooperative" policies play into the hands of speculators, weaken economic policy instruments and inhibit growth.

1.6.1. The open trading system, therefore, must be strengthened and rapid solutions found within the framework of the WTO to defuse specific trade disputes. In particular, steps should be taken to counteract moves towards unilateral intervention and discriminatory bilateral trading practices - which still occur too frequently - and open up national markets.

1.6.2. In the case of the financial markets, the multilateral surveillance system must be reinforced and more light shed on the financial situation of both private and public operators so as to forestall crises and improve the performance of financial systems. Finally, emergency financing mechanisms must be established to stabilize the economic situation in countries which are prey to financial crises. To this

1 Follow-up to the Essen European Council on employment (COM(95) 74 final of 8 March 1995).

2 COM(95) 250 final of 13 June 1995.

end the G7 meeting in Halifax from 15 to 17 June 1995 instructed the IMF to identify potential financial crises and decided to double its emergency intervention fund to 50 million dollars.

1.7. At European level the monetary upheavals have shown that the achievement of Economic and Monetary Union - while providing no guarantee against turbulence at world level is the best way of ensuring long-term strong, stable and sustainable growth in the Member States.

1.7.1. The ESC therefore urges improved monetary cooperation and calls on the Member States to implement policies aimed at achieving the preconditions for transition to the final stage of Monetary Union. However, such monetary cooperation depends on the establishment within the EMS of parities which accurately reflect the relative economic positions of the different Member States.

1.7.2. Although the single market needs to have a single currency if it is to be viable, the ESC would warn against the deflationary impact of the rigorous monetary and fiscal policies accompanying the convergence process. This impact should be counteracted by the rapid implementation of the investment programmes identified as priorities at the Essen Summit.

2. Current Economic Situation and Macroeconomic Policies

2.1. Since the publication in late 1994 of the Commission's 1995 Annual Economic Report³ the international and Community economic situation has changed considerably, bearing out the ESC's forebodings. In its Opinion of 30 March 1995 on the 1995 Annual Economic Report⁴, the ESC tempered the Commission's optimism, pointing out that the prerequisites for sustained growth in 1995 and 1996 had not been achieved. In particular it highlighted the impact of the monetary turmoil on the external component of growth in Europe and the uncertainty over the dynamism of the internal component, especially personal consumption, which was supposed to offset the slowdown in external demand, which up to now has been the driving force of growth.

2.2. The monetary upheavals which shook the foreign exchange markets have weakened the rate of growth in Europe and are potentially capable of splitting the internal market. But even more than the monetary disorder, it is the lower than expected trend in consumer spending which the OECD mentions as the reason for revising downwards its growth forecasts.

2.3. Although the Commission and the OECD predict only a slight deceleration in economic growth in 1996, the ESC regards the present economic situation as worrying in several respects:

- Firstly, the pressure on certain currencies in the EMS seems to be linked to a decline in the markets' confidence in the economic policies pursued, in particular the

lack of credibility of the budget adjustment programmes and the low inflation targets.

- Secondly, the behaviour of the foreign exchange markets has revealed the lack of coordination of economic policies at both European and international level. At European level, the Member States must treat their exchange rate policy as a matter of common interest.

2.4. The most worrying aspect of this monetary disarray for the European economy is that it could ensure that the growth cycle is too short to create a lasting increase in unemployment. Consequently, at this stage in the economic cycle the ESC considers that economic policy must be focused first on forestalling trends liable to compromise the pursuit of growth and job creation.

2.4.1. On the fiscal front the ESC endorses the broad guidelines of the economic policies of the Union and calls for more credible fiscal policies, in particular in those Member States whose currency has depreciated. In these countries fiscal policy will have to help reduce inflationary expectations and exchange rate instability so as to set the stage for a fall in real short and long-term interest rates and thus promote investment and jobs. The ESC is still convinced, however, that in the medium term the credibility of reform policies, and compliance with the Maastricht criteria in general, are dependent on the degree of real convergence between the Member States: improved economic performance and less unemployment would give greater credence in the eyes of the financial markets to the political determination of some Member States to undertake the adjustments needed to move on the third stage of EMU.

2.4.2. The ESC reiterates its appeal to all Member State governments to seize the opportunity presented by sustained economic growth and the fall in real long-term interest rates to undertake the necessary structural adjustments to their budgets in order to restore their indebtedness to sustainable levels in the medium term. The effort to reduce structural deficits will be all the easier to bear because it is undertaken at a time when economic activity is expanding, even though such periods automatically bring deficits down and thus lessen the incentive to take such action.

2.4.3. The ESC stresses that these reforms should be socially balanced. All income brackets must contribute to the reform drive and the worst off must be protected. Nor must levels of social protection be jeopardized. The ESC recognizes the need to adapt the operation of social protection schemes to new demographic, technological and economic realities so as to ensure a secure life for all and avoid rupturing the solidarity which is essential for social cohesion. The worsening demographic imbalance and the endemic nature of mass unemployment have highlighted

3 COM(94) 615 final of 13 December 1994.

4 OJ No. 133 of 31 May 1995.

the difficulty of maintaining solidarity models financed solely by payroll taxes. Alternative sources of funding will have to be found, which, in a world of European economic and monetary integration, means that social and tax policy must be better coordinated.

2.5. The ESC considers, moreover, that the economic policy mix must take account of the specific situation of each country.

2.5.1. The ESC therefore welcomes the general fall in interest rates in those countries whose currency has appreciated and where inflation is less of a risk. These countries should utilize the available room for manoeuvre to underpin growth and thus facilitate a reduction in their PSBR and unemployment. If the fall in short-term interest rates takes place in a gradual and orderly manner, the credibility of monetary policy is not called into question and the external value of the currency can even be strengthened in the process.

2.5.2. What is more, as things are now the trend in real disposable income, while keeping investments profitable, should boost personal consumption and thus underpin growth and job creation. In fact it is clear that in these countries, where long-term real interest rates have eased appreciably and firms still have considerable self-financing capacity, investment decisions will be based primarily on the probable trend in demand, especially consumer demand.

2.5.3. In the short term therefore, adoption of more expansionary policies by Member States with a stable currency should counter-balance and facilitate restrictive, rigorously anti-inflationary policies in those countries whose currency has depreciated. Of course, at this stage these countries are benefiting greatly from the devaluation of their currency (primary products - steel, manufactured goods, tourism, etc.) so it will be difficult to persuade them to change direction. Nevertheless, it is essential to accept the argument that the macroeconomic policy mix, tailored to the specific situation of each Member State, should lead to a balance which safeguards the level of European economic growth in the medium term and facilitates the adjustments needed for the transition to the third stage of EMU.

2.6. Finally, the ESC would agree with the conclusions of the report on "A Coherent Employment Strategy for the European Union" drawn up by the EP's ad hoc Committee on Employment (Rapporteur: Mr Ken Coates), and stress the need to offset the deflationary effects of complying with Maastricht by expanding the EU's financial instruments, particularly the European Investment Fund, so as to achieve an investment policy aimed at making the European economy more competitive and creating jobs in the long term.

3. Employment in Europe: Situation and Outlook

3.1. During the period 1991-1994 the EU lost half of the 10 million jobs created between 1985 and 1990. Europe

had never known such massive job losses since the war: thus, despite the slower growth of the working population during the same period - due to the longer time spent in the educational system, to policies to encourage early retirement and a rise in the number of "discouraged" unemployed - the EU's unemployment rate reached a record 11.2% of the working population in 1994.

3.2. In its Opinion on the 1995 Annual Economic Report the ESC said the employment market had plateaued despite the steady cyclical improvement since the end of 1993. The situation on the labour market stabilized in mid-1994. Since then unemployment has remained more or less constant, fluctuating between 11% in April and 10.7%: in July 1995, only just below the all-time peak of spring 1994. This is partly explained by the rise in the activity rate in the months following the recovery in net job creation on the labour market. This phenomenon is accompanied by a rise in the size of the working population, which limits the impact of job creation on unemployment.

3.3. It seems in fact that the EU economy's capacity to translate economic recovery into jobs has not changed very much over the last twenty years: with an estimated annual productivity gain of 2% and with a supposed 3% growth in EU GDP, the Commission forecasts an increase in the number of jobs of around 1% a year for this year and next, which represents a net creation of around 3 million jobs over the two years. As half of these new jobs would be absorbed by the increase in the working population, the recovery should enable around 1.6 million unemployed persons to get a job, which translates into a fall in unemployment from 11.2% in 1994 to 10.1% in 1996.

3.4. These averages mask big differences between Member States and age, sex or skill groups. Thus, the unemployment rate varies from 24% in Spain and 18% in Finland to less than 4% in Austria and Luxembourg (where the pattern of unemployment is not typical), these national figures in their turn mask quite large differences between regions. 12.9% of working women are unemployed, but only 9.7% of men. More than 20% of young people between the ages of 18 and 25 have no job and there are very big differences between countries: in Germany the unemployment among young people is barely higher than the national average (8.6% compared with 8.4%), while in Spain it is twice as high (45% compared with 24.1%).

3.5. The ESC is aware that comparisons between Member States must be interpreted with caution, since statistics cannot take account of national features such as the number of discouraged workers who are no longer listed as unemployed, the number of workers on compulsory part time or the dissuasive effects of the laws and tax rules in some Member States facing married women wishing to work. However, the disparity between these situations underlines the need for the States of the Community to implement measures which are adapted to the specific features of their employment system and the structure of their unemployment (sectors of activity and people affected) if they wish to help reduce unemployment substantially.

3.6. Finally, national statistics do not reflect regional differences, which are often very marked: thus, in Italy unemployment is 7% of the working population in the north but 20% in the south; in the new German *länder* unemployment sometimes reaches 15 to 20% of the working population.

4. Structural Policies for Combatting Unemployment

4.1. Supporting investment, boosting competitiveness, helping SMEs

4.1.1. Full utilization of idle production capacity by 1997 will, at the most, eliminate the cyclical component in unemployment, estimated at 2% of the working population. So, while this form of growth is necessary, it will not be sufficient to achieve the goal set by the White Paper: creating the 15 million jobs necessary to halve unemployment by the year 2000. The reduction of "classic" unemployment, estimated at 9% of the working population, will require new jobs to be created by boosting production capacity.

4.1.2. Consequently, macroeconomic policy must provide a favourable environment for innovating and job-creating investments by seeking to guarantee profitability while permitting sufficient growth in final demand to create the climate of confidence which investment needs.

4.1.3. In the longer term, industrial policy must continue the structural reforms which seek to strengthen the endogenous growth potential of the European economy. With this in mind, the ESC considers that the priority investment programmes adopted at Essen must be implemented more rapidly. Also, innovating industries which invest in high-tech markets must be encouraged. The ESC notes here the Council's wish to push ahead with its action plan for an information society. The ESC urgently stresses the need to develop special projects enabling SMEs to access new sources of information. As part of the development of the information superhighways, the EU's action to help SMEs should fit in with the initiatives developed by the G7 countries. Since the legal aspects of disseminating information and data via the information superhighways are still unclear, the ESC approves the Commission's decision to start a debate on, for instance, intellectual property rights in the context of the information superhighways, on the basis of a recent Green Paper.

4.1.4. The ESC supports the implementation of structural measures designed to boost the EU's endogenous growth forces; but it would emphasize that technological progress, while necessary in the long term, does not by itself provide sufficient support for growth and jobs. The improved competitiveness and market flexibility necessary to permit the redistribution of productivity gains between sectors and finance job creation in low productivity sectors will have to be socially acceptable, so the strengthening of market machinery should be carried out within the framework of a social dialogue. Moreover, as the White Paper points out, one must not concentrate exclusively on how to produce.

Technological progress offers opportunities for growth and employment on condition that one anticipates new needs and the new products resulting from the upheavals to social life, family life and urban civilisation.

4.1.5. Finally, SMEs have a growth and job creation potential which must be exploited, for instance through tax measures designed to make it easier to set up, develop and transfer small businesses, reduce their administrative costs and facilitate their involvement in training and research programmes. The ESC is therefore pleased that the Council has asked the Commission to draw up a report on current policies in these areas and on ways of making them effective⁵. The ESC would point out here that SMEs operate locally and many tax laws and administrative requirements are still the province of the Member States, so moves to promote SMEs will initially have to come from the Member States and local authorities. The Commission will have to try and publicize practices and prevent the introduction of new formalities.

4.2. Labour-market policies

4.2.1. Some of the workless do not have the skills needed for newly-created jobs. Vigorous medium-term growth backed up by investment and improved competitiveness will not reduce this structural component in traditional unemployment.

4.2.2. Consequently, and in parallel with policies to support "tangible" investment in sectors with a high growth potential, industrial policy must also promote "intangible" investment to improve the quality of the labour force: in other words, vocational training must focus more on eliminating specific skills' shortages. Steps must be taken to promote on-going training and improve workers' skills. With this in mind, gangways must be created between schools and business life and tax and quasi-tax incentives provided to encourage on-going training and apprenticeships in firms. Industrial apprenticeships, together with basic and on-going training in the form of sandwich courses, will also allow people immediate access to a job, whatever the skill level required.

4.2.3. Such action to enable people to fulfil their potential is a long-term matter: as the Commission says, the thing is to correct the inadequacy of current educational and training systems so as to face the challenge of competitiveness in the long term. However, unemployment is a reality right now, hence the need to implement measures which will work quickly and visibly against the destruction of jobs in order to restore citizens' confidence.

4.2.4. Measures to boost the jobs' component of growth are thus part of a shorter term approach. Here the European Council in Essen has identified three fields for action: reduction of indirect labour costs; reduction and redistribution of working time together with the expansion of part-time work; and the development of new job fields.

⁵ European Council in Cannes, Conclusions of the Presidency (SN 211/95, point 1.3.).

4.2.4.1. The Member States frequently reduce non-wage labour costs in order to encourage hiring. The policy is based on the observation that high labour costs push companies exposed to international competition to either relocate to low-wage economies or replace labour by capital. Measures to reduce labour costs generally concern unskilled workers, who are the most threatened by relocation and substitution. Unskilled labour costs are reduced through exemptions from social security contributions. While such measures are widely used today, they still give rise to certain questions:

4.2.4.1.1. First, the reduction of payroll taxes must not jeopardize social protection levels. Wage-based financing has to be replaced by a broader based system of alternative funding whose impact on competitiveness, growth and jobs will have to be assessed. The ESC notes that the general trend in the EU is to offset cuts in social security contributions by increasing indirect taxes, especially VAT. While VAT has the double advantage of being deductible on exports and easier to apply within countries because it is less noticeable than direct taxes, it has more impact on lower-income households, which are harder hit by the increased cost of essential goods. This applies even more to large families, the unemployed and those on minimum incomes. Moreover, VAT feeds through directly to prices, so there is a risk of inflation with its accompanying monetary and interest rate effects. What is more, pay claims aimed at offsetting loss of purchasing power may, in the medium term, offset falls in the cost of labour.

4.2.4.1.2. Second, it is not obvious that lower labour costs will lead to a big increase in new jobs in either the short or long term. The replacement of people by machines is a long-term trend resulting from technical progress and heightened by ever keener competition. While higher labour costs have probably helped to accelerate this process, it is not certain that lower labour costs will bring it to a halt. Moreover, in the short term, measures targeted at reducing social security contributions themselves may have a "substitution effect" which lessens their yield in terms of net job creation.

4.2.4.2. The ESC considers that productivity gains must, as a priority, go towards creating jobs. The reduction and distribution of working hours is one way of increasing the number of jobs created by growth, provided that they bring about a real improvement in the quality of life of workers and do not involve additional costs for businesses⁶. With this in mind, the management of working time must be designed to achieve a better balance between on the one hand workers' desires to achieve a better balance between working, social and family life and, on the other hand, the demands of corporate competitiveness.

4.2.4.2.1. In some sectors it is conceivable that shorter working hours; a reorganization of working hours, higher capacity utilization and lower social security contributions, will provide ample scope for negotiation. The ESC feels that a policy based on shorter working hours with a compensatory increase in jobs is one way to achieve consensual results which will be beneficial to employment.

4.2.4.2.2. The ESC notes that in several European countries, since the beginning of the 1980s, work sharing has been introduced almost entirely by expanding part-time work, with the daily duration of work remaining the same for those holding full-time jobs. However, part-time work is done mainly by women, concentrated in the services sector and limited to low-skilled and poorly-paid jobs. In addition, part-time work and other non-typical forms of employment, such as temporary work, are deficient in terms of social protection and are often associated with a high level of instability and flexibility and a lack of promotion prospects. The ESC wants part-time work to be freed from its "second class" image; to do this, the social status of the part-time worker must be improved, with a view to abolishing all forms of penalization associated with the choice of part-time work. In particular, special social security regulations should be prepared for part-time workers, and unemployment benefit schemes should guarantee full-time workers who choose to work part-time a wage which is always higher than their unemployment benefit. In addition, policies to encourage work redistribution by promoting part-time work should include incentives both for the employer and for the employee, so that part-time work is really "chosen" and not "imposed". Such policies should be backed up by public information campaigns.

4.2.4.2.3. Several European countries have experimented with "career-break" schemes accompanied by compensatory hirings, especially in the public sector. The current arrangements should be expanded, particularly in the private sector, for instance by introducing new types of part-time career breaks or extending the maximum length of career breaks. However, it is important that such systems do not involve extra costs for firms. Where there is an obligation to use an unemployed person as a replacement, some of the money saved on unemployment benefit could be used to incentivize employers by offsetting the extra costs involved in hiring new workers, and encouraging this type of formula for redistributing working time.

4.2.4.2.4. Finally, schemes to phase out the end of a person's working life or phase in retirement may be used to combine work redistribution and training for young workers. Recent ILO studies stress the cost and inefficiency in job-creation terms of full-blown early retirement, because the vacancies created cannot be filled by unemployed young people who are unskilled. One way of overcoming this problem could be a scheme where access to early retirement on half-time would be tied to the hiring of a young unemployed person half-time. During the period necessary for the transfer of knowledge and know-how, the public authorities would bear the extra cost to firms of replacing one full-time worker with two half-time workers.

4.2.4.3. The development of labour-intensive services in sectors not exposed to international competition is a further attractive approach. Changes in lifestyle, demographic changes and higher participation rates, etc. have created

⁶ The whole question of working hours is considered in greater detail in the Own-Initiative Opinion CES 166/95 (Rapporteur: Mrs van den BURG, Co-Rapporteur: Mr WHITWORTH) adopted by the ESC at this same Plenary Session (meeting of 25 October 1995).

new social needs, which have yet to be satisfied: minding of sick children, health and social service facilities for the elderly, assistance for young people who are in difficulty, daily help for pupils with their school work, protection of the environment and the natural heritage, etc. These are all services which are genuinely beneficial in economic, social and cultural terms but which have been discontinued or have never been provided. "Social economy" (co-operative, mutual and non-profit sector) enterprises already feature significantly in these new alternative fields: by taking over and establishing community services, social economy enterprises will be able to play an active role in the overall policy of combatting social exclusion, as defined in the White Paper. It is necessary to ensure that expansion of employment in these areas does not entail social deregulation or an increase in the number of insecure jobs. These services must, first and foremost, be seen and recognized as genuine jobs and be regarded as such by the workers concerned. A solution will also have to be found to the inability of the persons requiring these services to pay for

them: the cost will either have to be geared to the income of the user or reduced by lowering the social security contributions charged in respect of the service. If these services are to be developed, they will have to be structured and quality standards will have to be laid down in order to meet consumer expectations.

4.2.5. The ESC would stress the fundamental role of the public sector in creating jobs. With the prospect of the information society, intervention by the public authorities is necessary to ensure that the new forms of communication are accessible to the entire population. With this in mind, the potential for job creation in a redefined and consolidated public sector of the future is considerable.

4.2.6. Finally, the ESC thinks that the implementation of multi-year employment programmes should be accompanied in each Member State by a follow-through and evaluation procedure in order to assess the impact of the steps taken to cut unemployment and, if necessary, progressively improve employment action plans.

Done at Brussels, 26 October 1995.

The President
of the
Economic and Social Committee

Carlos FERRER

The Secretary-General
of the
Economic and Social Committee

Simon-Pierre NOTHOMB

APPENDIX
to the
OPINION
of the Economic and Social Committee

Rejected amendment

The following amendment was rejected but received more than 25% of the votes cast:

Replace the entire text by the following:**“1. Introduction**

1.1. *As we approach the millennium, mass unemployment in the developed nations appears to be a specifically European phenomenon. Since 1974, the first year for which statistics are available in respect of the then newly-enlarged Community of twelve, it has grown inexorably from 2.5% of the European labour force to more than 11% in 1994, the last year prior to the enlargement to a Community of fifteen.*

These figures not only represent an appalling waste of valuable human resources but constitute a source of insupportable human misery and a potential threat to the survival of the European social model. They are an indictment of the way in which the European nations, jointly and severally, have managed or, rather, failed to manage, their economies.

1.2. *Despite the favourable economic prospects for the coming two years which have been projected, unemployment in the European Union is expected to stabilize at excessively high levels and even the most optimistic targets for reducing it fail to achieve anything approaching the improvement which is required and which the citizens of Europe are entitled to expect.*

1.3. *The Commission is projecting an increase of about 1% in the number of jobs for each of the years 1995 and 1996, which implies a net creation of some 3 million jobs. As the increase in the active working population in that period is predicted to be 1.4 million, this represents a fall of just 1.6 million in the number of people unemployed.*

1.4. *The ESC has already pointed out, in its Opinion of 30 March 1995 on the Annual Economic Report, that the prerequisites for sustained growth in 1995 and 1996 have not been achieved and this must call into question the realism of the Commission's target for job creation.*

1.5. *The Commission's White Paper sets a target of creating 15 million new jobs by the year 2000; even if the net increase predicted for 1995-96 is achieved, this will still leave 12 million further jobs to be created between 1997 and the end of the century. A simple extrapolation of figures is sufficient to demonstrate that this is a demanding, and perhaps unrealistic, target which could only be achieved by a combination of exceptionally favourable economic circumstances, sustained over the whole of that period, and the implementation of effective strategies to curb unemployment.*

1.6. *In the unlikely even that this goal can be met, the net reduction in unemployment, after taking into account the anticipated increase in the active working population over the same period, is only 6.4 million. This would still leave some 12 million people, or 7% of the working population, unemployed. That figure is far too high; we must aim for much more ambitious reductions in the level of unemployment if the social cohesion of Europe is to be maintained.*

1.7. *In reality, it is all too likely that even these inadequate targets will fail to be met. As has already been indicated, they depend, amongst other things, on sustained growth in the European economies, which in turn requires the continuation and spread of world economic growth. A growth cycle sustained over such an extended period would be an unusual, if not unprecedented, phenomenon and there is no justification for assuming that this will occur unless the right policies are adopted to ensure that it takes place.*

1.8. *There is another aspect to this situation which needs to be taken into consideration. It has been clearly demonstrated in recent years that economic growth does not always produce a commensurate increase in jobs and, in fact, **the capacity of the EU's economy to translate recovery into jobs** has not changed very much over the last twenty years. Although unemployment fell in the second half of 1994 it had risen again by April 1995 to a level only slightly below its historical high.*

1.9. *It has already been stated that mass unemployment, at least amongst the developed nations of the world, is a European phenomenon. It therefore seems logical, in seeking a cure for this chronic disease which is crippling a continent, to look to what is happening in other economies which have been more successful in combating this scourge. In particular, the example of the United States offers many lessons from which we could usefully learn.*

2. Comparisons between the USA and the EU

2.1. The economies of the United States of America (USA) and the European Union (EU) are, in many respects, broadly comparable. Although the USA is slightly ahead, citizens in both the EU and the USA enjoy living standards which are amongst the highest in the world. In terms of material prosperity, the citizens of Europe can almost match their American cousins.

2.1.1. Population is also not too dissimilar. In 1994, it was about 260 million in the USA and 350 million in the EU. The population in both communities is ageing, but rather less so in the USA where the birth rate is higher than in the EU.

2.1.2. Then again, both economies have had to undergo substantial structural change in the recent past as competition, first from Japan, then from other industrializing countries on the Pacific Rim and now from China, has forced the pace.

2.2. So we can see that there are some important similarities between the two economies but there is one key aspect of their performance over the past twenty years which is marked by contrast rather than similarity; while unemployment in the EU rose from 2.5% in 1974 to 11.5% in 1994, unemployment in the USA fell from 5.7% to 5.6% in the same period.

2.2.1. In 1974, the level of unemployment in the EU was less than half that of the United States; by 1994 it was more than double; or, to put in another way, over the 20-year period unemployment in the USA showed no discernible trend because it fluctuated around the level of 6%, whereas the EU level more than quadrupled and showed a steadily-rising long term trend.

2.2.2. Social scientists must be concerned about long-term trends in the wrong direction which show no signs of abating. These trends are charted on page 41 of the European Commission's White Paper of December 1993, 'Growth, Competitiveness, Employment'. When two economies which have so many similarities exhibit such a marked difference in performance in this one key area, the conclusion is inescapable that this must result from the differing employment policies pursued in those two economies.

2.2.3. In fact, the figures quoted understate the extent of the EU's unemployment crisis. One reason for this is that the EU employment rate, at 58% in 1993 (according to 'Employment in Europe 1994', published by the European Commission), is considerably lower than the rates in other developed countries, including the USA where it was just over 70%. A low employment rate implies that there are many people of working age (especially women) who would like to work but cannot do so because the opportunity does not exist. Most of these people would not appear in the unemployment statistics.

2.2.4. A second reason is that when unemployment rises, so too, in Europe, does the rate of long-term unemployment and the rate of youth unemployment. In 1992, the EU long-

term unemployment rate was 43% and the rate of youth unemployment was 21%; in the USA the comparable figures were 11.2% and 6.5%.

2.2.5. A true measure of an economy's employment/unemployment situation has to be based on a combination of the percentage unemployed and the employment rate. Such a measure indicates that the EU's situation has deteriorated so seriously since 1974 that, in the 1990s, the EU is not facing an unemployment problem, it is experiencing a major employment crisis. In marked contrast, over the same period the USA had a roughly stable unemployment level, while its employment rate improved from 63% to 71%. We must ask ourselves how this was achieved.

2.3. Quite simply, the main reason why the USA has a much lower unemployment level today than the EU is that the American economy has created vastly more jobs. The OECD Jobs Study, published in June 1994, gives the following revealing figures:

Number of Additional Jobs Created 1974-94 (millions)

	Private sector	Public sector	Total
USA	31	5	36
EU	Nil	5	5

2.3.1. Thus, while both economies generated 5 million extra jobs in the public sector the USA generated 31 million additional jobs in the private sector while the EU generated zero. In other words, the EU's failure to generate extra private sector jobs during a period in which the working population was rising, was total. This suggests:

- i) that serious errors of employment policy have been made in the EU, and
- ii) that EU policy-makers could learn some useful lessons from their counterparts in the USA.

2.4. It will be readily understood that the acute nature of the EU's employment crisis, with its attendant misery for more than twenty million would-be workers and their dependents, a total of about 100 million European citizens, means that only the most radical changes of policy will provide an adequate remedy.

3. The Labour Market in the USA

3.1. A strong case could be made for saying that today the essence of the employment scene in the USA is the numerous statutory (federal and state) regulations which affect it. Others might argue, with equal force, that behind those regulations the 'hire and fire' philosophy still holds sway. Whichever of these two views is held, it must be accepted that the recent job-creating record of the US economy indicates that the labour market there is working far more effectively than in the EU.

3.2. It is an accepted fact that the primary source of job creation is the Small and Medium-sized Enterprises (SME) but the extent of the role which they play in the job-creation process has not been fully recognized. Recent research

shows that, at least in the USA, they have played an even more important part than was previously imagined.

3.2.1. In late 1991, the Office of Advocacy of the Small Business Administration (SBA) contracted with the Economic Surveys Division of the Bureau of the Census to produce linked longitudinal data files on an enterprise basis to cover the non-farm, private sector economy. By the autumn of 1994, such files had been produced for the years 1989, 1990 and 1991.

3.2.2. The period 1989-91 showed a modest employment gain of 681,500 in this sector of the economy. It was made up as follows:

Net Job Creation (+)/Destruction (-) by Size of Firm 1989-91

Employment Size of Firm	Net Change in Jobs
0-4	+2,624,100
5-19	-458,600
20-49	-602,200
50-99	-450,000
100-499	-553,900
500+	+122,100
Total	+681,500

Source: News release of the SBA, 30 September 1994.

3.3. Critics of American employment policies have sought to diminish the undeniable success of the US economy in creating jobs by stigmatizing the jobs created as 'McJobs', implying that they are low-paid, short-term, fast-food jobs. These criticisms will not stand up to investigation.

3.3.1. A paper produced by the Center for Economic Performance showed that over the ten-year period from 1983 to 1992 the percentage of the working population engaged in this type of job actually fell from 12.1% to 11.9%; in that period, the employment category which exhibited by far the greatest growth was 'Professional/Managerial'. This category, which includes most of the best-paid jobs, grew from 27.9% to 31.2%.

3.3.2. The 'Report on the American Workforce' issued by the US Department of Labor in 1994 stated that 'The vast majority of jobs being created are not the short-term, burger-flipping positions so popular in the mythology of the modern economy. Indeed, most of the overall job gains have been in relatively high-paying classifications. The occupations that have shown the most rapid growth over the past decade are those that require high levels of education, training and specialized knowledge.'

3.3.3. A further criticism which is often levelled at the new American jobs is that they are less secure than the old

jobs. In fact, the Employee Benefit Research Institute in Washington reported recently that, on average, 'American workers are staying in the same job for longer than they did 20 or 30 years ago'. This means that greater insecurity for American workers is as much a figment of the imagination as the notion that most of the new jobs are in fast-food restaurants.

3.4. Another key area in which Europe is lagging behind America is in the mobility of labour. Despite the fact that the EU has consistently sought to improve this element and notwithstanding the advent of the Single Market which was supposed to facilitate it, the position of the EU relative to the USA has actually deteriorated drastically over the period under review. Labour mobility in the EU is currently 25% of labour migration in the USA; in the 1970s it was 50%.

4. The need for De-regulation

4.1. Contrary to popular conception, the US labour market is highly regulated. The following are just some of the federal statutes which are currently in force in relation to private-sector employees:

Statute	Effect
Fair Labor Standards Act 1938	Provides for a national minimum wage and that overtime should be paid at 150% of the normal rate for hours worked in excess of 40 per week.
Equal Pay Act 1963	Provides that men and women should be paid equally for equal work.
Civil Rights Act 1964	Forbids employment discrimination on the grounds of race, colour, sex, religion, creed, or national origin.
Age Discrimination in Employment Act 1967	Forbids employment discrimination against those aged over 40.
Employee Retirement Income Security Act 1967	Requires occupational pension schemes to be administered in accordance with certain standards.
Americans with Disabilities Act 1990	Forbids employment discrimination against 'qualified individuals with a disability'.
Family and Medical Leave Act 1993	Provides for 12 weeks' unpaid leave for serious illness in the family or the birth or adoption of a child.

4.1.1. It will be seen that, firstly, some regulations go distinctly beyond those which apply within the EU and, secondly, that the regulatory process has continued in recent years. Also, it must be remembered that each of the fifty individual states can, and does, legislate in the employment field and the regulations which apply to many states are more extensive than the base position created by federal law.

4.2. The EU is rightly proud of the social protection which is given to workers in its Member States and any proposed solution to the present employment crisis which involved the dismantling or curtailment of this system would be unacceptable to a majority of people. However,

the above examples show that a high measure of social protection and dynamic job-creation performance can co-exist within a single economy.

4.3. There is widespread agreement amongst European legislators, economists, politicians, scholars and businessmen about the importance of the role played by SMEs in job creation. This has been acknowledged by the European Commission, who stated in their 1993 White Paper 'Growth, Competitiveness, Employment' that 'Member States should address **existing barriers to maximizing the job-creation potential** of SMEs and areas of new employment growth and activity by a range of measures aimed at anticipating and accelerating SME and new jobs growth'.

4.4. Small firms in both the USA and the EU are creating jobs at a faster rate than larger firms. It is also the case that small firms are more consistent creators of jobs, in the sense of being less influenced by macro-economic conditions. The US experience suggests that it is the micro-businesses (those with less than five employees) which are the primary job-creators and, therefore, in any strategy to reduce the level of unemployment, it is essential to differentiate between these micro-businesses and the larger firms which currently fall within the European definition of an SME. It also means that research using a database which omits these micro-businesses, (as many studies do) is either irrelevant or dangerously misleading and any conclusions drawn from it must be flawed.

4.5. It is patently obvious that, while small businesses are the major source of job creation in both the USA and the EU, those in the United States have been considerably more successful in fulfilling this role than their European counterparts. The only discernible difference which would account for this disparity is the fact that in the United States almost all federal employment regulations and **many state regulations have an exemption clause for small or micro-businesses**.

4.5.1. One of the reasons - perhaps the main reason - why Congress has exempted all micro-businesses and some small businesses from these regulations is that it wants to stimulate job creation and economic development and has recognized the key contribution which small and very small firms are making to these desirable aims. Another reason could be the understanding that complex regulations bear far more heavily on the proprietor of a small firm than on the specialist manager of a larger organization.

4.5.2. The exemptions are quite varied. They may be based on annual turnover or the numbers employed in the business and there are different levels of exemption for different statutes. These exemptions have been granted partly because of the disproportionate contribution of small firms to job creation. Now that they exist, it seems probable that they encourage the establishment and growth of small firms. Thus, they might reasonably be seen as both the cause and the effect of small business success in the USA.

4.5.3. It could be argued that these exemptions give small firms an unfair advantage vis-à-vis their larger competitors. Certainly, the exemption limit is not just a hurdle to be crossed as the business grows; it is, rather, a dividing line

between safe (regulation-free) ground and the minefield which is created by the mass of complex regulations which exist in the employment field and in other areas.

4.5.3.1. To argue that small firms have an unfair advantage is to miss the point altogether. Instead, attention should be focused on the **disadvantages** for larger firms which stem from excessive regulation. The real regulatory burden on US businesses may be less than that on their EU counterparts but the evidence suggests that there is scope for a considerable measure of deregulation in the USA - and a great deal more in the EU.

5. Comparison with other nations

5.1. Other nations have had considerable success in controlling the level of unemployment. Notable amongst these is Japan, where the Commission's White Paper of December 1993 showed that unemployment had not exceeded 3% of the labour force at any time in the past 35 years. It might be argued that this outstanding record is a reason for basing European employment policies on the Japanese model but it must be acknowledged that this success has been based, at least in part, on the fact that Japan has been allowed to sustain an imbalance in its foreign trade which the EU could not expect to emulate and there are also major cultural differences between the Japanese and European peoples which would make it difficult to replicate Japanese working conditions in a European environment. For these reasons the Japanese experience is not considered to be a viable role model for European employment policies.

6. The Basic Objective of Economic Policy

6.1. The more prosperity there is, the more can be done to relieve specific social and environmental problems and to satisfy the wider aspirations of Europe's citizens. Without economic growth, even existing levels of general welfare and social provision are at risk, particularly given the adverse demographic trends facing all EU Member States.

6.2. The basic objective of economic policy, whether at national or European level, must therefore be to achieve the highest sustainable rate of real growth in the economy, in order to maximize individual welfare and facilitate the realization of wider social aims. Only in this way can the future of the Social Contract be protected.

6.3. The essential elements underpinning a sound basic framework for the economy are:

- i) sound money that is, effective, control of the money supply and low inflation.
- ii) sound government finances that is, keeping budget deficits and the level of outstanding government debt within prudent limits.

7. *Current Economic Situation and Macro-economic policies*

7.1. *Since the publication, at the end of 1994, of the Commission's 1995 Annual Economic Report, the international and Community economic situation has changed considerably, bearing out the ESC's forebodings. In its Opinion of 30 March 1995 on the Annual Economic Report, the Committee tempered the Commission's optimism, pointing out that the prerequisites for sustained growth in 1995 and 1996 had not been achieved. In particular, it highlighted the impact of the monetary turmoil on the external component of growth in Europe and the uncertainty over the dynamism of the internal component, including consumption by households, which was supposed to take over from external demand as the driving force of growth in 1995 and 1996.*

7.2. *The monetary upheavals which shook the foreign exchange markets have weakened the European growth rate but, even more than the exchange-rate instability, it is the lower than expected trend in consumer spending which the OECD pinpoints as the reason for revising its growth forecasts downwards. This phenomenon almost certainly has its origins in the continued high level of unemployment and the consequent lack of a 'feel-good' factor in the population at large; people are not inclined to spend money if their main concern is doubt about their future job security.*

7.3. *Although the Commission and the OECD predict only a slight deceleration in economic growth in 1996, the ESC regards the present economic situation as worrying in several respects.*

7.3.1. *Firstly, the pressure on certain currencies in the EMS reflects a decline in market confidence in the economic policies pursued by those countries and, in particular, the lack of credibility of their budget adjustment programmes and their low inflation targets. The risk of new pressures within the EMS will increase as the transition to the third stage approaches if the Member States do not, in the meantime, demonstrate a clear political will to undertake the necessary reforms.*

7.3.2. *Secondly, the behaviour of the foreign exchange markets has reflected the lack of coordination of economic policies at both the European and international levels. At European level, the Member States must treat their exchange rate policy as a problem of common interest. At international level, full and fair implementation of the agreements reached in the Uruguay Round of the GATT negotiations is necessary if the world is to realise the promise of increased trade and prosperity rather than face the spectre of regionalization, protectionism and being plunged into renewed trade wars.*

7.4. *The most worrying aspect of this situation for the European economy is that it could initiate a growth cycle too short to stimulate employment over the long term. Consequently, at this stage in the economic cycle, the ESC considers that economic policy must be focused first on preventing any trend which could compromise the pursuit of growth and job creation.*

7.4.1. *On the budgetary front, the Presidency Conclusions of the Cannes European Council stated that 'Rolling back unemployment means implementing stability-orientated monetary and budgetary policies, in line with the broad guidelines for economic policies. The European Council emphasizes that such macro-economic policies directly benefit jobs threatened by the weight of public deficits. A rigorous budgetary policy - over and above its favourable impact on the stability of the macro-economic framework - helps to bring down interest rates, boost investment and stimulates growth'. The ESC endorses this position; it is convinced that in the medium term the credibility of reform policies is dependent on the degree of real convergence between the Member States; improved economic performance and lower unemployment would give greater credence in the eyes of the financial markets to the political determination of some Member States to undertake the adjustments needed to progress to the next stage of EMU. The ESC reiterates its appeal to all Member State governments to seize the opportunity presented by sustained economic growth and the fall in real long-term interest rates to undertake the necessary structural adjustments to their budgets in order to restore their indebtedness to sustainable levels in the medium term.*

7.4.2. *The key to achieving, and sustaining, these levels of indebtedness is the reduction of public expenditure. In every country within the EU the level of public expenditure, expressed as a proportion of GDP, is currently far too high. A substantial reduction in this figure would not only reduce public indebtedness to acceptable levels but would permit tax rates to be lowered. This would stimulate economic growth by leaving a greater proportion of the national resources in the hands of the wealth-creating private sector of the economy and by increasing the spending power of consumers. This, in turn, would create jobs and produce a significant improvement in the unemployment situation. The beneficial effects of this on public sentiment and the creation of a 'feel-good' factor would act as a further stimulus to consumer spending.*

7.4.3. *The ESC stresses that these reforms should be socially balanced. The reductions in public expenditure which are being advocated need not, and should not, be made at the expense of the provision of essential public services and social protection. In every country the cost of administering these services is being inflated by the over-manning and time-consuming bureaucratic procedures which are inseparable from public-sector provision. The greater the percentage of GDP which is diverted to the public sector, the higher the proportion of that money which is consumed in administering it. The exemptions from current employment legislation for small businesses which the ESC proposes would, alone, contribute to a substantial reduction in public expenditure by eliminating the need to administer the statutes and monitor compliance with them. Apart from this, there is ample scope for cost reduction in any public-sector service.*

7.4.4. *Increases in real disposable incomes which are achieved by reductions in the rates of tax are not, in themselves, inflationary, as corresponding increases achieved by wage rises would be, but monetary policies should be*

aimed at controlling any inflationary tendencies by using interest rates to keep the money supply in check.

7.4.5. Experience across the world has demonstrated quite clearly that low-tax economies are high-growth economies and high-growth economies are low-unemployment economies. In other words, low tax equals low unemployment. Conversely, high tax regimes, and particularly those where excessive taxation is compounded by excessive regulation, are characterized by high levels of long-term, structural unemployment.

8. Labour market policies

8.1. The ESC advocates moves towards more flexible labour markets.

8.2. It also reiterates its insistence on the importance of the training and education element in any structured approach to labour market policy and on the encouragement of an entrepreneurial culture. Efforts to create jobs and improve the skills of the workforce must be coordinated; training without job creation will merely result in a large number of highly-skilled, unemployed workers; job creation without training will be self-defeating because of the lack of suitable labour to fill the newly-created vacancies.

8.2.1. Labour market policy must promote investments to make labour more 'employable'; in other words, the link between supply and demand in the area of vocational training must be improved in order to answer the basic needs of industry. Steps must be taken to promote on-going training and improve workers' skills. With this in mind, gangways must be created between schools and business life and incentives provided to encourage on-going training and apprenticeships in firms.

8.2.2. Such policies to up-grade human resources are a long-term measure; as the Commission says, the thing is to correct the inadequacy of current educational and training systems so as to face the challenge of competitiveness in the long term. However, unemployment is a reality right now; hence the need to implement measures which will work quickly and visibly against the destruction of jobs in order to restore the confidence of Europe's citizens in the ability of the EU to deliver and sustain the standard of living to which they aspire and to which they feel that they are entitled.

8.2.3. Measures to boost the jobs component of growth are part of a shorter-term approach. Hence, the European Council at Cannes placed particular emphasis on 'the need to foster growth of a kind that will create jobs, to step up measures to bring young people and the long-term unemployed back into the world of work and to make labour markets perform better, **in particular by reducing indirect labour costs.**'

8.2.3.1. The ESC supports the strategy of reducing non-wage labour costs. Anything which reduces the cost of employing labour will tend to increase the amount of labour employed. Employers hire labour mainly because they expect to receive a surplus (profit) from the revenue

product of that labour. The theory of wages, which is supported by practical experience, is that more labour will be hired at a lower price (wage) and less will be hired at a higher price (wage), other things being equal. Thus, in making a decision on whether to hire, an employer will take into account all the costs of his decision. These will include the cost of state taxes on employment; they could also include the cost of firing. No private sector employer can guarantee the demand for his product or service indefinitely and, if the demand declines, he will have to shed labour as an alternative to going out of business. As the OECD Jobs Study pointed out, legislation which is designed to discourage dismissals by raising the cost to employers of releasing workers 'can also make employers more reluctant to hire new workers'.

8.2.3.2. Labour market policies in the field of working time must reflect the way in which working patterns are developing, both inside and outside the EU. By the end of the century, the conventional five-day/forty-hour week is likely to be the exception rather than the rule; workers will increasingly wish to tailor their working patterns, throughout their working lives, to their changing personal circumstances and family commitments. Flexibility and adaptability will therefore be the keynote for industrial relations in the future and these qualities will need to be demonstrated by employees, employers and legislators alike. The tailoring of individual working hours to individual requirements can best be achieved by individual negotiation and by arrangements voluntarily entered into by both workers and employers.

8.2.3.3. The development of new job fields is the product of an expanding economy and this can only be achieved if governments ensure that they pursue macro-economic policies which are conducive to economic growth and, in particular, create a climate which is favourable to the establishment and development of micro-businesses.

8.2.3.3.1. It is necessary to remember that governments, whether national or European, do not, and cannot, create jobs; neither can they 'protect' jobs; both of these activities are exclusively the function of business. Job creation is the natural product of successful commercial operations conducted in an Enterprise Culture which is conducive to entrepreneurial activity and the best contribution which governments at all levels can make to job creation is to foster an Enterprise Culture. Attempts by governments to intervene in this process by the introduction of well-meaning legislation designed to create jobs, discourage job losses or rectify perceived inequalities between specific groups or categories of workers have been invariably counter-productive.

8.2.3.3.2. Advancing technology brings with it the promise of new jobs as well as posing a threat to the continuance of old ones. It is important that labour market policies should take a positive attitude to new technologies, which are only inimical to net job creation if they are viewed in the context of old-fashioned and rigid concepts of social organization. Attempts to prolong the life of 'sunset' industries because they are seen as being an accepted part of the existing social pattern can only hasten their decline

and lead to further rises in unemployment. The future role of the EU should be to open the doors to opportunity.

9. The Organization for Economic Cooperation and Development

9.1. The OECD in its paper, 'Jobs Study - Facts, Analysis Strategies' published in mid-1994, made nine key policy recommendations. These were:

- Set macro-economic policy such that it will encourage growth and, in conjunction with good structural policies, make it sustainable.
- Enhance the creation and diffusion of technological know-how by improving frameworks for its development.
- Increase flexibility of working time (both short-term and lifetime) voluntarily sought by workers and employers.
- Nurture an entrepreneurial climate by eliminating impediments to, and restrictions on, the creation and expansion of enterprises.
- Make wage and labour costs more flexible by removing restrictions that prevent wages from reflecting local conditions and individual skill levels, in particular of younger workers.
- Reform employment security provisions that inhibit the expansion of employment in the private sector.
- Strengthen the emphasis on active labour market policies and reinforce their effectiveness.
- Improve labour force skills and competencies through wide-ranging changes in education and training systems.
- Reform unemployment and related benefit systems - and their inter-action with the tax system - such that societies' fundamental equity goals are achieved in ways that impinge far less on the efficient functioning of labour markets.

9.2. The ESC explicitly endorses these recommendations.

10. Summary

10.1. This summary can be relatively brief because all that is needed here is a drawing together of the existing threads into a coherent policy for the return to work of a significant proportion of Europe's army of unemployed.

10.2. First, the policy objective has to be plainly stated. It is quite simple: the EU should create, over the business cycle, an average of two million additional jobs (full-time or part-time) each year - not just for the next five years, or for the next decade, but well into the twenty-first century. Nothing less will remedy the very serious employment crisis which now exists and which, as well as creating economic and social problems, threatens the political stability of the EU.

10.2.1. A prerequisite for this is the maintenance of sound money and sound government finances at national and European level.

10.2.2. Budgetary deficits must be tackled by reducing public expenditure; in many Member States this is the only way in which they can be reduced to the necessary convergence levels within the time-scale set for European Monetary Union.

10.2.3. Consumer spending must be stimulated by increasing disposable incomes. There are only two ways of doing this; by increasing wages or by cutting taxes. The former would be inflationary because it would increase the overall money supply; if it were not matched by commensurate increases in productivity, it would also reduce the competitiveness of European firms and, by increasing the cost of their products, would tend to be self-defeating because the additional money in people's pockets would be offset by higher prices and there would be little or no increase in their effective spending power; alternatively, the additional income would be spent on lower-priced products from more competitive nations and would therefore tend to suck in imports, to the detriment of the European trade balance. Cutting taxes, by contrast, is not inflationary because it does not increase the total money supply but simply redistributes it from the wealth-consuming public sector to the wealth-creating private sector, to the advantage of economic growth.

10.2.4. Taxes on labour which, whether levied on the employee or the employer, are taxes on employment, must be reduced.

10.3. The over-riding policy aim must be to create a climate in which small firms can thrive and grow. Governments are over-spent and many large firms (even when they are profitable) are shedding jobs. It follows that most of the jobs to be produced will have to be created by small firms and micro-businesses.

10.3.1. These organizations have a growth and job-creation potential which must be exploited. The European Council at Cannes emphasized that 'small and medium-sized enterprises (SMEs) play a decisive role in job creation and, more generally, act as a factor of social stability and economic drive. It calls upon the Commission to submit a report to it on policies currently being conducted in this field and on ways of improving their effectiveness through measures, particularly of a fiscal nature, aimed at promoting the creation of SMEs, reducing the administrative burden on them and facilitating their participation in training and research programmes. The European Council emphasizes the importance of developing investment in research, development and education at national and Community level. It likewise emphasizes that, in order to stimulate employment, competitiveness and innovation, it is important to combat excessive regulation'.

10.3.1.1. The ESC supports this strategy of the European Council and calls for active measures to assist SMEs, and particularly those which may be defined as micro-businesses. It believes that, in order to achieve this, it is necessary to introduce tax measures designed to make it easier to set up a small business, reduce red tape and facilitate their involvement in training and research programmes; in short, to create an Enterprise Economy. An Enterprise Economy is a low-tax, de-regulated economy, which means

that existing entrepreneurs are free to expand and potential entrepreneurs are encouraged to enter the market with a reasonable chance of achieving business success.

10.3.2. Central to this strategy is the effective de-regulation of SMEs and micro-businesses. They should be set free from most of the numerous employment obligations with which they have been burdened in recent years; job creation must be given priority over job protection. This programme should be concentrated initially on firms with less than 50 employees and, within that limit, there might well be differing scales of exemption, with the highest level of de-regulation being reserved for those with less than five employees.

10.4. The European Council at Cannes concluded that 'the proper functioning of the internal market is fundamental to a dynamic economy and thus to job creation. The Community and its Member States must therefore give priority to the effective working of the internal market'. The ESC agrees with this conclusion.

10.5. The recommendations set out in the OECD report, 'Jobs Study - Facts, Analysis, Strategies' should be implemented.

10.6. Europe's unemployment problem is not insoluble but unless radical policy changes are adopted in place of the tired and discredited 'remedies' which have so signally failed to provide a solution to date, it will not be solved. One thing must be clearly understood: if the EU cannot produce a solution to this problem it will not survive - and it will not deserve to."

Voting

For :	51
Against :	105
Abstentions :	8.

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