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GROWTH, COMPETITIVENESS AND EMPLOYMENT

**Note for the Council of Ministers (Economy/Finance) on
the economic elements of the White Paper**

I. INTRODUCTION

1. The Copenhagen European Council called on the Commission to present a White Paper on a medium-term strategy for growth, competitiveness and employment.
2. This decision followed an in-depth discussion between the Heads of State or Government based on a statement made by the President of the Commission concerning the prospects for the European economy, which pointed to insufficient job creation and declining competitiveness. The dossier presented to the European Council provided an illustration of this assessment but also recalled that the European economy had shown itself capable of shrugging off Eurosclerosis.
3. The Community is facing mass unemployment. The present recession has sharply accentuated the problem. Over the past three years unemployment in the Community has risen sharply and now stands at 17 million people or around 11 % of the work force. Even after five years of steady growth, in 1990, when unemployment reached its lowest level for a decade, there were still 12 million unemployed in the Community, equivalent to 8 % of the labour force. Yet the Community economy also has many strengths. The high growth (3.2%) and job creation (9 million new jobs) of the period 1985-90 show that the Community can perform better. However, a better performance will be possible only if we tackle the causes of our problems and reestablish the conditions necessary for sound, job-creating growth. If the right policies were implemented, the Community could return by the mid-1990s to a path of strong job creation. A substantial reduction in unemployment would be attainable if society were prepared to make today the efforts which would bring higher employment and prosperity tomorrow. The Community must set itself the ambitious but realistic target of creating at least 15 million new jobs, thereby halving the level of unemployment by the year 2000.
4. The Commission is continuing its reflections on the themes that dominated the discussion at Copenhagen: growth, competitiveness and employment. It is aware of the difficulty of the task, all the more in that, if satisfactory solutions existed, the European countries would not have failed to implement them. We are facing an historic and even dramatic challenge to our societies. Are they able to resist economic decline and the social regression that would follow?
5. Our intuition, backed by the renewed dynamism shown by the European economies from 1985 to 1990, is that Europeans can conceive a model of development in line with their traditions, preserving their social model while adapting it, fully integrating technological progress and the environment, offering to all the prospect of integration in society through work, social activity, participation as a citizen.

6. The reflections that follow are still too classical and much imagination will still be necessary to discover our 21st century. But they already offer something for the ministers in charge of economic policy to discuss. In the light of their observations, we will strive to continue to enrich the analysis and proposals.
7. In its final form the White paper will not be binding. It will not be a demand legislative programme at Community level, still less a call for the extension of Community responsibilities. It will propose:
- an analysis of the way in which the economy has behaved recently, with an indication of the lessons which may be drawn from the analysis, having regard to the diversity of national experiences and situations;
 - a critical examination of the conditions necessary for growth and greater competitiveness in manufacturing and the service sector, and of the "employment environment".
 - a scenario for a new European model of development integrating all the ideas already mentioned: access for all to employment, to an activity and to education, the preservation of natural capital, the improvement of our competitiveness, the measure of our autonomy and of our prosperity.
8. It will highlight the factors that can improve the competitiveness of Community enterprises over time:
- * the opportunities offered by the world's most important single market now that the Community has swept away the barriers to trade erected over the last few decades and has created an open market in which goods, services and capital move freely to the benefit of 345 million people;
 - * the major contribution to the development of regions benefitting from programmes financed in the name of economic and social cohesion;
 - * harnessing better the accelerating pace of technological developments, particularly (but this list is not exclusive) in the information-technology industry, the audio-visual sector and in biotechnology;
 - * increased cooperation in the field of research and technological development;

- * an efficient network of transport and telecommunications infrastructures both within the Community and towards our new partners in central and eastern Europe;
- * a trading environment conducive to the development of world trade, with the Community as an open and reliable partner, assuming its full role as the world's greatest trading power.

9. It will also emphasize the "employment environment":

- * the importance of educational priorities and of adapting and improving vocational training, particularly so as to meet the many changing requirements of working life;
- * the rigidities that still hamper the operation of the labour market;
- * the issues of work-sharing and the reduction in working time;
- * the promotion of new job-creating activities.
- * the costs of employment, and in particular the arrangements for taxing labour and calculating social security contributions, which can discourage employment, particularly of young people seeking their first foothold in the job market;

The new challenges

10. For twenty-five years or so the Community has experienced far-reaching economic and social changes some of which have gathered pace over the last ten years. Its problems of unemployment and growth stem from the adaptation of the Community economy, which was vigorously pursued in the run-up to 1992 but has proved insufficient to confront the changes in the world economy and to take full advantage of technological progress.
11. These at times very rapid and radical "changes of décor" give rise to a number of risks that must be contained. But they also afford enormous opportunities for a lasting recovery in growth and employment. There must be a change of attitude and behaviour if the Community is to find suitable remedies for these problems and is to enable its economy to adapt to a constantly changing economic environment.
12. The measures designed to create jobs are inseparable from those aimed at reviving growth and improving international competitiveness. On the one hand, the present interdependence is irreversible and makes economic growth conditional on international competitiveness: losses in competitiveness thus lead to losses in market shares and hence to job losses. On the other hand, the search for competitiveness must not be to the detriment of our objectives of prosperity and social progress.

13. In order to achieve the objectives set out in this White Paper and to restore the confidence of those in society and economic life, credible, resolute and coordinated action on the part of the Community and its Member States is needed. This action will be carried out while leaving the Member States to take specific measures tailored to their own circumstances.

II. THE MACROECONOMIC FRAMEWORK

14. Since the 1970s, growth and employment policies have failed to solve the problems of unemployment. The exception was the period 1985-90, when the perspectives of the single market and appropriate macroeconomic policies unleashed substantial growth and many jobs were created, but the opportunity was not taken to tackle to a sufficient extent the underlying structural problems, as shown by the inflationary pressures and policy imbalances that brought the period of growth to an end. A pronounced change of policies is needed in the Community, and this will be possible if it is accompanied by a change of attitudes. New policies (adding to existing instruments) and attitudes are required to take account of the important changes that have taken place in the last twenty years owing to globalization and the faster pace of technical progress but also to changes in society itself.
15. The Community should set itself the target of creating at least 15 million new jobs, thereby halving the present rate of unemployment. This means an average annual rate of employment creation of about 2.5% between 1995 and 2000.
16. Over the next five years the labour force in the Community is expected to increase by about 0.5% a year; if productivity per person employed were to continue to rise at the rate recorded in the Community during the period 1973-90 (1.9%), an average annual growth rate of the order of 2.5% would be needed merely to prevent unemployment from climbing. To bring down unemployment, much more is needed: a combination of higher growth, but also growth with an increased employment content.
17. The strategy proposed to achieve this objective is composed of three inseparable elements:
 - faster economic growth, which has to be achieved within a stable macroeconomic framework; to that end, the Community should adopt an economic policy mix that would achieve sound growth of at least 3% a year from the mid-1990s;

- creating the structural conditions necessary for Community industry to be competitive on international markets, enabling the Community to maintain its living standards and to participate fully in the growth of international trade;
 - structural changes in the "employment environment" in order to increase growth and the employment content of growth by at least half a percentage point on average.
18. The formulation of a Community strategy combining these three elements is guided by the need for solidarity. The resulting economic growth would be translated into more jobs, and not just into higher incomes for those in employment. The Community must not call into question the basic principles of its hard-won levels of social protection since they underlie the cohesion and attractiveness of European society. Due regard being had to the extremely wide diversity of situations, it is for each Member State to devise the right combination of reforms consistent with the general guidelines proposed in this paper.
19. Stronger growth requires the establishment of a stable macroeconomic framework as foreseen in the Treaty on European Union. It implies a reduction of interest rates that should impart a powerful boost to the Community economy, a reduction of public deficits, an increase in public saving, and wage developments compatible with price stability. Generally speaking, this calls for:
- maintenance of a stability-oriented monetary policy;
 - consolidation of budgetary policy as growth picks up: budgetary policy must first achieve debt sustainability and make a substantial contribution to national saving;
 - wage developments consistent with inflation targets: for some time, real wages would have to remain in global terms practically stable, with average nominal wage growth being consistent with inflation targets; as growth recovers, it will be possible to envisage a moderate rise of real wages per employee; as in the past, the increase in real wages should, in any event, remain 1% below productivity gains. Thus, it should be possible to devote a significant proportion of the productivity gains to the creation of new jobs. Genuine solidarity would be created between those with a job and those seeking one;

- structural measures to improve the functioning of the European economy as well as decisions liable to strengthen confidence generally, such as the conclusion of a balanced agreement in the Uruguay Round, the enlargement of the Community and closer relations with our immediate neighbours.
20. These measures should permit a recovery in the share of investment in GDP, which should increase substantially from the present 19% to around 23-24%; most of this recovery would come from rebalancing the economic policy mix by restoring positive public savings (budget consolidation) and improving the profitability of investment (wage moderation). In return, wage earners are entitled to expect that the public authorities and enterprises will take all the measures necessary to create new jobs in industry as well as in market and non-market services.
21. Economic policy should also take into account the changes taking place in the organization and nature of work. For instance, the new integrated production and stock-management methods in manufacturing affect the transmission mechanisms for demand-side shocks and require greater investment in human capital. But this also presupposes an adaptation of workplace relationships geared towards greater internal flexibility for manpower management and training. In addition, market signals must be enhanced so that economic growth is compatible with the need for environmentally sustainable development.
22. Returning to a stronger growth path also requires the adoption of measures to bridge the time gap between the present recession and the time when the benefits of structural adjustment come through. Tackling the recession in the short term requires first and foremost a restoration of confidence by establishing a credible balance between the components of economic policy:
- reliable medium-term budget consolidation programmes involving a switch of public expenditure towards investment in human resources and physical capital;
 - restoration of consistency between the inflation targets pursued and actual developments in all income groups, necessitating efforts to achieve greater tax equity;
 - a reduction in short-term interest rates consequent upon the results achieved in redressing the economic situation;
 - stimulation of public and private investment both at Community level (large networks) and at national level.

23. The structural changes needed to boost competitiveness and combat unemployment should be implemented alongside and in harmony with the macroeconomic strategy.
24. The international competitiveness of the European economy has to be improved by building on Europe's comparative advantages. This is the only way in which to guarantee a high standard of living and the pursuit of social progress. Otherwise, we are condemned to decline. Part III examines the conditions for greater competitiveness.
25. The Member States need to undertake substantial reforms of their employment environment (education and training regimes, employment legislation, labour market, government employment services, social protection) that combine solidarity and efficiency. These reforms are described in Part IV.

III. THE CONDITIONS FOR GREATER COMPETITIVENESS

26. Although pressure on costs is an essential part of any business strategy and of negotiation between the social partners, it does not constitute the major factor of competitiveness. In particular, the reduction in wage costs cannot be the only response to competition from low-wage countries as this might engender a sharp decline in living standards and pose a threat to the structure of European society. A strategy to improve competitiveness based solely on an increase in the quantity of physical capital relative to labour would lead to further, pointless job losses.
27. A strategy to improve competitiveness must henceforth be based on intangible aspects: it means above all investing in human capital and more effectively incorporating the various factors of competitiveness (research and innovation, work organization, product quality, new markets). Community industry could then concentrate on those areas where it possesses competitive advantages, i.e. high-value-added products and services, as this would result in jobs being created mainly in highly specialized areas in sectors exposed to international competition.

A. Toward global competitiveness

28. The Community enjoys significant comparative advantages through which it can strengthen its position on European and world markets: a substantial human and cultural heritage enhanced by its diversity; a heavily and still evenly populated territory; an industrial and technological capital with many strengths spread over a wide range of activities; a long-standing tradition of social consensus and negotiation and consultation between the two sides of industry.

29. However, faced with the globalization of markets and the growing mobility of capital and technologies, these strengths are at risk, as evidenced by certain structural handicaps, in particular: inadequate presence on rapidly growing world markets; a pattern of industrial specialization that is tending to become ossified around sectors of moderate growth; difficulty in transforming fundamental scientific achievements into innovations that will open up new markets; a localized but persistent shortage of certain skills.
30. Restoring and safeguarding the competitiveness of European enterprises in the international context of the 1990s has become a global challenge. The search for global competitiveness means that business strategies must be designed so as to improve simultaneously the effectiveness of all factors of production and that this search must be able to rely on an environment that provides the necessary resources in terms of skills, innovation potential and quality infrastructures. Hence the need for partnership between enterprises and the public authorities with a view to exploiting the full potential of what some now refer to as "endogenous growth". Three factors in particular will illustrate this point:
- the involvement of European enterprises in international competition, notably through a redirecting of government measures for industry, towards horizontal actions and growing markets, a dynamic policy of industrial cooperation with eastern Europe and other third countries, and initiatives aimed at creating a genuine framework for fair competition at international level (via the establishment of a world trade organization);
 - the exploitation of the knowledge-based economy through the promotion of intangible investment, the reorganization of work around the sharing of information and a generalized search for quality, all of which require new criteria as regards public incentives, notably to promote research;
 - an ability to anticipate not only the modernization of the productive system but also the new forms of demand.

B. Making the most of the single market

(a) The single market

31. The legislation paving the way for a Community-wide single market has been implemented in a remarkably short time. The mere prospect opened up by this single market has already engendered a qualitative improvement in stronger competition; it brought about a period of strong growth in economic activity, investment and employment; it also speeded up the process of modernization, leading to a substantial expansion in cross-border trade within the Community. The positive effects of these changes can be measured and will not be nullified by the present recession. However, many of them have still to work through. For the

potential of the single market to be fully exploited, action must focus on the following:

- monitoring and completion of the regulatory framework permitting full implementation of the four freedoms of movement;
- strengthening of the role of SMEs in the economy;
- development of a genuine trans-European infrastructure network.

32. The monitoring and completion of the single market will take place especially on four fronts:

- * the initial legislative programme would have to be completed, including in a number of difficult areas such as the internal energy market;
- * the application of the national provisions transposing Community directives into national law would have to be monitored jointly by the Commission and the Member States in order to assess and resolve the practical difficulties encountered. This would also allow the Commission to simplify and reduce to a minimum the rules and regulations within its remit;
- * national public procurement administrations would have to cooperate more closely so as to provide European firms greater economies of scale;
- * the rules on competition and the control of state aid would have to be resolutely applied in parallel with the moves to develop the single market further and under conditions of transparency. An efficient competition policy will contribute towards eliminating market rigidities and improve flexibility in an increasingly dynamic economic context.

33. Administrative cooperation is absolutely essential for efficient management of the single market, which also requires the establishment of an efficient, simple and reliable system of communication and data exchange between administrations. The establishment of networks would also impart a major stimulus to our information-technology and telecommunications industries.

(b) Economic and social cohesion

34. The more homogeneous is the European market, the greater are its growth prospects. By reducing regional disparities and levels of development within the Community, and by creating new opportunities for employment and investment through structural policies and the new Cohesion Fund, actions towards "economic and social cohesion" will make a substantial contribution to growth.

35. To measure the contribution of these policies towards supporting economic activity, it should be recalled that the annual amount of available finance will have grown from 5bn ecus before 1985 to 15bn ecus between 1994 and 1999 devoted towards supporting projects in the areas of infrastructure, improving the environment, industrial modernisation and rural development.

36. By reducing the deflationary effects of the necessary actions to stabilise public finances carried out at national level, by helping distribute better people, activities and investments, improving cohesion is not only limited to simple redistribution: it creates for all the conditions of more harmonious and more vigorous development subsequently. It is worth recalling that of every 100 ecus invested in the least developed regions, 40 ecus on average benefits the richest economies through trade or in the form of markets. This positive dynamic process should thus be consolidated.

(c) Promoting the operation and development of SMEs

37. While large enterprises are able to benefit from economies of scale by resorting to the new factors of competitiveness (research and innovation, manpower training, financial engineering), these factors still, to a large extent, represent comparatively high fixed costs for SMEs. The quality and reliability of SME services and their flexibility are increasingly becoming a factor in the competitiveness of large enterprises themselves via the subcontracting and externalization of tasks.

38. Under the aegis of partnership between the Community and the Member States, between the public and private sectors, or between large and small enterprises, a number of measures could help to strengthen and promote the development of SMEs:

- * administrative rules and practices would be reexamined with a view to simplifying them and alleviating the burden they impose on SMEs in key sectors;
- * new financial facilities would be offered to SMEs (tax concessions, interest-rate subsidies);
- * cooperation between SMEs would be encouraged via improved information and increased assistance (creation of business networks and easier access to subcontracting);
- * assistance for SME managers would be stepped up;

- * the service sector, which is a very promising source of job creation, should be stimulated by existing and future SMEs.

These various actions could be presented as part of an overall programme.

(d) Trans-European networks

39. In the Community transport, energy and telecommunications services are considerably more expensive than in some of our main partners, e.g. the United States. Low-cost, efficient infrastructures which form networks at European level are fundamental to the competitiveness of European businesses. Initiatives to establish trans-European networks in the field of transport, energy and telecommunications will entail public and private investment with huge potential to create jobs and help revive growth.

40. The establishment of such trans-European networks calls for action specific to each sector and the diminution of certain obstacles encountered at present. However, certain key elements common to all must be taken into account:

- * the very tight limits on growth of public expenditure on infrastructures necessitates new types of partnership between public and private financing, drawing on the considerable resources of the capital markets;
- * the introduction of greater openness and competition in markets is necessary in order to reduce costs;
- * the sluggishness of the administrative procedures involved in major projects must be overcome, in particular by means of "declarations of European interest" to facilitate the carrying out and financing of projects;
- * large-scale projects will be evaluated and selected on the basis of a cost-benefit assessment taking environmental impacts into account;
- * interconnection and interoperability of networks and national systems must be facilitated by standardization measures;
- * the Community contribution would be effective in terms of defining a European interest "label", for the financing of feasibility studies, and public and private investment.

41. In the transport sector, a list of large-scale projects will be selected on the basis of their economic impact and maturity; the financing arrangements for each project will be worked out on a partnership basis. The public authorities should maintain their contributions at present levels and increase them as the financial perspectives improve.

42. In the case of energy transport networks, an advanced network for the transport of gas and electricity should be available to firms and to the whole of the Community. This action goes together with the completion of the internal market in energy. It should contribute to the security of energy supply to the Community through interconnection with the producing countries. While respecting environmental constraints, the development of the networks implies simplifying procedures at the same time as relying on the optimal use of existing networks.
43. Where telecommunications services are concerned, it will be necessary to ensure the interconnection of networks and the interoperability of services in order to avoid the fragmentation of markets; a start should be made on advanced networks making for widespread access to multimedia services. The Community should in this way help to promote the creation of new Europe-wide markets by encouraging public and private investment and speeding up liberalization.
44. The new generation of telecommunications infrastructures, sometimes referred to as information highways, will be conceived in a new way. The relevant strategic projects will incorporate, at one and the same time, the design of technological carriers (supply) and of applications opening up new markets (demand). Through such projects, the public authorities will bring together the mutually dependent parties responsible for the design and operation of three levels that will in future make up telecommunications networks:
- * the carrier networks for the transmission of information (integrated services digital networks and broadband networks),
 - * generic services (access to information, electronic mail, and interactive video services, which will in particular enable teleworking to be developed),
 - * telematic applications (administrations, distance learning, health care and transport).

Ultimately, hundreds of thousands of jobs could be created in this area.

C. Harnessing better technological progress

45. Harnessing technological progress, as a way of creating new markets capable of generating new jobs, is primarily the responsibility of businesses. They can make innovation an instrument of their strategy.

46. The public authorities nevertheless have the task of helping to facilitate the spread of new technologies by establishing a framework in which they can be matched to the aspirations of society. This is the case in particular with new information technologies and biotechnologies which are bringing about an upheaval in lifestyles, working arrangements, and consumption patterns, generating both opportunities and new responsibilities.
47. New technologies are themselves the fruit of joint research and development. Here too, complementarity of tasks as between the public authorities and businesses is essential to make the most of the resources devoted to investments.
48. Information processing and transmission determine the efficiency of any organization. The spread of information and communications technologies (ICTs) will result in productivity gains, more growth and less inflation. Their growth potential for the ICT industries and all the sectors of the economy which benefit from them is enormous: the more competitive the ICT industries are, the more jobs they create upstream and downstream.
49. The pressure of competition and globalisation will force firms to structurally adapt and to exploit all the gains in productivity. The ICTs offer large opportunities as long as they are used appropriately.
50. They also present risks that should not be under-estimated: cultural exclusion or through lack of qualification, more generally, emergence of a two speed society. The economies that succeed in implementing change under good conditions will gain considerable advantage.
51. The smooth and beneficial assimilation of ICTs calls for the development of a common information area within the Community. This common area should optimize the performance of several indivisible components: the information itself; the hardware, components and software; the telecommunications infrastructure including the physical infrastructures, applications and related new services; and trained users. Better use of the possibilities offered by information and communications technologies can:
 - * create new service markets;
 - * facilitate the provision of services by the private sector, which means a new partnership between the private and public sectors, for example on training;
 - * accelerate the administrative decision procedure;

52. A strategy aimed at the creation of a common information area should be defined. It should contain specific proposals aimed at:
- * disseminating best practices and developing European applications of ICTs, a fundamental objective because of its contribution to restoring growth and strengthening competitiveness;
 - * continuing the liberalisation of the telecommunications sector in order to promote initiative in the information society. For the user there should be a varied choice of basic services and inexpensive communications tariffs;
 - * accelerated normalisation in order to establish an European information area out of fragmented communication regions;
 - * developing trans-European telecommunications infrastructures;
 - * facilitating technology take-up and strengthening the European information and communications industries.
53. Progress in biotechnology can bring about a considerable improvement in competitiveness and growth potential for a wide range of agricultural and industrial activities which account for some 9% of Community GDP, and open up new possibilities in service sectors. It has been forecast that world turnover in biotechnology could be multiplied by 10 between 1992 and the year 2000.
54. While Community biotechnology firms are highly competitive, their development is hampered by unfavourable factors: a relatively low level of private investment in RTD, a regulatory framework which is not yet adequately based on risk assessment, and public concern caused to a large extent by insufficient information.
55. To achieve a fuller realization of the Community's inherent strength in biotechnology, the following guidelines are proposed:
- * a review of the regulatory framework and a reinforcement of the scientific support to regulation;
 - * greater concentration of R&D on the most promising areas and strengthened coordination between the Community and Member States;
 - * the creation of a network of existing and new biotechnology science parks to promote increased contacts between academic institutions, research laboratories and firms;

* greater account of ethical aspects of biotechnological research and development.

56. Compared with its main competitors, the Community's efforts in the field of research and technological development are average and diminishing. To stay attractive, and do its share in relation to the research needs of the developing world, the Community must step up its efforts, especially in the private sector. However, the effectiveness of current research spending could be considerably improved by reorganization, greater cooperation and more effective pooling of certain achievements.
57. To achieve the objective of a gradual increase in the relative share of RTD up to 3% of GDP, appropriate measures should be taken to promote RTD, e.g. steps to ease the statutory burdens on companies and research bodies, encouragement for the training and retraining of scientific and technical staff, financial instruments to encourage the dissemination of innovation, research tax credit systems and measures to encourage research financed by companies in universities. The private sector should take responsibility for a bigger proportion of research efforts.
58. RTD in the Community is suffering not only from a level of investment which is lower from that of its main partners, especially where the private sector is concerned, but also from a lack of concentration and coordination at various levels of RTD carried out within the Community, including dual-use research (civil and military). Also, quite often the transition from research to the exploitation of innovation on the market is difficult. Therefore pluridisciplinary and multisectoral concertations should be systematically organised involving industry, public authorities and users.
59. The dissemination of the results of research for the benefit of SMEs should be organized much more systematically, either at the initiative of university centres or around large companies. The various centres of scientific excellence at present concentrated in a few cities and regions of the Community should be encouraged to increase their exchanges with the peripheral areas, so as to make greater use of the advantages of diversity and cross-fertilization of knowledge. Inter-firm cooperation through joint ventures, mobility of researchers between universities and companies, adequate communication networks and relay centres for the spread of technology are all channels to be supplemented or encouraged.
60. It is the responsibility of the public authorities to maintain an adequate level of fundamental research, and to step up cooperation in strategic areas of "dual" military and civil research. They should also select promising long-term options by designating "mega-projects" in areas reflecting the major international needs of the next two decades, e.g. multimedia, environment, health and biotechnology. The example of eco-technologies is extremely significant in this connection. They represent a genuine break with traditional production processes, transform the product life cycle and alter the entire production process upstream and downstream. This process calls for determination, continuity of action and encouragement from public authorities. New large-scale initiatives could be defined on the basis of

concertation between the national research bodies, companies and the Community, adapting the procedures and instruments of Community research where necessary. The Community programmes should be reviewed and allocated appropriate funding with this aim in view.

61. The countries of Central and Eastern Europe and the developing countries offer scope for the expansion of RTD activities which could be promoted by effective technology transfer mechanisms.

D. The Community as an open and reliable partner

62. Open markets with free competition is one of the objectives of the Treaty of European Union. The Community has a profound interest in promoting open markets, outside as well as inside the Community. They are a key element for international competitiveness: within the Community, they facilitate the international division of labour and the assignment of resources where they are most efficient, and allow Community industry to purchase goods and services for intermediate consumption or to raise capital in the best available conditions world-wide. The development of newly industrialized countries and of countries in economic transition, in particular in Central and Eastern Europe, rather than being a threat, offers above all important new business opportunities for Community industry and is an encouragement for Community industry to specialize further in highly value-added goods and services.
63. The Community keeps as a priority of its external economic relations the swift conclusion of the Uruguay Round, with a balanced agreement and effective implementation of the results.
64. A world trade organization to be created as a result of the Uruguay Round must, without exception, be based on multilateralism, both in spirit and in practice. The way a new multilateral organization would operate must take account of other economic realities such as currency movements, capital flows, the need to share the cost of environmental protection fairly and to deliver the social progress to which everyone has a right by a gradualist approach compatible with economic progress.

65. The Community needs to seek agreement on a system of mutual consultation and cooperation with competition authorities of third countries, and a set of international rules to solve competition cases involving several jurisdictions or having an effect on international trade should be established in the context of a multilateral trade organisation.
66. In the context of the liberalization of global trade, the integration of eastern Europe and the former Soviet Union into the world trading system will contribute to the strengthening of growth in these countries and the world in general.
67. The Community's neighbours, such as the countries of central and eastern Europe and of the Mediterranean basin provide a growing opportunity to Europe as a source of growth. It should remain an important plank of our external economic policy to reinforce our aid to these countries in their varying needs for economic development without affecting the level of aid to LDCs.

IV. WORKING FOR JOBS

68. Looking back over the past 25 years, we can see that the European Community economies have turned in roughly comparable performances with our principal partners in terms of growth, but that there are very great differences in terms of employment and unemployment trends. In other words, the key to the employment issue lies also in the way our economies function, with the growth in structural unemployment being due not so much to the generally comparable performance of our economies as to the wider "employment environments" on which they are based.
69. By "employment environments" we mean the complex whole comprising the educational environment, the labour market (in firms or used in a more general sense) as structured by labour law, and social protection schemes associated with the different types of occupational status. Any changes affecting the various components in an employment environment will thus depend on different sets of players: national and local authorities, undertakings, and the social partners. The employment policy failures of the 1980s can be explained to a great extent by the complex nature of these relations and by the fact that the various partial initiatives failed to take them into account properly.
 - Thus, the deregulation of work has certainly enhanced the external flexibility of the labour market, but has failed to take into account the potential benefits of internal flexibility, i.e. improved human resources management in firms.

- Similarly, restricting the cover or reducing the intensity of the unemployment insurance system does encourage people to work, but also exacerbates the risk - in the absence of any other provisions - of creating a downward spiral from dependence on public assistance benefits through apathy to social exclusion.
- The multiplicity of measures aimed at particular groups - e.g. the long-term unemployed, young people, single mothers or the disabled - has only succeeded in creating an excessively complex web of systems.
- The increase in atypical employment contracts is, in some countries, tending to place the flexibility burden exclusively on new entrants to the labour market.

70. It is important, then, to bear in mind this complexity and the diversity of national employment environments in weighing up the relative benefits of any recommendation. One thing is sure, and that is that ignorance of these interdependent relationships will lead, in the long run, to less equality in terms of access to employment and to a division of work and income which are systematically unfavourable to certain sections of the population. Conversely, we shall only be able to overcome this inherent inconsistency by a collective and concerted effort involving all the economic players, and by making simultaneous use of all the employment environment instruments at our disposal. Given this element of interdependence, it would seem that any moves to improve the employment environment should concentrate on five major issues:

- the basic issue: education and training policies
- improving the way the labour market works, centred around and within undertakings
- work sharing and an active employment policy
- promoting jobs to meet new needs
- finally, the problem of labour costs

A. The basic issue: education and training policies

71. For some time now, the Member States of the Community have been taking a serious look at the education issue. In almost all countries, major reforms have been set in motion over the past ten years. Public resources earmarked for education have been boosted, and their proportionate share of public expenditure increased with a view to strengthening vocational training or making more university places available or improving the quality of primary school teaching, etc.

72. There has also been a tendency to narrow the gap between what has often been a confrontational view of educating the individual versus businesses'

need for qualified manpower. As regards initial vocational training, there has been greater recognition of the importance of in-house training schemes, the effect being a growing convergence of national education systems.

73. Despite all these efforts, there is still a good deal of criticism of national education systems, both from the users and within educational circles. More especially, the initial training of young people tends to be ineffective. The average level of training in the Community is too low, with 42% of young people leaving school with a secondary-level certificate, compared with 75% in the USA and 90% in Japan. The same order of discrepancy is found in higher education, and the percentage of people leaving school with no qualification - 25 to 30% of young people - is very high, making the dole queues even longer;
74. The lack of qualification is, along with the inadequate supply of jobs, the main factor preventing young people from finding work. The most seriously affected are young people with no basic qualifications, who are four times more likely to be unemployed than their better qualified colleagues.
75. In addition, a substantial number of adults, in work or unemployed, lack the elementary basic knowledge to be able to cope with even a modest change of skills, while illiteracy, inarticulateness and innumeracy are still rife. The facilities for providing retraining or refresher training for professionals, manual workers, technicians of managerial staff are frequently unsuitable or quite simply non-existent.
76. There results the paradox of the coexistence of higher and higher unemployment together with a lack of qualified labour that prevents firms from developing their activities. This points to the need to achieve qualifications of an appropriate level as well as targeted to the occupations in demand.
77. Not all the shortcomings can be blamed on schools. The breakdown in family structures, growing unemployment and demotivation, and the declining status of the teaching profession are all problems whose roots lie in society itself.
78. Judging by certain successful experiments and innovatory measures in the Member States, it is possible to make out certain elements of a cultural shift characterised not just by the reform of schools as such, but also - and increasingly - by a move towards a society which is more open to teaching and learning:

* Firstly, we are seeing a reform of education content, mindful of the "know-how" element without neglecting knowledge for its own sake, and enhancing the ability to learn, to do, to communicate, to work as a member of a team, to diagnose problems, to monitor quality, and to be a critical judge of performance.

- * Secondly, there is a trend towards decentralisation, engendering new forms of cooperation at local level, between universities and schools (e.g. with refresher courses for teachers), and between schools and businesses.
- * Thirdly, it is up to the national authorities to address such matters as the quality of teaching, the compatibility of diplomas and certificates, the standardisation of vocational skills (as a guarantee of equal opportunities), and labour market mobility; hence the need for cooperation at Community level, with a view at the same time to facilitating the mobility of students and young professionals in a "training area" on a European scale.

79. The greatest innovation we shall have to achieve over the next few years, though, will be the transition to a form of education which is available throughout a person's life, and to a new division of everyday life into work, training, leisure time and voluntary work in clubs and associations.

80. To this end, new and ambitious policies are needed, bringing together - at national and regional levels - business interests and the social partners. First and foremost we need to widen access to vocational training, particularly in small and medium-sized businesses. With further training becoming an essential condition for holding on to a job or changing jobs, and with the need to improve and intensify our arrangements for getting young people into work, there must be guaranteed right to initial and continuing training throughout a person's active life. Recognition of this right must go hand in hand with moves to enhance the individual's motivation and sense of responsibility. This should be made a priority issue for social dialogue at European level.

B. Improve the functioning of labour markets

81. The question of how continuing training arrangements should be funded is back on the agenda, with a wide range of needs to be met. Various sources of funding are possible, including trainee-participation. There are other measures - of a partial or experimental nature - such as the introduction of tax incentive schemes, the imposition of a minimum level of training investment for firms, training voucher schemes, training savings schemes and mutualisation. All these offer a variety of instruments for enhancing workers' skills. They should be put to the fullest possible use.

82. There are not one but several labour markets: local, national and skill-related. Because of the way the various markets are interrelated, any malfunction affecting one of them will inevitably affect the others too. There is a crucial and ill-perceived interrelation between the local employment market and the skills market within a firm. Mention is often made of the discrepancy between firms' needs in terms of qualified manpower and the local supply situation, but not much thought tends to be given to how firms' internal adjustment problems affect the local market. Nonetheless, the more a firm adjusts its manpower resources by making people redundant or by

having recourse to fixed-duration contracts, the greater the risk of unemployment and the more prohibitive the external costs become.

83. Malfunctions on the labour market thus have to be tackled on two fronts: on the employment market proper, and within firms themselves.
84. As regards the employment market centred on undertakings, the initial effort in many countries is aimed at the way the employment services and agencies work. They have a central role to play in the enhanced anticipation of skill-related supply and demand, which means that they must be in close contact with firms and public administrations and with local training providers. In many cases, getting the social partners involved in the running of these services has proved to be a fruitful approach. Many countries have successfully organised cooperative schemes along these lines in a given area of employment.
85. The improvement of external flexibility raises the challenge of reducing certain interprofessional barriers and poses the questions of maintaining the integrality of the criteria under which the professions operate. Greater movement between professions, supported by specific training efforts could contribute towards loosening certain bottlenecks in the labour market as well as in the education system.
86. These services or agencies are required to make a special effort to find jobs for young people or for unemployed people in trouble. The essential thing here is to devise, with the help of firms and local associations, employment schemes featuring individual and ongoing counselling facilities.
87. Improving the internal flexibility of companies' human resources management is a fundamental objective. This will go hand in hand with new performance conditions, breaking with the Fordist-type work organisation model. This will require a new type of employment contract, with employees becoming more involved in their firm and the firm investing in human resources. This new relationship will be reflected in new forms of flexibility in terms of multi-skilling, performance-related pay at the level of firms and of their employees, and different ways of organising working time.
88. Multi-skilling is essentially a function of lifelong learning arrangements. The social partners will be mainly responsible for enhancing the worker training process at various levels of negotiation and bargaining.

89. Certain firms have taken the lead in recognising the quality of collective work, thus helping to make traditional worker participation schemes more effective. In more general terms, though, collective bargaining should address the full range of corporate efforts to improve workers' qualifications and opportunities for advancement.

C. The question of work sharing

90. The way workers' working time is managed has always been one means of gearing manpower resources to actual needs. Permanent overtime, early retirement or the use of programmes for the disabled have all been important means of making such adjustments while avoiding having to make inroads into the normal daily or weekly working pattern. Nowadays, this standard pattern might be seen as an obstacle to the necessary internal flexibility, and more particularly to the optimum utilisation of production capacity in industry, the services and public administration.
91. Far from being contrary to business competitiveness, any profound change to such working time patterns must be viewed in harmony with the competitiveness factor. It can also be the source of new jobs, more particularly by making increased use of part-time working, or by reducing the annual working time by one means or another.
92. The success or otherwise of such moves - in terms of competitiveness and job creation - will of course depend on decentralised application at company and administration level.
93. This is such a novel move, though, that a flanking and incentive operation will be needed on the part of the authorities. The incentive aspect should be by reference to medium-term global objectives, to ensure that there are enough bold innovators willing to take the plunge; the flanking measures must concentrate on social protection facilities and reducing the negative effects of the lower level of income resulting from a reduction in individual average working hours.

D. Responding to new needs

94. The organisation of working time and the reduction in average working time can and must become a means of giving firms a competitive edge, offering workers the chance to make better use of their free time and to organise their lives more satisfactorily, especially their family life. This will in itself tend to create jobs engendered by new needs, e.g. family help for parents working part-time, and other jobs resulting from leisure, cultural or training activities also as people learn to organise their time better.

95. Past experience in a number of Member States shows that these new needs can create considerable new potential, provided the local supply and demand situation is allowed to develop. We are talking here about jobs which correspond to a real need and which are closely associated with a better way of organising social life and of running urban and rural communities alike. It will be up to local authorities, in cooperation with societies and associations, to create the right conditions for meeting these needs. One way of stepping up the pace of change would be by issuing "service vouchers", giving potential users access to the services they need. There is a rich seam of jobs to be worked here, especially for people deemed to be "unskilled", but who are quite capable of devoting their talents to satisfying such needs.

E. Reducing labour costs

96. The inadequate supply of official local services is also connected to the excessive cost of relatively unskilled or average-skilled work. In other words, the excessive cost of labour, in particular of less or averagely skilled workers, handicaps employment. This is a general problem which has led, throughout the Community and in all sectors of activity, to unskilled labour being substituted too quickly from relatively unskilled labour.

97. To promote the maintenance of employment and the creation of new jobs without reducing wages, it is necessary to reduce non-wage costs, i.e. statutory contributions (including taxes and social contributions of employers and employees) affecting employment. They account on average for more than 40% of all labour costs in the Community. As such, they are much higher than in Japan (20%) or the United States (30%). Statutory contributions on labour have increased by 40% since 1970 and now account for more than 50% of total statutory contributions in the Community.

98. High non-wage costs are a deterrent to employment. They encourage the replacement of labour with capital, favour the black economy, are particularly damaging to SMEs - in particular because of the complexity of administrative requirements - and may at times even be a factor prompting the relocation of investment or activity. The higher employment costs are, the more likely it is that work will become the adjustment variable where demand is flagging; increased unemployment leads to higher social contributions to be shared among fewer employees, and hence to higher labour costs, thus creating a vicious circle of spiralling labour costs.

99. Efforts should be made to bring down non-wage costs, more particularly for lower skilled labour. In most of the Member States, non-wage costs tend to act as a disproportionate burden on the lower paid workers. In particular, labour should not be taxed more heavily than capital, which often enjoys better treatment than labour as regards both the level and efficiency of taxation. It is thus a matter of rebalancing the structure of statutory contributions affecting the different factors of producing (labour, capital limited natural resources) so as to promote rather than discourage employment.
100. The Member States should adopt the objective of reducing non-wage costs of labour by between one and two points of GDP in the medium term; this figure could be higher or lower depending on Member States' tax structure.
101. Cuts in social contributions could be partially financed by the contributions of the newly-employed, by savings in unemployment benefits resulting from lower unemployment and by better control of public spending so as to increase its efficiency. Given the current state of public finances, revenue losses would have to be compensated in most instances. Among the various options available, measures should be chosen that do not have a negative effect on the competitiveness of Community industry:
- environmental taxes or taxes on energy and scarce natural resources; for instance, the CO² /energy tax proposed by the Commission in 1992 could generate revenue of around 1% of GNP; other options are taxes on polluting or energy-consuming equipment; some of these taxes would have the advantage of internalising the environmental costs, although in all cases they should be predictable and fiscal neutrality should be guaranteed so as not to handicap sectors which are exposed to international competition and appropriate fiscal incentives should be studied;
 - consumption taxes, which may take different forms, such as increases in duties on alcohol or tobacco, or a possible increase in VAT;
 - taxation of income from financial capital as proposed by the Commission in 1989, which would in addition have the advantage of making more advantageous the flow of savings to productive investment and the creation of firms.

Naturally an in-depth study should be undertaken into the effects and the combination of the different possibilities.

V. TOWARDS A NEW ECONOMIC DEVELOPMENT MODEL

102. The reforms outlined above highlight the need for substantial structural changes so as to create jobs, to bring about a revival in growth and to improve competitiveness. They are necessitated in part by changes in society but will also themselves have a direct impact on the problems in society. There is, of course, no question of the Community adopting a uniform development model, but certain questions raised by the proposed reforms are common to all Member States. The Community's response to these questions will, in the long run, give rise to the emergence of a new European model of development.
103. A basic challenge of a new development model is to rectify the current misconception that there is a negative relationship between environmental protection and the quality of life in general, on the one hand, and economic development on the other.
104. Many policy decisions in the fields of taxation, subsidization, competition, infrastructure, labour organization, land use, urban renewal and planning, were developed over time and as circumstances have dictated, on the basis of considerations no longer compatible with the goal of sustainable, environment-friendly development. The same applies even more so to sectoral policies in the fields of energy, transport, industry and agriculture, where a number of choices made in the 1950s and 1960s should be the subject of a major review.
105. The ultimate goal of a new economic development model is to bring the economic framework into line with the need for sustained growth, better competitiveness, high employment, a healthier environment and a society in which all can actively participate.