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NEWS

EU LAUNCHES MAJOR EMPLOYMENT CREATION DRIVE: 15 MILLION NEW JOBS IS THE TARGET

The European Commission in Brussels yesterday unveiled its long-awaited White Paper which is designed to map out a strategy for boosting the European Union's economic growth, restore its competitiveness and aim to create 15 million new jobs in the Nineties.

In order to achieve its employment targets, the EU will need an annual economic growth rate of three percent up to the year 2000. In addition to the policies outlined above, this will require an increase in the rate of investment from 19 percent of GNP to 23-24 percent.

The 200-page document, which is the result of exhaustive consultations between the executive Commission and government, business, labor and other authorities throughout the EU over the past year, will form the agenda for a special meeting tomorrow in Brussels of the European Council, which brings together the Heads of Government of the 12 member states, along with Commission President Jacques Delors.

The White Paper, which is designed as a discussion document but which outlines not just policy options but some concrete proposals, will serve as a valuable starting point not only for the internal EU debate on how to tackle the number one issue of unemployment but also for the forthcoming jobs conference of G7 countries due to be held in the United States in February.

The White Paper, a term derived from the British parliamentary system to denote a government discussion document, is subtitled "Tackling the challenges and moving into the 21st century." It emphasizes that there is no miracle solution to the challenge facing the EU of creating 15 million new jobs by the end of the century in order to reduce unemployment to manageable levels. It also emphasizes the need for flexible solutions tailored to individual member states or regions.

The White Paper provides a detailed analysis of why the EU is suffering from low economic growth, why it has been losing competitiveness, not only to emerging economies and developing countries but also to the US and Japan, and why it has not been able to create sufficient jobs from what growth it has achieved.

It points in particular to a shrinking of the EU's economic growth potential from around 4 percent to 2.5 percent a year over the past two decades. Particularly striking is the decline in the investment ratio by five percentage points. The paper points to the speed of technological change and demographic factors within the EU (primarily the ageing of the population) as additional factors.

Nevertheless, the Commission believes that the EU has the potential to reverse its decline. It cites assets such as its financial capital and highly efficient banking institutions, its non-physical capital (high level of education, tradition of innovation) and the soundness of its social model as positive factors. It also points to the fact that over the 1986-90 period, when the Single Market was being created, the EU registered an economic growth increase of half a percentage point each year, increased investment by one-third and created nine million new jobs.

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Yet it poses the key question: "How can we explain the fact that all these achievements have not made it possible at least to cushion the effects of the world recession? Was the creation of the Single Market merely a flash in the pan? The conclusion is that, while the EU has adapted, most of the rest of the world has adapted even faster.

In its quest for policies to overcome this deficiency, the Commission rules out:

- protectionism, which would be suicidal for the EU as the world's largest trading power. A successful conclusion of the current GATT negotiations is regarded as an essential growth factor.

- a dash for growth, which would result in even higher budgetary deficits

- widespread cuts in wages and in social welfare protection, which could depress domestic demand

- generalized reductions in working-hours or widespread job-sharing

Instead, it provides broad guidelines under three headings:

- a gradual restoration of economic growth

- a return to competitiveness

- the creation of employment

On economic growth, the White Paper envisages two phases. The first is a gradual reduction of public deficits which would, once indebtedness is under control, allow for an increase in public spending in the second phase. It advocates the allocation of public resources primarily to investments aimed at an active employment policy.

A second objective is stable monetary policies leading to low inflation which would in turn result in lower interest rates and higher investment. The document particularly favors investment in infrastructure, housing and environmental improvement projects.

A third recommendation is wage moderation to guard against inflation and to restore competitiveness. Real wage increases of one percent less than the increase in productivity are suggested as a rule of thumb.

In order to restore competitiveness, the White Paper highlights three main recommendations:

- ensuring the smooth functioning of the single market which was achieved in 1992

- greater promotion of small and medium-sized businesses

- a massive investment in trans-European infrastructure networks requiring a total investment of 20 billion ECU a year in the 1994-99 period (1 ECU = $1.13) of this amount:

    - about 5.3 billion ECU is already being provided out of the EU budget

    - about 6.7 billion ECU is being spent by the European Investment Bank

    - the remainder could be financed by the issuing of "Union Bonds" by the Commission, using its triple A credit rating to borrow. The EIB could also give credit guarantees on behalf of companies involved in the infrastructure projects who wish to raise capital.

Considerable emphasis is also placed on the importance of increased investment in R & D, particularly in new information technologies and in biotechnology. Eco-technologies are also seen as a major growth area.

On employment, the White Paper also aims to promote greater social solidarity between job-holders and job-seekers, between men and women and between generations, as well as between prosperous and struggling regions throughout the EU. It speaks of the need to create a social pact.

It places a lot of emphasis on continuing and better education and training, greater flexibility in the labor market and a reduction in the non-wage costs of employment, especially in the low-skilled and lower paid categories where unemployment is highest. Greater labor mobility, which is an important factor in keeping down unemployment in the United States, is also advocated. Special schemes to create youth employment are highlighted.

On specifics, the Commission points out that a reduction of 30-40 percent in social security contributions for low-paid workers would increase employment by 2 percent. It proposes a reduction of non-wage costs for unskilled or semi-skilled by an amount equivalent to 1 or 2 points of GNP by the end of the decade.

One third of the cost would be covered by an improvement in taxation resulting from the additional jobs created. The remainder could be covered by, among other things, a CO2 energy tax which the Commission has already proposed.

Another suggestion is to reverse the current ratio of government expenditure related to unemployment, two thirds of which is at present spent on providing an income for those without jobs and only one third devoted to employment creation. An additional source of temporary employment and work experience is the public sector. The White Paper contends that such a policy need not be prohibitively expensive. It estimates that it would be largely offset by the savings that would be made by reducing the number of unemployed by one million after three years.

The White Paper, which the Commission emphasizes is a set of broad guidelines rather than a prescriptive policy document, will be discussed for the first time tomorrow by the 12 Heads of Government meeting within the European Council. The role of the Council is to provide political pointers for future detailed policy action.

A Commission spokesman said today: "The ability of the EU to emerge from its current difficulties should be of profound interest and concern to the United States. The recession in the EU has resulted in a significant fall in demand which has seen the US trade surplus with the EU fall from $24 billion in 1991 to almost zero this year. It is in both our interests to enable the EU to begin contributing again to international growth. We look forward to next February jobs summit in the US to help chart a course for the industrial countries for the remainder of this century and beyond."

Copies of the White Paper are available on request.

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