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Growth, competitiveness, employment

The challenges and ways forward into the 21st century

White Paper

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PREAMBLE

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

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

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

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

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

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

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

SUMMARY

PART A	White Paper: The challenges and ways forward into the 21st century	7
PART B	The conditions of growth, competitiveness and more jobs (preparatory work)	35
I — Growth		
Chapter 1	The macroeconomic framework	39
II — Competitiveness		
Chapter 2	The conditions for growth and greater competitiveness	57
	A — Towards global competitiveness	57
	B — Making the most of the internal market	68
Chapter 3	Trans-European networks	75
Chapter 4	Research and technological development	86
Chapter 5	The changing society, the new technologies	92
	A — The information society	92
	B — Biotechnology and its diffusion	100
	C — The audiovisual sector	103
Chapter 6	The Community, an open and reliable partner	106
III — Employment		
Chapter 7	Adaptation of education and vocational training systems	117
Chapter 8	Turning growth into jobs	123
Chapter 9	Statutory charges on labour	136
IV — Towards a new development model		
Chapter 10	Thoughts on a new development model for the Community	145
PART C	The contributions of the Member States (separate volume)	

PART A

White Paper

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

Why this White Paper?

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

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

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

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

There is no miracle cure

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

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

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

How has it come to this?

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

Over the last 20 years

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

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

The 1992 objective: A tangible reality

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

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

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

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

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

Changes in the décor

In geopolitical terms

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

In demographic terms

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

In technological terms

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

In financial terms

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

The heart of the problem: The three types of unemployment

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

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

Cyclical unemployment

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

Structural unemployment

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

The explanations for this rigidity of unemployment are now clear:

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

Technological unemployment

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

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

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

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

Ways forward into the 21st century

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

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

A healthy economy

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

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

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

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

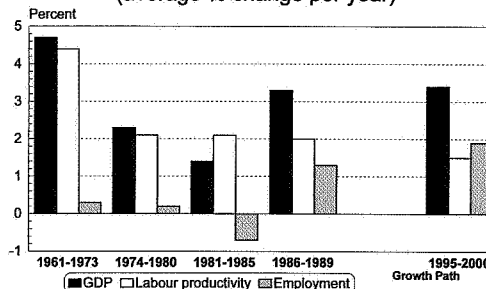
Stable monetary policies consistent with the aim of low inflation will be a constant benchmark throughout the period. They would lead to further interest-rate cuts that would make more attractive the **investment** essential to the modernization and competitiveness of our economies. Investment in infrastructures,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

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

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

Growth Path compared

(average % change per year)



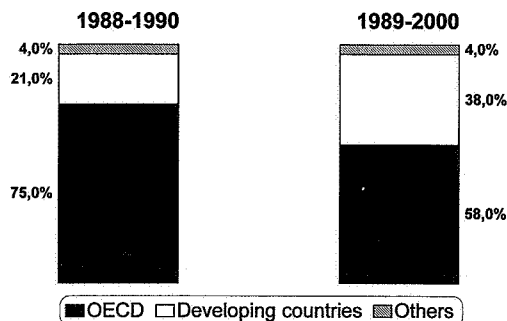
An open economy

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

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

Where is the Growth?

(Percentage of world output)



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

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

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

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

Decentralized economy

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

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

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

The information society

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

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

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

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

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

A more competitive economy

Drawing maximum benefit from the single market

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

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

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

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

The trans-European infrastructure

Why?

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

How?

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

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

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

Stepping up the research effort and cooperation

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

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

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

An economy characterized by solidarity

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

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

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

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

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

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

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

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

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

Action on jobs

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

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

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

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

Priorities for action on jobs

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

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

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

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

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

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

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

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

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

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

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

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

The virtues of decentralization and initiative

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

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

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

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

Reducing the cost of unskilled and semi-skilled labour

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

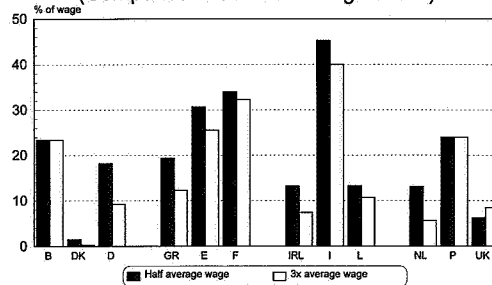
Studies have been carried out in several countries with very high levels of security contributions. These studies show that a reduction of 30 to 40% in social security contributions for low-paid workers would increase employment by 2%. In other countries, the possibility of replacing existing forms of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

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

A full-scale overhaul of employment policy

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

Employers' Social Contributions
(Comparison at different wage levels)



Source: European Commission.

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

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

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

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

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

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

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

Dealing with new needs

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

Sources of new jobs

Local services

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

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

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

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

Improvements in the quality of life

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

Environmental protection

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

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

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

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

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

Call for action

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

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

as making a positive contribution to its own action.

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

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

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

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

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

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

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

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

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

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

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

Development theme I

Information networks

1. Why?

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

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

The dawn of the multimedia world

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

The change will also affect consumption patterns.

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

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

The same phenomenon will affect us as citizens.

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

This is not a technological dream for the next century.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. How?

The action plan is based on five priorities:

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

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

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

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

3. Which networks?

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

The communications network will also have:

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

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

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

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

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

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

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

They cover infrastructure, services and applications alike.

Establishment of a high-speed communication network

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

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

Initiation of three programmes to develop electronic services

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

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

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

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

4. What decisions?

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

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

5. Financing options?

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

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

