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# Growth, competitiveness, employment

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

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### 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.

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PART A

**White Paper**

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

## Why this White Paper?

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

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

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

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

### There is no miracle cure

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

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

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

### How has it come to this?

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

#### Over the last 20 years

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

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

#### **The 1992 objective: A tangible reality**

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

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

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

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

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

#### **Changes in the décor**

##### **In geopolitical terms**

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

##### **In demographic terms**

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

##### **In technological terms**

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

##### **In financial terms**

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

#### **The heart of the problem: The three types of unemployment**

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

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

### **Cyclical unemployment**

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

### **Structural unemployment**

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

The explanations for this rigidity of unemployment are now clear:

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

### **Technological unemployment**

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

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

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

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

## **Ways forward into the 21st century**

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

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

