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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.



## 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.

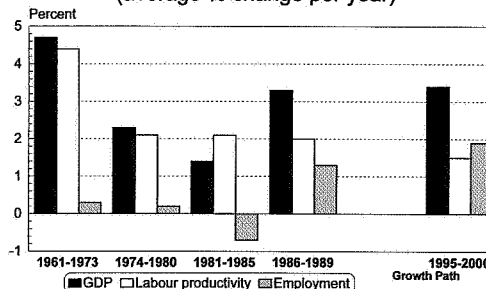
**Stable monetary policies** consistent with the aim of low inflation will be a constant benchmark throughout the period. They would lead to further interest-rate cuts that would make more attractive the **investment** essential to the modernization and competitiveness of our economies. Investment in 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)



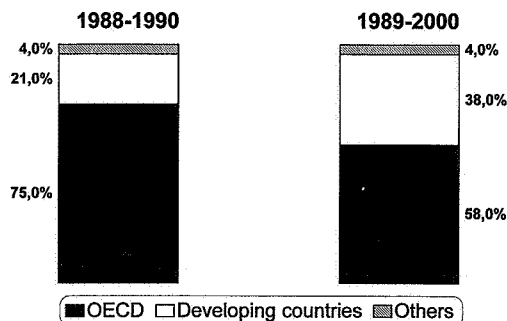
## An open economy

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

