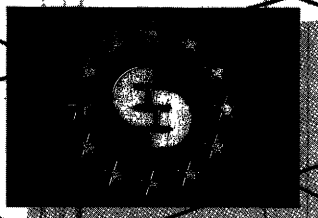


**ECONOMIC AND SOCIAL
CONSULTATIVE ASSEMBLY**

1993



Growth, Competitiveness and Employment

*EUROPEAN
COMMUNITIES*

*ECONOMIC AND
SOCIAL COMMITTEE*

Brussels 1993

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PREFACE

The present recession and level of unemployment is the most serious in the countries of the European Union for many years. Job creation reached spectacular levels during the second half of the 1980s, but by the end of 1993 it is estimated that all the gains will have been lost and unemployment will be at its 1985 level.

The short-term prospects for recovery are not good while the long-term outlook is very uncertain.

Over the past two years this problem has been at the heart of the Economic and Social Committee's concerns. The ESC has issued 14 Opinions, reports and declarations on the subject in which it has clearly shown its determination to play its full part as the representative assembly of the occupational interest groups of Europe in a debate where it is obvious that appropriate steps towards a solution can only be taken in close association with the European Union's economic and social operators.

This brochure contains all the ESC's work in this area:

Full texts of:

1. the **ESC Resolution on Economic Growth and Employment in Europe** adopted on 27 May 1993¹ and addressed to the Copenhagen Summit of June 1993;
2. the **Opinion**² and **Report**³ adopted on 20 October 1993 based on the work of the **Sub-Committee on Growth, Competitiveness and Employment**, an ESC body specially set up to deal with these questions;
3. the **Additional Opinion on the Annual Economic Report for 1993**⁴ adopted on the same date.

The first of these two Opinions, which is the ESC's contribution to the famous White Paper on economic recovery that the Commission must shortly submit to the Council, argues for a medium-term approach in line with the broad lines of economic policy which the European Council has to draw up under the Maastricht Treaty. The second deals above all with the cyclical aspects and the short term.

Both papers show that the representatives of the occupational organisations sitting on the ESC have a keen sense of their responsibilities and have made substantive and original contributions to the delicate issue of how to tackle unemployment, which is a major challenge for our society;

¹ CES 522/93 fin.

² CES 1010/93.

³ CES 855/93 fin.

⁴ CES 1011/93.

4. the **record** of the proceedings at the October 1993 Plenary Session during which the two Opinions and the report were adopted; the session was attended by the Belgian Finance Minister and current President of the EU Council of Ministers, Mr MAYSTADT;
5. the **Joint Statement** adopted at the 26th joint meeting of the Economic and Social Committee of the EC and the EFTA Consultative Committee on Growth and Employment in Geneva on 26 March 1993;
6. the **Joint Conclusions** adopted at the annual meeting of the chairman and general secretaries of the economic and social councils of the European Union in Luxembourg on 5 November 1993;

The above two texts are evidence that the issue of growth and jobs has also been the subject of discussions outside the ESC.

In an Appendix, summaries of the ESC Opinions on:

7. **Industrial policy in an open and competitive environment** adopted on 27 November 1991⁵;
8. **The Citizens' Europe** adopted on 23 September 1992⁶;
9. **Employment in Europe** adopted on 28 April 1993⁷;
10. **the Fourth Framework Programme of Community activities in the field of research and technological development (1994-1998)** adopted on 26 May 1993⁸;
11. **the European Community's Relations with Japan** adopted on 30 June 1993⁹;
12. **The Future of Community Initiatives under the Structural Funds** adopted on 22 September 1993¹⁰;
13. **Social Exclusion** adopted on 20 October 1993¹¹; and the

⁵ OJ No. C 40 of 17 February 1992, page 31.

⁶ OJ No. C 313 of 30 November 1992, page 34.

⁷ OJ No. C 161 of 14 June 1993, page 34.

⁸ OJ No. C 201 of 26 July 1993, page 36.

⁹ OJ No. C 249 of 13 September 1993, page 34.

¹⁰ CES 894/93.

¹¹ CES 1014/93.

14. **Information Report of 13 October 1992 on "The Promotion of Vocational Qualifications - An Instrument for the Economic and Social Development of the European Community"¹².**

Generally speaking, these ESC papers stress the need for more growth as the key to stimulating employment, cutting unemployment and creating the climate of confidence needed at company, employee and consumer level in order to boost investment and consumption, fight protectionist trends throughout the world and end the ambiguities which result from conflicts between the internal and external objectives of economic policy.

Unemployment, especially among young people, and the difficulties of holding on to a job are today affecting all sections of the population in the European Union and long-term unemployment is now reaching intolerable levels in most of the twelve Member States.

It would be particularly serious for Europe if this situation were to continue for long because too many citizens might risk feeling left out and might call into question the very foundations on which our Union has been built over the years: economic democracy, social protection, the right to work and equal opportunities for all citizens of the European Union.

Let us hope that these contributions from economic and social interest groups can provide a valuable support for the new drive which the heads of state and government will have to promote if they wish to fulfil the expectations of the majority of citizens and restore their confidence in the pursuit of Europe integration.

Brussels, November 1993

Susanne TIEMANN
Chairman of the Economic and Social
Committee of the European Union

¹² CES 587/92 fin.



**RESOLUTION
OF THE ECONOMIC AND SOCIAL COMMITTEE**

ECONOMIC GROWTH AND EMPLOYMENT IN EUROPE

The serious employment situation in Europe - with its unacceptably high economic and social costs - and the bleak outlook for economic growth are posing problems for the Community integration process.

The Economic and Social Committee of the European Community urges the Copenhagen Summit of Heads of State and Government to enter into a clear commitment to coordinate their efforts and act urgently in implementing the economic policies necessary to bring about a rapid turnabout in the current economic and social situation. It is vital to have an economic policy which gives priority to sustainable economic growth and employment, requiring from the political leaders a clear message of support for the coordination of the Member States' and the Commission's efforts to implement the global strategy which the gravity of the situation demands.

It is necessary to go further than the Edinburgh Summit advocated last December in its growth and employment initiative, which was fleshed out by the ECOFIN Council in April. This is not only because the economic and social situation has deteriorated further in practically all Member States, but also because this initiative has not yet had the major impact on economic and social operators which it was expected to have.

As the Economic and Social Committee affirmed in its resolution last November and in more recent Opinions on the economic situation and employment, higher economic growth is the key to giving employment a boost and reducing unemployment and to creating the climate of confidence needed by businesses, workers and consumers in order to revive investment and consumer spending and combat the worldwide protectionist trends, thereby putting an end to the uncertainties stemming from the conflicts between economic policy's domestic and external objectives.

.../...

Once credible and socially acceptable macro-economic policies are in place, the socio-economic partners will be able to adapt traditional policies, define new labour-market policies and, showing their sense of responsibility, help to combat unemployment and promote economic growth.

Against this background real wage increases which keep below the rise in productivity will help to improve workers' purchasing power and allow more resources to be released for the investment needed to re-establish Europe's competitiveness. It is vital to pursue structural policies which improve workers' skill levels and support small and medium-sized enterprises.

The strengthening of the socio-economic groups' role at Community and national level does not hinder the application of the requisite economic measures. In fact, the strengthening of this role is important if an overall growth strategy is to be taken on board, defended, understood and justified at all levels, and also if it is to provide the kick-start which Europe's citizens so badly want.

The reduction of interest rates; the increase in monetary cooperation so as to make exchange rates more stable; the creation of a more favourable climate which encourages a revival in private investment; and the acceleration of the planned trans-European network projects: these are measures which the Economic and Social Committee thinks should be adopted immediately. The growth and employment strategy must not be put at risk by restrictive budgetary policies damaging to economic growth.

This Resolution was adopted by the Economic and Social Committee on 27 May 1993
by a large majority (four dissenting votes and five abstentions)

OPINION
of the
Economic and Social Committee
on

**GROWTH, COMPETITIVENESS AND EMPLOYMENT:
MEDIUM-TERM CONSIDERATIONS**

Priority for employment within the context of the European socio-economic system

At its Plenary Session on 30 June 1993 the Economic and Social Committee, acting under the fourth paragraph of Article 20 of its Rules of Procedure, decided to draw up an Opinion on

Growth, competitiveness and employment.

The topic had been launched by the European Council in Copenhagen on 21 and 22 June 1993, which asked the Commission to draw up a White Paper with a view to establishing the broad economic policy guidelines required under Article 103(2) of the EEC Treaty as amended at Maastricht.

The present Opinion deals with medium-term measures. Short-term measures, and specific measures to prepare for the second stage of Economic and Monetary Union, are considered in other Opinions¹.

The Sub-Committee on Growth, competitiveness and employment, set up under Article 17 of the Rules of Procedure in order to prepare the Committee's work on the subject, adopted a draft Committee Opinion on 11 October 1993, in the light of a report² drawn up by the Rapporteur, Mr ROMOLI and the Co-Rapporteur, Mr BURNEL.

At its 309th Plenary Session (meeting of 20 October 1993), the Economic and Social Committee adopted the following Opinion by a large majority vote with eight abstentions.

* * *

¹ Additional ESC Opinion on the **Annual economic report for 1993** (CES 1011/93 of 20 October 1993) and Additional ESC Opinion on the **Analysis of policies to be pursued in the Community during the transitional stage of EMU**.

² See the Report of the Sub-Committee on growth, competitiveness and employment (CES 855/93 fin).

Summary

The Community's structural crisis is reflected in the unacceptably high level of unemployment.

As a contribution to the White Paper requested by the Copenhagen Council, the Committee puts forward strategies designed to boost competitiveness, bring a return to growth and mop up unemployment.

This action must be founded on the reinforcement of the European socio-economic system which is underpinned by the intermeshing of the requirements of the market with those of solidarity.

Constructive cooperation between the social partners will be vital in order to instill new efficiency and dynamism into the European production system. The EC and the national governments will need to adopt active policies with clear priorities and precise objectives for the medium term, within the framework of European economic and political union.

* * *

1. The Committee believes that it has a formal duty to take part in the debate on the strategic issues raised by the topics of **growth, competitiveness and employment** in the Community.
 - 1.1. The present Opinion is designed to assist in the drafting of the White Paper which the Commission is to present to the Council in December.
 - 1.2. The Opinion concentrates on medium to long-term problems, the aim being to scrutinize their structural causes and to decide what policies should be adopted. These policies will provide a yardstick for the shorter term decisions on how to overcome the present recession.
 - 1.3. The Committee's analysis will focus on the search for **strategies** embracing both economic and social aspects and having as their prime objective **employment**, as this is the problem of greatest concern to all sectors of European society and hence to the general public.
2. The Committee welcomes the initiative for a White Paper. It feels that the employment objective must be given priority. This requires a high level of competitiveness, which can be achieved in particular through improving efficiency of the system of production. High-value products and services require a high standard of managerial competence, vocational training, infrastructure, research, social security and environmental and consumer protection. Europe needs a **qualitative growth strategy**.
 - 2.1. If we are to **make the European economy more competitive** on world markets we must first scrutinize all the factors involved: economic, social and public. In recent decades the whole European production system has become less adaptable.

2.2. In most Member States, employers are dismayed at the way in which industry has been increasingly subjected to often burdensome and sometimes unjustified charges, and hamstrung by constraints of all kinds. Restrictive rules and regulations have prevented them from organizing their production processes efficiently (and some of these regulations come from the EC).

2.3. Employers therefore call for early action to free firms from these constraints.

2.4. The Committee considers that action should be taken in all the Member States and at Community level to identify laws needing amendment, so as to permit more efficient organization of production processes and services.

2.5. The policies to be pursued must create the right environment for firms to adopt innovative business strategies aimed at modernizing and broadening their product range and opening up new markets. Early action is needed to invigorate firms and safeguard competition, in order to pave the way for a return to competitiveness through the launching of new initiatives, a rise in investment, and growth in the European economy. Steps must also be taken to ensure the proper operation of competition and to prevent the emergence of monopolies.

2.6. The removal of restrictions must not unacceptably impair the legal situation of workers.

2.7. There are a number of preconditions for a return to a steady improvement in the competitiveness of the European production system: development of high-quality strategies, a search for greater synergies on a Community scale, the fight against waste, and better use of experiences and human resources based on a framework of joint responsibility.

3. Many Member States face distorted structural situations, particularly as regards finance and taxation. The effect of these is to divert resources (especially household savings) from wealth - and job-creating assets, spurring them instead to seek purely financial returns which encourage less productive uses and consumption patterns.

3.1. The main responsibility for remedying this unsatisfactory state of affairs lies with the Member States, but the Community should play an important coordinating role, keeping an eye on macroeconomic balances (of which the interest-rate policy pursued by the central banks is one aspect).

3.2. At all events, we must not overlook the need for a more balanced macro-economic policy package designed to boost growth and employment.

4. The Committee takes the view that smooth operation of the labour system is of crucial importance for the Community's future.

4.1. It therefore urgently calls on the socio-economic organizations and the national and EC authorities to give renewed consideration to the difficult situations facing the Member States.

4.2. Labour market structures must be made more effective, and it is necessary to pursue a more active employment policy which increases labour mobility.

4.3. Some people view the rigidity of the labour market as the main factor impeding its smooth operation, and call for the elimination of the most restrictive and hidebound rules (which, for instance, discourage employers from taking on new workers, particularly young ones). Others consider that reducing constraints and worker protection would do little to boost employment.

4.4. At all events, the aim must be to reconcile the need for business efficiency and competitiveness with the need to treat workers fairly. Wider worker consultation and participation in company life could help here.

5. Previous ESC Opinions³ have made a detailed analysis of the key problems besetting the European economy and have sought to identify the measures needed to implement structural adjustments within the framework of the Commission's approach to industrial policy.

6. The first key principle to follow in order to boost growth and employment is to *make full use of the potential generated by the internal market* - a point also mentioned at the Copenhagen Summit.

6.1. The internal market, enlarged by the European Economic Area, is the largest and most highly-skilled in the world, with more than 350 million people enjoying a high level of earnings and training.

6.2. This is the base on which to build the future of the Community and Europe as a whole, and to trigger strong economic growth, which should increasingly affect neighbouring countries in Central and Eastern Europe and in the Mediterranean.

7. Europe is particularly well placed to take advantage of the opportunities offered by the present **technological revolution**, which is bringing an unprecedented expansion of scientific knowledge and continuous technological innovations in both traditional industries and new high-tech ones.

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See, for example, the ESC Opinion of 27 November 1991 on the Commission Communication on **Industrial Policy in an Open and Competitive Environment** (OJ C 40 of 17 February 1992).

7.1. A huge opportunity thus lies within Europe's grasp. To seize it, Europe must not underestimate the importance of creating a uniform framework conducive to well-targeted, coordinated **research and development strategies** that synergically combine the efforts of all the Member States within the context of a Community industrial policy. Such a policy must take account of the complex situation both inside and outside the Community, and must encourage more balanced development and greater economic and social cohesion.

8. Considerable attention should focus on **small and medium-sized businesses**. Their ability to create jobs will be all the greater if they have access to efficient systems for disseminating technological information and for obtaining assistance (financial and otherwise) towards innovative development.

9. At the same time, the problem of adaptation of Member States' **education and training systems**, in order to make them more responsive to changing situations, must be resolutely addressed.

9.1. National governments have a key role in providing young people with a solid basic and technical education. The task of industry is to supplement and enhance workers' skills by providing further training at all levels. The social partners, for their part, must take on the task of supporting the development of training within a European perspective.

10. After the second world war, there was a move within European society towards the market economy, which it was felt offered the best way of reconciling the problems of economic growth with the development of a system of social protection and solidarity that reflects the aspirations of its citizens.

10.1. Certain countries set up a "social market economy", made possible by the broad consensus reached after wide-ranging talks between government and social partners. In other countries, the idea of the market economy was heavily influenced by State intervention in the economy (even if the search for "consensus" has recently been stepped up in these countries).

10.2. Even in the event of a return to strong growth, Europe's present production system (based on a market economy open to international competition) is likely to be able to absorb only part of the pool of unemployed.

10.3. All forms of measure aimed at promoting and redistributing employment must be re-examined by government, employers and workers.

10.4. Social security schemes should be aimed more at the prevention of unemployment and rapid reinsertion into the labour market e.g. through training, rather than exclusively at the provision of benefits in lieu of pay.

10.5. It will also be necessary to rethink the role played by public services and sectors which contribute to the quality of life, as these have considerable job-creation potential.

10.6. In this context, there could be an increase in jobs in the caring vocations which, in view of the rising average age of the population, will come to the fore in Europe in the coming years.

10.7. However, it is critically important to respect the principle that such activities should be funded from ordinary direct and indirect taxation. There should be no recourse to unacceptable financing practices (inflation or State-funded deficits leading to a rise in public debt), it being understood that, wherever possible, the beneficiaries should contribute to the funding.

10.8. The necessary rules (a competitive market, State budgetary discipline, control of inflation) are already to be found in the Maastricht Treaty, which also enshrines the moral values which can reconcile the "solidarity" and "market" concepts that are crucial to Europe's re-emergent social and cultural values.

11. The Commission has proposed the creation of integrated trans-European infrastructure networks in the transport, energy and telecommunications sectors. These could stimulate demand in the short term, while in the medium to long term they should facilitate the movement of goods and services by providing fast and reliable connections.

11.1. The Committee supports these proposals: Europe is set to become a high-technology area with decentralized production centres. In order to exploit the full potential of the internal market, it will need highly efficient infrastructure for data-processing, passenger and freight transport, and the transmission of ideas.

11.2. However the Committee is obliged to note that, all too often, the decisions taken at the highest level prove difficult to implement in practice.

12. The second key component in active promotion of economic growth must be expansion of trade and assistance with the development of third country economies, beginning with the Community's nearest neighbours.

12.1. Swift conclusion of the GATT Uruguay Round negotiations is vital. However, the Community must take a pragmatic line when determining its position and role within the world

economy, as the practices of competitor countries sometimes deviate from multilateralist principles and favour regional-level preferential agreements.

12.2. Priority must continue to be accorded to cooperation with Central and Eastern European countries. However, the Committee notes that important though the Community's efforts are, they do not appear sufficient to convert these countries to a market economy within a reasonable time-frame, and still less to integrate them into the Western economic system.

12.3. The Community should play a more active part in this recently launched process, and should set more far-sighted goals that form part of a clear strategy for the development of the whole European continent.

12.4. Special attention should also be paid to cooperation with the Mediterranean nations, which are hard pressed and which are an important factor for the stability of the European integration process.

12.5. Apart from a few successes in extremely localized areas, the policy of the EC and other industrialized nations towards the developing countries has to a large extent been a failure. We cannot sit back and let it continue.

12.6. Nor should we overlook the potential contribution which revamped specific programmes of cooperation with the emergent nations could make to development and employment, both in the Community and in its partner countries, provided that these programmes are targeted, implemented and monitored more effectively.

12.7. In the Committee's view, the Community should seize the initiative here - *inter alia* vis-à-vis the other industrialized nations - by devising new medium and long-term guidelines and strategies.

13. The Committee's conclusions are as follows:

13.1. By adopting a Community approach which complements national measures, positive answers can be found over the medium term to most of the issues raised in the present Opinion: how to restore Europe's economic **competitiveness**, restore satisfactory **growth** of the wealth-producing system, retain a satisfactory social policy, and create enough new **jobs**.

13.2. The precondition for this is the adoption of **appropriate economic policies** with clear priorities. They must be coordinated and non-dogmatic, and must be pursued resolutely by the Member States and the Community. They must be geared to the **development of the economy** while at the same time respecting the **solidarity** requirements to which European society aspires.

13.3. Clear messages concerning the future path towards Political Union are needed in order to restore confidence in the Community's future. The public must perceive Political Union as a vital contribution to the re-establishment of growth, competitiveness and employment. The socio-occupational organizations must be ready to shoulder responsibilities which transcend their strict sectoral interests. Recognition is needed of the role which workers' and employers' organizations have come to play in Europe, and this role can be put to advantage in order to hammer out a joint approach.

13.4. The Community refuses to believe that unemployment is inevitable. Every conceivable step must be taken to restore the right to work, an important factor in individual self-respect. The citizens of Europe, united within the European Community and, soon, within the European Union, will together map out a new path of development and solidarity.

Done at Brussels, 20 October 1993.

The Chairman
of the
Economic and Social
Committee

Susanne TIEMANN

The Secretary-General
of the
Economic and Social
Committee

Simon-Pierre NOTHOMB

REPORT
of the
Sub-Committee on Growth, Competitiveness and Employment
on
Growth, Competitiveness and Employment:
Medium-term considerations

Priority for employment within the context of the European socio-economic system

Rapporteur: Mr ROMOLI
Co-Rapporteur: Mr BURNEL

1. From the European Council in Copenhagen to the EMS crisis

1.1. The conclusions issued by the European Council in Copenhagen on 21-22 June 1993 evinced deep disquiet at the economic crisis facing the Community, which was in a deep recession and above all had to contend with high unemployment. A growing number of people in the Community are becoming permanently detached from the labour market.

1.2. The European Council agreed that it should continue to give the highest priority to concerted economic action based on the principles set out in the *Plan of action by the Member States and the Community to promote growth and to combat unemployment*, established by the Edinburgh European Council in December 1992.

1.3. The Copenhagen European Council decided to give priority to employment, which was to be attacked both by short-term measures and by a medium-term strategy embracing and intermeshing growth, competitiveness and employment.

1.4. The medium-term approach was set out in a "European plan" for economic revival entitled *"Entering the 21st century: Orientations for Economic Renewal in Europe"*, which was presented by the Commission President, Mr Delors.

1.5. While endorsing Mr Delors' analysis, the Council also invited the Commission to draw up, in collaboration with the Member States and after consultation of the social partners, a **white paper** on the strategies to be followed, for consideration at the ECOFIN Council meeting in November 1993. This should enable the Brussels Summit in December 1993 to establish broad medium-term economic policy guidelines for European Union.

1.6. The Sub-Committee feels that in this delicate situation the EC institutions and national political leaders must give careful thought to the immediate and more deep-seated causes of the present situation, in order to gain a clearer idea of the best course of action for re-embarking on the path towards the building of Europe. The solution lies in strategies that meet the demands being voiced at all levels for effective action. At the same time, the short-term measures complementing this strategy should be taken as soon as possible (these short-term measures are considered in the Committee's Additional Opinion on the annual economic report for 1993¹).

1.7. The Sub-Committee considers that the ESC has a formal duty to provide a specific Community contribution to the establishment of the medium to long-term strategy which the Community should adopt. This is particularly important in the light of the EMS crisis, which has shown how fragile the Community edifice really is and the risks which cloud its future.

¹ Opinion CES 1011/93

1.8. The Sub-Committee's analysis will focus on the search for **strategies** embracing both economic and social aspects and having **employment** as their prime objective, as this is the problem of greatest concern to all sectors of European society and hence to the general public.

1.9. The Sub-Committee will first examine structural problems within the Community before moving on to consider the problems regarding EC policy towards Eastern Europe and the Mediterranean and the EC's position within the world economy.

2. **The structural problems facing the European Community: unemployment, loss of competitiveness, stalling of convergence**

2.1. Although employment in the EC rose during the 1980s, insufficient new jobs were created to absorb structural unemployment, particularly among young job seekers.

2.2. Since the beginning of the 1990s employment has dipped and the deepening recession has brought more and more job losses. The trend is forecast to continue in 1994, with worsening social problems everywhere.

2.3. A jobless total of more than 18 million represents an extremely distressing and unacceptable situation.

2.4. Many attempts have been made to analyze the causes. They have largely focused on the economic recession which has now been with us for a long time. The fact is that a complex existing structural problem has been compounded by a serious cyclical problem.

2.5. The European Monetary System (EMS) crisis has put the focus on the inflexibility of the exchange rate system and the budgetary deficit policies pursued by some Member States; these have had adverse repercussions on already high interest rates, reducing demand and producing a deflationary effect which has aggravated an already poor economic climate.

2.6. As stated above, the present Opinion will first examine the structural reasons for the present situation and will then seek to identify possible remedies for the medium term. Hence it will not give detailed consideration to short term questions such as the fall in interest rates or the EMS crisis.

2.7. That said, it may be noted that one of the most deep-seated causes of the present problems is the **loss of competitiveness of the EC economy**, a problem which has been apparent for a number of years.

2.8. This problem was amply illustrated by the study presented by Mr Delors in Copenhagen. The study contains data on European exports' loss of world market share, and on the trends in the EC's trade deficits with the other main industrialized nations and with the emerging nations of South East Asia.

2.9. It should be noted here that when assessing "competitiveness" it is not enough simply to examine trade flows. Other factors must also be considered such as: shifts in productive investment, overall productivity and economic activity levels in the areas under consideration, production costs (of which labour costs are just one component), the quality and technological content of the products exported, as well as any protectionist measures set up by third countries which squeeze trade, and lastly exchange rate fluctuations, which have recently been very pronounced.

2.10. The structural problems facing the Community economy are also exemplified by the fact that its less developed regions continue to lag well behind the Community average.

2.11. Comparison of per capita GDP figures for the EC's richest and poorest regions reveals that the gap is widening². This structural phenomenon is aggravated by a cyclical complication, for the gap seems to vary directly with the rate of growth: when growth is positive the gap closes, and when growth is negative the gap widens.

2.12. It is in the weakest regions that unemployment is rising most, particularly among young people, and causing serious social pressures.

2.13. Reference should also be made to the growing concentration of research investment in the strongest regions. This increases the concentration of scientific and technological expertise, specialized services, and business and managerial skills in these regions, and further exacerbates the position of the outlying regions.

2.14. Furthermore, as the recession bites, national governments are taking systematic steps to buttress their economies, particularly the sectors in difficulty.

2.15. All this means that the Community is still far from the **convergence scenario** which is the precondition for real progress towards Economic and Monetary Union.

2.16. Hence unless the Community seriously tackles the "cohesion" problem and unless it supports the growth and restructuring of the lagging regions (not only through the transfer of resources, but also by means of appropriate back-up policies), the problem will remain for some time to come.

2.17. All this also has implications for **the accession of new members to the Community**.

2.18. It should be clearly understood that the accession of new members must in no way slow down or weaken the commitment to create the most tightly-knit and cohesive Community possible.

² The Commission's DG XVI regularly collates data on the gap between per capita income in the weakest and strongest regions and on unemployment rate disparities.

2.19. The Sub-Committee hopes that the Member States will take early action to adopt the convergence measures needed to allow all countries to participate in Economic and Monetary Union and hence in European Union.

2.20. There is little doubt that the unsatisfactory growth of the European economy is due to a number of rigidities which have built up over the years and which have made the whole European production system less adaptable.

2.21. In most Member States, employers are dismayed at the way in which industry has been increasingly subjected to often burdensome and sometimes unjustified charges, and hamstrung by constraints of all kinds. Restrictive rules and regulations (some of which come from the EC) have prevented them from organizing their production processes efficiently. Employers therefore call for early action to free firms from these constraints.

2.22. The Sub-Committee considers that action should be taken in all the Member States and at Community level to identify laws needing amendment, so as to permit more efficient organization of production processes and services, invigorate firms, safeguard competition, prevent the emergence of monopolies, pave the way for a return to competitiveness, encourage new initiatives, increase investment, and stimulate growth in the European economy.

2.23. Many Member States face distorted structural situations, particularly as regards finance and taxation. The effect of these is to divert resources (especially household savings) from wealth- and job-creating assets, spurring them instead to seek purely financial returns which encourage less productive uses.

2.24. The main responsibility for remedying this unsatisfactory state of affairs lies with the Member States, but the Community too should play its part by keeping an eye on macroeconomic balances (the interest-rate policy pursued by the central banks is one issue for consideration here).

2.25. Although views differ as to exactly how the different forms of rigidity affect the employment level, it does seem likely that greater flexibility in the organization of the labour market would, in certain conditions, improve workers' chances of finding employment.

2.26. One school of thought considers that the basic problem is how to help labour market structures operate more effectively and pursue a much more active employment policy. Wider worker consultation and participation in company life could also help here.

2.27. Smooth operation of the labour market is of crucial importance for the Community's future.

2.28. The Sub-Committee therefore urgently calls on the socio-economic organizations and the national and EC authorities to give renewed consideration to the difficult situations facing the Member States.

2.29. The public authorities should also take vigorous action, with the cooperation of the social partners, to improve the skills and training of the workforce as a whole, at all levels.

3. **Essential preconditions for coping with the crisis in Europe: restoring confidence and staying on course for European Union**

3.1. In order to create the medium and long-term growth scenario for tackling unemployment, the first step must be to restore **faith in the future of the Community**, not only among business circles, but also among the public at large.

3.2. The Maastricht Council (or 11 members of it) adopted a social chapter, appended to the Treaty on European Union, which concords fully with the European system of socio-cultural values (see point 4.5. below); the continuity of this system is destined to play a key part in restoring the European public's confidence in the future.

3.3. Action must be taken as soon as possible to quell the doubts which surfaced in some countries last year in connection with the referenda on the ratification of the Maastricht Treaty, and to counter the impression that the EC's foundations have been shattered by the EMS crisis.

3.4. Public opinion must not be allowed to nurture the suspicion that the present economic and social crisis is in some way bound up with the policies being pursued to achieve European Union³.

3.5. There is therefore a vital and urgent need to give a strong signal that the political will to re-embark on the path towards European Union exists again, not least as a means of overcoming the present difficulties.

3.6. However, formal declarations from political leaders are not enough: clear, concrete decisions are needed to rectify the problems which have arisen, and to adjust and supplement the instruments which have failed to withstand the force of events (the EMS being a case in point).

3.7. Above all, the European public wants to see a clarification of the objectives and procedures for achieving Economic and Monetary Union. Union should not be viewed as an end in itself, but as a precondition for a return to economic, social and political growth.

3.8. More particularly, the relations between institutions and the public need to be made clearer; the public are deeply concerned about the adverse economic climate, and their primary concern is that the real economy should run smoothly.

³ The Sub-Committee would here recall the ESC's work on the Citizens' Europe (OJ C 313 of 30 November 1992) and the proceedings of the Conference held by the ESC on 27 and 28 September 1993.

3.9. The real economy must once again become a central priority on the road towards European Union, in the certainty that no other course of action is possible.

3.10. There is no future for a Community which is nothing more than a free trade area, with currencies fluctuating freely and vulnerable to competitive devaluations and acts of self-defence by Member States. All this could rapidly destroy the unified market that has only just been established. Cut-throat competition between Member States, founded on corporatist advantages, would deal a fatal blow to the whole European venture.

3.11. A Community devoid of internal cohesion would be powerless to withstand competition from the stronger economies of North America and Japan, and would backslide into a protectionist defence of its standard of living. The adverse results of this are easy to imagine.

3.12. These risks were clearly apprehended in the Sub-Committee's discussions. The ESC must therefore make a clarion call to all the responsible parties: the essence of EMS and Economic and Monetary Union must be safeguarded, and they must be dovetailed into a process of growth and convergence of the national economies. This is a sine qua non for subsequent progress towards the economic and, later, political union of Europe.

3.13. The steps to be taken and the course to be followed must be clearly mapped out, bearing in mind that investor and consumer confidence is an essential prerequisite for visible results.

3.14. Structural problems (especially medium- and long-term ones) will have to be scrutinized if there is to be any chance of solving existing problems.

3.15. Structural problems were discussed in depth in the ESC's Opinion of 27 November 1991 on European industrial policy⁴ and were considered more recently in an Opinion on the future of Community initiatives under the Structural Funds⁵.

3.16. Here, it will suffice to recall that this essentially involves a three-stage process:

- the preliminary conditions needed for structural adjustment (e.g. basic economic circumstances and Community-level convergence of economic policy);
- measures to implement structural adjustment (e.g. completion of the single market and further Community progress towards EMU);
- measures to accelerate structural adjustment (e.g. promoting companies' technological productivity, dynamic SME policy, improved use of human resources).

⁴ ESC Opinion on the Commission Communication on industrial policy in an open and competitive environment (OJ No. C 40 of 17 February 1992).

⁵ Opinion CES 894/93 of 22 September 1993.

3.17. Active policies with clear priorities are required if this is to be achieved.

3.18. For the Community to achieve the requisite effectiveness in the context of world competition, structures will have to be radically altered. The guidelines put forward by Mr Delors in Copenhagen provide a basis on which to build a strategy whose chances of success will be bolstered once a consensus is reached as regards its key components, between the political authorities and the social partners.

4. Adopting active policies to boost the development and competitiveness of the European economy - first key principle: making use of the full potential of the single market

4.1. Openings provided by the completion of the single market

4.1.1. The first key principle in overcoming current difficulties must be to make use of all the openings and the full potential flowing from the Community-wide single market⁶. We cannot continue to disappoint all those firms for whom the internal market has so far failed to live up to expectations⁷.

4.1.2. The second key principle (to be discussed in Point 5 below) is that of adopting active intervention and development promotion policies for the economies of non-member countries, beginning with the countries of Central and Eastern Europe.

4.1.3. The EC-wide single market, enlarged by the agreement on the European Economic Area, is the largest and most highly-skilled in the world, with more than 350 million people enjoying a high level of earnings and training. This market can gradually widen to include the hundreds of millions of other Europeans in Central and Eastern Europe who are ready to boost their production and consumption levels.

4.1.4. This large single market will be the base on which to build the future of the Community and Europe as a whole, and to trigger strong economic growth.

4.1.5. This new phase in the development of the EC economy will have to tap the resources of a skilled labour force; it will have to be based on activities with a high technological and intellectual input, requiring back-up from innovative EC and national research and development programmes.

4.1.6. EC firms will have to be able to count on a return to macro-economic stability, a considerable measure of flexibility in the factors which determine profitability and in other production inputs (first and foremost cheaper borrowing for new investments) and lastly the swift abolition of

⁶ Though this is still incomplete in some sectors, such as energy.

⁷ See the ESC Opinion on the Working Document of the Commission on a strategic programme on the internal market (CES 890/93 of 22 September 1993, notably Point 1.4.).

remaining state control constraints, which in many cases have squandered resources and prevented firms from organizing themselves with maximum efficiency.

4.1.7. SMEs have a key role to play in expanding the employment base. They must have extensive access to research findings at all levels and be able to benefit from flexible technological distribution and aid systems (as is already the case in the United States and Japan), as well as assistance (financial or otherwise) with innovation.

4.2. The technological revolution and employment

4.2.1. The "second industrial revolution" of the past decades has entailed dramatic progress in new sectors: widespread automation and computerization, electronics, cybernetics, nuclear physics, astronautics, bio-engineering, new materials, etc.

4.2.2. More recently the growing internationalization of products and markets has turned the world into a kind of "global village".

4.2.3. The exponential growth in productivity in traditional sectors within the EC, coupled with the increased volume of production and the emergence of new products and services, has boosted earnings across the board and enhanced the quality of life of Europeans.

4.2.4. However, a paradoxical situation has arisen: alongside technological break-throughs and the release of people from physical drudgery and concern with basic needs, the employment base has shrunk steadily, generating more and more long-term structural unemployment which has hit young people particularly hard.

4.2.5. European society has clearly been unable to adjust its structures and priorities to the impact of the constantly evolving new technological situation and has entered a phase of deep-seated unease, with no easy solutions on the horizon.

4.2.6. On the other hand, undue pessimism is unwarranted, since vast challenges and opportunities are waiting to be addressed in the near future both within Europe and on a world scale.

4.2.7. Technology can provide unprecedentedly powerful instruments for securing high growth and new jobs.

4.2.8. For example, new technologies geared towards environmental protection could provide both a source of new jobs and an excellent export product.

4.2.9. At all events, it is important to channel technological developments into the creation of new jobs and to eliminate any obstacles to the diffusion of new technologies throughout the single market.

4.3. Reorganization of the labour market

4.3.1. Economic structural adjustment measures must take special account of the problems affecting the labour market⁸.

4.3.2. Points 2.22. and 2.23. have mentioned the fact that the Community, more than other rival countries, faces certain rigidities, and some people are particularly concerned about the increasing rigidity of the labour market. However it must be recognized that the relation between employment and pay conditions (such as minimum wages or the conditions surrounding dismissals) and the level of employment is not always clear-cut. Recent deregulation in the United Kingdom has not produced any significant drop in unemployment. The close link between the Japanese worker and his company does not lead to excessive unemployment, while labour market flexibility in the United States seems to bring less long-term unemployment.

4.3.3. Another school of thought holds that, in certain situations, greater flexibility, for example as regards minimum wages, could make employers more likely to take on young workers, and that greater flexibility when setting the duration of employment contracts would encourage employers to recruit new staff and help to prevent mass lay-offs or such unacceptable practices as the misuse of early retirement or invalidity-induced retirement (these being two cases of social exclusion)⁹. The social partners should explore such avenues¹⁰.

4.3.4. The issue is further complicated by the association, in European culture, of work with personal dignity: work cannot be treated simply as a commodity to be traded at will.

4.3.5. The bare fact is that in the Community 18 million men and women are today denied the right to work. Worse still, many of the young people among them - including those with a good school education - risk being rejected by the productive system and seeing their hopes of playing a fruitful role in society dashed. As mentioned above, as well as the people on the official unemployment registers there are many who suffer exclusion for other reasons.

4.3.6. This is a new and worrying factor in the history of Western society.

4.3.7. The situation requires the urgent attention of all responsible bodies, from employers' and workers' organizations to the national and Community authorities.

⁸ See also the ESC Opinion on employment in Europe, and Point 3.1. in particular (OJ No. C 161 of 14 June 1993).

⁹ See the ESC Opinion on social exclusion (CES 1014/93)

¹⁰ The latest OECD employment report draws attention to the changing structure of employment in the United States and the United Kingdom, where rising part-time female employment is taking the place of full-time male employment.

4.3.8. All existing obstacles must be removed and there must be a clear commitment to the objective of implementing labour policies that maximize the employment potential of economic growth.

4.3.9. To this end, the entire body of legislation, rules and agreements governing labour costs, social charges, the impact of taxation, and other provisions which act as a deterrent to the creation of new jobs, needs to be reviewed in each country.

4.3.10. The phenomenon of increasingly long-term unemployment, caused by the technological and organizational restructuring which has been a feature of recent decades, needs to be carefully studied and understood.

4.3.11. All aspects can and must be questioned by the social forces and political leaders. The social partners have an important part to play here. They should reach agreement at sectoral or company level on any measures which might be necessary to boost flexibility and facilitate recruitment, particularly of young people and women.

4.3.12. The social partners can thus launch a review process, aimed at reconciling the need for business efficiency and competitiveness with the need to treat workers fairly.

4.3.13. This review could also consider new contractual forms of part-time employment and other flexible arrangements (on condition that the holders of such contracts do not face *de facto* discrimination compared with holders of ordinary long-term contracts).

4.3.14. It should also address the vexed question of work redistribution and shorter working hours - taking account, of course, of existing pressures on production costs, and ruling out any form of trade protectionism.

4.3.15. The review process should extend to the service sector (as mentioned in Point 4.5. below).

4.4. Radical reform of educational and training systems

4.4.1. One of the basic decisions to be taken in order to restore Europe's competitiveness vis-à-vis its world competitors concerns in-depth reform of Member States' educational and training systems.

4.4.2. Education and vocational training levels exercise a critical, direct influence on structural unemployment and the chances of young people entering the labour market. The situation varies widely from country to country.

4.4.3. The primary responsibility for providing young people with a solid basic education and specialized qualifications and skills, so as to put Europe's wealth of human resources to best use,

falls to national governments. Here it is worth mentioning the right of every citizen to education and further training of the highest standard.

4.4.4. It is up to individual companies to organize their structures appropriately and to employ increasingly qualified and skilled staff as a means of meeting the demands of current technological developments.

4.4.5. A further vital task falling to companies - which they should see as a long-term investment - is to supplement and enhance, and constantly update, the vocational training of their workers at all levels.

4.4.6. The Committee has recently examined these issues in detail and has emphasized, among other things, the fundamental role which the social partners might play in this respect¹¹

4.4.7. The Committee has repeatedly called for a radical review of the aims and priorities of the European Social Fund, which should be clearly geared towards tackling the problems thrown up by the European economy's short-term and structural crises.

4.4.8. Lastly, greater efficiency must be injected into the public and private services responsible for matching company demand with the supply of available, qualified workers.

4.4.9. Discussion of these questions has also touched upon the need to stimulate and encourage the spirit of enterprise, particularly in the small business sector. Various forms of support (tax concessions, consultancy assistance, soft loans, etc.) are possible in this area, and have proven their worth in many instances.

4.4.10. The Community institutions might play a useful part in disseminating and comparing positive experiences from the different Member States.

4.5. **Towards a new model of European cultural and social development**

4.5.1. As mentioned above, the Community's current crisis is not due solely to cyclical factors and the impact of new technologies; the uncertainty of certain European socio-cultural values and priorities is also a factor here.

4.5.2. The key challenge is now to strike a balance between (a) the anticipated new phase of economic growth and (b) the "social welfare" system which singles Europe out from other countries.

¹¹ See the Information Report of 13 October 1992 on vocational training: the promotion of vocational qualifications - an instrument for the economic and social development of the European Community (CES 587/92 fin).

4.5.3. The immediate task facing national and Community democratic representatives is to undertake a substantial appraisal of the aspirations of individuals and social groups, recasting the objectives to be pursued in the medium and long term.

4.5.4. Discussions at the Committee have revealed a widely-held desire to create a system for the production of competitive goods and high-quality services which is matched by a high quality of life for individuals and is able to provide stable employment for a highly-skilled, well paid workforce covered by a solid social welfare system.

4.5.5. Even in the event of high growth, a market economy-based industrial system open to international competition could only partly absorb the pool of unemployed; it cannot fully satisfy the demand for work of Europe's population.

4.5.6. The positive role which both public and private services can play in increasing the demand for labour must, therefore, be re-thought.

4.5.7. The instruments for achieving substantial progress along these lines have already been mapped out in Mr Delors' "medium-term plan", namely to use increases in productivity to create new jobs in areas linked to improvements in the quality of life of European citizens.

4.5.8. Thought can be given here to the social needs which have begun to be voiced by European citizens in recent years: better social security and welfare schemes, increased emphasis on jobs of public interest, new types of work in the health care field, assistance for people with excessive family burdens, care for the elderly and disabled, etc.

4.5.9. The imperative of environmental protection, certain aspects of which have recently come into increasing conflict with economic development, demands action which will generate new jobs: economic development which is "sustainable" in the sense that it preserves the natural environment is, at all events, vital for the long-term survival of our economic system¹².

4.5.10. Public services and the social welfare sector offer great employment opportunity.

4.5.11. Nevertheless, basic clarification is needed with regard to this question: this has not yet occurred in many countries.

4.5.12. The principle to be applied is that such activities should be funded by income tax. Direct and indirect taxation, which is transparent and has been democratically accepted by citizens, should constitute the source of funding for social and welfare policy in all Community countries. At the same time, it must be understood that, wherever possible, the beneficiaries should contribute either in whole or in part to the funding of such activities.

¹²

See the ESC Opinion on the proposal for a Council Resolution on a Community programme of policy and action in relation to the environment and sustainable development (OJ C 287 of 4 November 1992).

4.5.13. The unacceptable practices of some Member countries, where the State uses growing budget deficits to fund rising welfare and social security spending, to cover the losses of the overgrown public productive sector, and to preserve jobs in companies which offer no hope of recovery must, at all costs, be avoided.

4.5.14. Precious savings have been wasted in this way, drawn away from productive concerns and the creation of new jobs - in other words, diverted away from economic growth and general well-being.

4.5.15. It might be added that where systematic use has been made of budget deficits, alarming levels of public debt have built up, hampering economic recovery and imposing an inevitable burden on future generations.

4.5.16. Social solidarity is a key value in European culture, but specific rules must be adhered to if the economic system and the fabric of society itself are not to be subjected to serious strains.

4.5.17. The Maastricht Treaty, based on the market (with competition being vigorously safeguarded), State budgetary discipline (with curbs on deficits) and an independent central bank (responsible for controlling inflation), offers just such rules.

4.5.18. It is these rules which can provide a basis for genuine social solidarity. This implies underpinning the standard of living of the weakest sections of society but also, as it has been put¹³, "stopping governments from deluding today's electors and making their children pay tomorrow".

4.5.19. The European Community's new development model has thus already been mapped out: a structure which reconciles a solidarity-based approach with the market, determines the role of social partners and governments and, lastly, reflects and sustains Europe's cultural heritage.

4.5.20. These "ethical" values, to be found in the Maastricht Treaty, should be made more visible to the European public, who have so far seen the Treaty as a highly complex technical and legal agreement, admittedly necessary for the future development of the Community.

4.6. A high-powered R&D policy geared to the competitiveness and needs of European society

4.6.1. The European economy must recover its ability to compete with other industrialized countries and the newly industrializing countries of South East Asia. To do this, it must strengthen and reinvigorate its scientific and technological policy.

4.6.2. The present situation with respect to European research has many disquieting and weak aspects but it also offers potential which can be capitalized on.

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By Professor M. MONTI, Rector of the Bocconi University, Milan, in "Il Corriere della Sera", 30 May and 3 September 1993.

4.6.3. Europe is not investing enough in research - only 2.1% of its GDP as opposed to the 2.8% of the United States and 3.5% of Japan.

4.6.4. Furthermore, comparative indices of research efficiency show that European research achievements are not translated quickly enough into international competitive advantages.

4.6.5. Research spending by the twelve Member countries is uncoordinated. Research is heavily concentrated in a few of the larger Member countries, and little is carried out in the weaker countries or in the peripheral regions.

4.6.6. A renewed research orientation in the Community will have to take account of the need for economic "cohesion" and for the lagging peripheral regions to catch up.

4.6.7. With few exceptions, in each Member country basic research by universities and specialist centres has little contact with research by industry, on which competitive process and product innovation depends.

4.6.8. The Community identified these problems some time ago, and its latest four-year programmes include various measures to increase cooperation at all levels and to further the mobility of research workers.

4.6.9. Another aspect of the difficulties encountered by Community research is the fact that most advanced technological research is carried out by large firms. Little is done by medium-sized firms, and virtually none by small firms.

4.6.10. Joint research ventures between firms should be encouraged, though of course when marketing their research findings these firms should retain their independence as rivals.

4.6.11. In this connection, the Committee has always supported Community measures giving priority to the dissemination to small and medium-sized firms of Community research findings and where possible of the results of research conducted in Member States.

4.6.12. The reason for this is obvious. The scope for creating new employment opportunities is greatest in the small/medium business sector.

4.6.13. An intelligent injection of specific and multidisciplinary research findings into production can do much to further the growth of traditional production sectors, in which European industry has major strong points and is widely diversified (ranging from chemicals to mechanical engineering, textiles, etc.).

4.6.14. The Community should seek to further the technological rejuvenation of these traditional industries.

4.6.15. This aspect should be treated on the same footing as help for high-technology sectors, where European industry is lagging behind its rivals.

4.6.16. It is thus possible for European industry to recover its competitiveness. And there is considerable potential, provided it is recognized that policy on basic, precompetitive and applied research must become more aggressive, better coordinated, equipped with adequate resources and precisely targeted.

4.6.17. The Committee has always kept a close watch on the preparation and decision of Community research initiatives, and has set out its views and recommendations.

4.6.18. The Sub-Committee wishes to make, in the present assessment of competitiveness and employment issues, a number of points which it considers important and which have already been set out in a recent ESC Opinion¹⁴.

4.6.19. Measures to reorientate public and private research in the Member States must not focus exclusively on "work saving". They should also give priority to solutions which offer greater employment opportunities.

4.6.20. The aim must be to make "technology" and "labour" compatible and synergetic, and to reconcile the attainment of world competitiveness with a balance in the field of employment and labour, which are the basis of life in European society.

4.6.21. The Sub-Committee reiterates the need to accommodate the emergent future needs of European society by means of specific "economic and social research" programmes which, among many other matters, evaluate in detail the impact of technological progress on the quality of life in Europe.

4.7. An efficient trans-European network of transport, energy and telecommunications infrastructure. A common information area

4.7.1. The creation of efficient transport, energy and telecommunications networks is important for economic recovery and to boost employment, for two reasons.

4.7.2. Firstly, there is the short-term aspect of stimulating the economic cycle by injecting additional significant, long-lasting demand into the economic system.

4.7.3. The public works sector, the building trade and commercial vehicle manufacturers can benefit from a major rise in orders. This can produce spin-off throughout the industry and service sector, and is bound to help shake off the present climate of stagnation.

¹⁴ ESC Opinion on the 4th Framework Programme of Community activities in the field of research and technological development (1994-1998) of 26 May 1993 (OJ No. 201 of 26 July 1993).

4.7.4. Secondly, there is the medium to long-term effect of facilitating the movement of people, goods and services, permitting faster, safer and less costly connections between outlying and central regions, and facilitating cooperation between businesses in different parts of Europe.

4.7.5. A Europe which aspires to be an area of high technology production, with a decentralized and broadly based fabric of highly skilled businesses, undoubtedly needs efficient and economic infrastructure.

4.7.6. By the same token, the creation of a "common information area" with the establishment of full-scale "computer motorways" unifying the whole EC internal market can play a considerable part in boosting economic growth and creating direct and indirect opportunities for highly skilled new jobs.

4.7.7. This is a path to which our US and Japanese competitors are already strongly committed.

4.7.8. The Sub-Committee vigorously endorses the Commission's proposals for these sectors¹⁵. However it is obliged to note that, all too often, the decisions taken at the highest level prove difficult to implement in practice.

5. **Adopting active policies: second key principle - a Community which is an open, reliable world partner able to take measures to further the development of third countries**

5.1. **The Community in the world economy**

5.1.1. The second key principle for boosting economic activity in the Community and overcoming the present recession is to mobilize all the political, business and labour forces of the Community in order to expand international trade and develop the economies of the non-Member countries, beginning with our neighbours in Europe.

5.1.2. On the subject of general EC trade policy, it should be pointed out that Brussels has always stressed the need to **conclude the Uruguay Round of the GATT negotiations** without further delay, paving the way for a world trade organization that reflects the globalization of markets and is based on the spirit and practice of multilateralism.

5.1.3. While the Sub-Committee agrees on the importance of a swift conclusion of the GATT negotiations, it feels that on the question of the EC's openness to the world economy many other medium-term considerations should be raised.

¹⁵

See the ESC Opinion on the Commission Communication entitled Towards trans-European networks: For a Community action programme (OJ No. C 14 of 20 January 1992).

5.1.4. **Firstly, the Community must clearly define its position and role within the world economy, in which the trade practices of the leading industrialized nations in many cases deviate from the GATT's multilateral rules.**

5.1.5. The world's leading economic power, the United States, continues to supplement these multilateral rules with unilateral practices underpinned by tough national legislation, and bilateral and often coercive "managed trade" practices which bear little relation to the principles of GATT.

5.1.6. Japan behaves the same in substance (even though it respects the form) and the Japanese market continues to place serious obstacles in the way of foreign imports. Amongst other things, this further exacerbates Japan's already sizeable trade surplus with the Community.

5.1.7. At the same time it must be remembered that the world economy is changing rapidly with the proliferation of regional-level preferential and cooperation agreements in America and South-East Asia, not to mention the EC's association agreements with Eastern European nations.

5.1.8. In the Sub-Committee's view, EC trade policy should focus less on strict formalities and become more pragmatic and flexible, both to defend its own priority interests and to respond to the practices of its competitors.

5.1.9. Without wishing to advocate interference in the affairs of third countries, the Sub-Committee urges the Community to keep an eye on all its trading partners' observance of ILO rules.

5.2. **Priority for cooperation with the countries of Central and Eastern Europe**

5.2.1. The Copenhagen Summit conclusions devote a separate, quite detailed chapter to **cooperation with the countries of Central and Eastern Europe**. This covers relations with the institutions of the European Union, measures for improving access to the EC market for Eastern European products and ways of making assistance more effective.

5.2.2. While the Community's efforts are undoubtedly significant, they do not appear sufficient from a medium-term viewpoint to give these countries market economies, still less to lay the foundations for integration with the economies of Western Europe within a reasonable timeframe.

5.2.3. The EC will certainly have to step up its financial commitment. However, it is not just a matter of providing more material resources; even more important is the implementation of a more active, bold and far-sighted policy towards Eastern Europe.

5.2.4. This new policy must galvanize and involve all the political and economic organizations of the Member States, who cannot afford to overlook a problem which is set to have a direct impact on Europe's future.

5.2.5. In other words, it is not enough to hand out aid and wait for matters to develop of their own accord; an active part must be played in the reconstruction process that has just begun.

5.2.6. This new approach could include, for example, helping them to adopt a modern system of economic legislation which will develop trade and speed up the establishment of appropriate banking, lending, insurance and transport services.

5.2.7. However, the top priority must be to promote exports of raw materials, industrial goods and agricultural products from Eastern to Western Europe.

5.2.8. Liberalization of imports to the EC (which the Commission is already beginning to propose) would be by far the most effective way to further economic development in Eastern Europe.

5.2.9. Certain blinkered attitudes and instances of "passive resistance" must be reviewed, though action to prevent distortions of competition and dumping must continue.

5.2.10. In addition the scope for complementary relations between the two areas should be explored. Certain sectors offer obvious potential: energy is one, and agricultural products of which the EC is already a heavy importer could be another.

5.2.11. Cooperation between Community and Eastern European firms could generate other complementary activities of benefit to both the exporting nations and the EC.

5.2.12. A way should also be found to encourage small EC businesses to take part in joint ventures and other forms of cooperation with Eastern European firms, as they could help significantly in the transfer of technology and managerial know-how. The Community could help by offering appropriate guarantees against the commercial and investment risks which currently hamstring small business initiatives.

5.2.13. The Community could also help to re-establish, on a new footing, cooperation and trading links between the former Comecon nations, whose trade with each other has slumped.

5.2.14. The Commonwealth of Independent States of the former USSR should also be involved in this gradual alignment of Eastern European trade and production structures (once the present situation of political and institutional instability has passed).

5.3. A fresh approach to the countries of the Mediterranean and the Middle East

5.3.1. The Copenhagen Council issued a special declaration on relations between the Community and the Maghreb countries, which are to be given appropriate importance and intensity by renewed "partnership" agreements.

5.3.2. However, nothing was said about the other Mediterranean countries, which, like the Maghreb countries, look to the Community with hope but also with new concern.

5.3.3. Their fears, voiced at all meetings, are due to anxiety that the priorities previously given to the Mediterranean countries will be weakened by the attention which the Community is paying to the countries of Eastern and Central Europe, and by the intensive aid programmes which have been set up.

5.3.4. The figures on the scale of Community aid to its Southern neighbours and on the trend of trade in recent years do not justify this anxiety. But there are other signs, such as the volume of direct investment, which are less favourable.

5.3.5. At institutional level, the cooperation agreements between the EC and East/Central European countries clearly reflect the aim of future accession to the Community. As against this, the Community agreements with the Maghreb countries talk about closer economic cooperation, while in the more favourable case of Turkey there is reference to a future free trade area.

5.3.6. The conditions thus exist for potential competition between the Mediterranean countries and the countries of Eastern and Central Europe.

5.3.7. Factors here include the differences in labour costs, which in a number of East/Central European countries are even lower than in the countries to the south of the Community. Above all, figures for attendance at schools and at higher-education and technical institutes show that overall the labour force of Eastern and Central Europe is markedly better educated.

5.3.8. The Community must maintain a very balanced and responsible attitude to this matter. It is clearly in its interest that the nearby Mediterranean countries should experience a growth process which generates social peace and improved living standards.

5.3.9. The Community has specific economic reasons for stepping up assistance and cooperation with this region which will help to develop elements of complementarity with European production. The aim is to encourage exports, which, as already stated in connection with the countries of Eastern and Central Europe, are the most effective way to encourage their economic development.

5.3.10. It would also be desirable for the Community to provide broad guidance on appropriate forms of production specialization in the countries of Eastern and Central Europe and of the Mediterranean. But it has to be admitted that the present thrust of Community economic policy does not seem conducive to this.

5.3.11. At all events, the Community should be clearly committed to the principle of non-discrimination and open, constructive cooperation with all countries close to its borders.

5.3.12. It would be appropriate, with respect to the countries of the Maghreb and of the Mediterranean in general, to step up the active policy of trade openness, support for direct investment, technology transfer, and access to bilateral and multilateral financing facilities. The agreement on the European Energy Charter should be extended to include these countries.

5.3.13. The recent encouraging news from the Middle East opens up new prospects for Community firms to play an active part in the phase of reconstruction and development which peace is bound to bring. But it would be premature to make predictions.

5.4. A renovated policy for Community relations with the developing countries

5.4.1. The economic and social situation of the developing countries, which account for three-quarters of the world's population, deteriorated dramatically in the 1980s.

5.4.2. The annual increase in agricultural and industrial production in the 1980s fell to 1.7%, as against an average of 6.3% over the previous fifteen years (1965-1980). In Africa and Latin America, the continents with the highest rate of population growth, annual production increases dropped to 0.5%, compared with 6% in 1965-1980. Consumption and imports fell, while direct investment by the developed countries decreased by 1.8% per annum (compared with a 9.3% rise in the previous 15 years). Foreign debt spiralled along with inflation and the cost of borrowing.

5.4.3. In contrast there was a significant increase in intra-OECD (including the EC) trade, direct investment and transfers of technology - the product of scientific research and innovation totally monopolized by the industrial countries.

5.4.4. In effect, a large part of the world population has been shut off from any possibility of economic growth, with detrimental effects on social stability, and the very survival of democracy, so painstakingly achieved by many developing countries during the past decades.

5.4.5. Leaving aside any value judgement on the causes of and responsibility for this disaster, we clearly cannot allow it to continue in the years ahead. The dangers of political instability, not to mention regional conflicts, are an increasing threat for everyone.

5.4.6. At the same time the industrialized nations should not overlook the vast potential contribution which targeted, effective cooperation programmes, placing the developing nations on a new footing, could make to development and employment.

5.4.7. The EC, and the other industrialized countries, cannot close their eyes to this problem, partly because of the increasingly urgent need to overhaul the policies pursued to date by the International Monetary Fund and the World Bank, which bear a substantial share of the responsibility for the worsening plight of the developing countries during the past decades.

5.4.8. The EC should instigate this collective process of appraisal, in conjunction with the other industrialized countries.

5.4.9. The EC should undertake a radical internal assessment of its own recent policies, with a view to determining new medium- and long-term guidelines and strategies, and injecting fresh momentum into its aid and cooperation policies.

5.4.10. The Japanese Government has already made a suggestion along these lines to the EC Commission. In January 1993 it proposed research into joint action in specific LDC regions, starting with South East Asia. The action would include the use of financial aid instruments already introduced by Japan¹⁶.

5.4.11. The EC should also clarify the role and operating procedures of its own financial instruments for third countries, in particular the European Bank for Reconstruction and Development.

5.4.12. In addition, the EC and all its Member States should very carefully study the problem of relations with countries where wages are low or very low. These wage disparities could potentially lead to the total or partial relocation of traditional sectors of European industrial production.

5.4.13. Similarly, special attention should be given to trade relations with certain newly industrializing and developing countries which export goods at very low prices¹⁷ to European markets, taking advantage of local labour conditions which differ completely from those obtaining in Europe and without respecting international rules.

5.4.14. Surveillance and safeguard measures are necessary to prevent abuses and defend important Community industries.

¹⁶ See the ESC Opinion of 30 June 1993 on the European Community's relations with Japan (OJ No. C 249 of 13 September 1993).

¹⁷ Here it should be remembered that the monthly labour costs for an unskilled worker range from FF 200 (Vietnam) to FF 500 (India, Romania), FF 800 (China) and FF 1.300 (Tunisia), as against FF 8.200 in France.

5.4.15. This issue raises new considerations, hitherto little explored, with negative but also positive (e.g. the South East Asian countries' experience with Japan) implications, which may have significant medium- and long-term consequences.

Brussels, 11 October 1993.

The Chairman
of the
Sub-Committee on Growth,
Competitiveness and Employment

Klaus SCHMITZ

The Rapporteur
of the
Sub-Committee on Growth,
Competitiveness and Employment

Aldo ROMOLI

The Secretary-General
of the
Economic and Social Committee

Simon-Pierre NOTHOMB

ADDITIONAL OPINION
of the
Economic and Social Committee
on the
Annual Economic Report for 1993

On 18 February 1993 the Council decided to consult the Economic and Social Committee, in accordance with Council Decision 90/141/EEC of 12 March 1990 on the attainment of progressive convergence of economic policies and performance during Stage One of Economic and Monetary Union, on the

*Annual economic report for 1993
(COM(93) 44 final).*

The Economic and Social Committee adopted its Opinion at its 303rd Plenary Session (meeting of 24 February 1993).

On 23 February 1993 the Committee Bureau instructed the Committee to draw up an Additional Opinion.

The Section for Economic, Financial and Monetary Questions, which was responsible for preparing the Committee's work on the subject, adopted its Opinion on 5 October 1993. The Rapporteur was Mr Vasco CAL.

At its 309th Plenary Session (meeting of 20 October 1993) the Economic and Social Committee adopted the following Opinion by a large majority vote with four dissenting votes and ten abstentions.

PRELIMINARY NOTE: The present Opinion supplements the Committee's earlier considerations on the worsening economic situation within the EC¹.

1. Introduction

1.1. The EC economic situation has deteriorated significantly since the Commission published its 1993 annual economic report early this year. As usual, the recovery was then expected to begin in the second half of the year. The Commission's latest forecasts, issued on 16 June, make the projection of a recovery from mid-1994 onwards conditional on the emergence of certain factors. The Commission also acknowledges that the size of the successive revisions of GDP growth in 1993 from the 2½% projected in June of last year to the present figure of -0.4% measures the dramatic speed of the change in the outlook for the EC economy (Recent economic trends No. 6/7, June/July 1993).

1.2. In February, unemployment was forecast to reach 11.5% in 1994. The June forecast suggests that this figure will now be reached in 1993, exceeding the previous record of 10.8% which was set in 1985. Unemployment is expected to continue to rise throughout 1994, reaching the 12% mark in mid-1994. The 1994 forecasts for the United States and Japan are 6% and 2.5% respectively.

¹ ESC Opinion on the Annual Economic Report for 1993 (OJ No. C 108 of 19 April 1993). ESC Opinion on Employment in Europe (OJ No. C 161 of 14 June 1993). ESC Resolution addressed to the Copenhagen Summit on Growth and Employment in Europe (May 1993).

Employment in the EC, which remained stable in 1991 and fell by 1.3% in 1992, is expected to decline by almost 2% in 1993, the sharpest drop in the EC's history. After rising by an annual 1.5% between 1985 and 1990, employment has dropped by around 1.1% per year between 1991 and 1993.

1.3. Gross fixed capital formation in the Community was lower than expected in 1992 and the forecast annual variation for 1993 has also been revised downwards since February, from -0.3% to -1.9%.

The forecast for investment in equipment in 1993 is particularly bleak, showing an annual variation of -3.5%.

1.4. Inflation - long the declared priority of economic policy - is expected to remain around the 4 to 4.5% mark this year (expressed in terms of the deflator of private consumption). This is significantly higher than in the United States or Japan, and is higher than one would expect in the present recession at a time when real wages have remained virtually stagnant.

1.5. The forecast for the balance on current transactions in 1993 remained unchanged between February and June, posting a deficit of over 1% of GDP for the Community as a whole.

1.6. The budgetary situation of the Member States looks set to worsen throughout 1993. The forecast has been revised downwards since February, with the general government net borrowing requirement expected to increase to 6.3% of GDP (as opposed to 5.1% in 1992 and 4.7% in 1991).

1.7. The Commission forecasts recovery from mid-1994 onwards, but makes this subject to four conditions: 1) a further decline in interest rates, especially short-term rates; 2) a gradual pick-up in world trade; 3) an improvement in the competitive position of the EC as a whole; and 4) a rebound in consumer and business confidence.

2. General comments

2.1. The conditions for economic recovery as outlined by the Commission

2.1.1. After peaking at an all-time high in real terms in mid-1992, short-term interest rates fell gradually until the end of July 1993 when this trend was brought to an abrupt halt. Both the Commission's and the OECD's earlier forecasts had assumed further cuts in short-term rates, with the OECD expecting a drop of three percentage points in Germany (from around 8% at the beginning of 1993 to around 5% at the start of 1994). The Copenhagen Summit's debates and conclusions concerning the reduction of interest rates helped to improve exchange-rate stability initially, but the interruption in interest rate cuts generated renewed speculation and triggered the end-of-July exchange-rate crisis.

The solution adopted on 2 August, extending the ERM fluctuation margins, may pave the way for the basic measures needed to improve coordination between Member States, thereby ensuring further coordinated reductions in interest rates.

As the Committee stressed in its Opinion on the economic situation at the beginning of 1993, a drop in interest rates is vital for the onset of economic recovery and will also have beneficial effects on public debt burdens, on the cost of the necessary borrowing, and on the funding available to firms. This also accords with the OECD Secretariat's recent calculations.

2.1.2. World trade has continued to rise steadily over the last few years despite the recession. An increasing share of trade is carried out between establishments within the same group of firms, and this trade is closely accompanied by direct foreign investment. The Commission expects world trade to rise by 4.9% in 1994 (up from 3.8% in 1993 and 4.8% in 1992). However, recent years have seen a fall in EC exports' world market share, partly because the internal market has led Member States to focus on intra-EC trade rather than on trade with third countries.

2.1.3. An "improvement in the competitive position of the EC as a whole" is another of the conditions which the Commission considers vital for a gradual recovery during 1994. Analyses hitherto have usually tended to ignore the effects of exchange-rate fluctuations between European currencies and the US dollar and Japanese yen. The OECD notes that "major changes in nominal exchange rates have taken place over recent months, with significant effects on competitiveness that are likely to affect market-share gains and losses over the projection period" (until the end of 1994). In the meantime the OECD economies have continued to converge on low domestic inflation rates.

The most recent estimates, based on the 1993 exchange-rate situation, suggest that labour costs in Japanese manufacturing industry are higher than those in the EC, and that the difference compared with the US shrank from 26% in 1992 to 15% in 1993.

2.1.4. Lastly the Commission mentions the need for greater consumer and business confidence, which remains at an all-time low and shows no sign of improvement.

2.2. Some points concerning specific aspects of the present recession

2.2.1. As the Committee noted in its Opinion on the economic situation in early 1993², the deregulation of the financial markets without proper monitoring has led to apparently excessive asset-price movements and instances of instability. This situation, coupled with the rise in household and corporate debts, has made it difficult for manufacturing industry to secure credit and is delaying an upturn in corporate investment. The excessive debt bequeathed by the "excesses of the 1980s" is one of the factors which will continue to affect the pace of economic recovery.

2

Reference in footnote 1. See Point 3.8. in particular.

Apart from interest-rate cuts, measures are also needed to allocate capital more efficiently and productively in order to channel more lending to productive investment.

The liberalization and modernization of the financial markets is exposing national economies to new and unexpected upheavals. At a time when considerable sums of money are being moved rapidly from one part of the globe to another, the EC's central banks should respond to the changes in exchange rates or interest rates by devising new forms of coordination with each other in order to control and limit the risks.

2.2.2. The Commission acknowledges that business confidence is a precondition for economic recovery and for a rise in productive investment. However, it does not distinguish between the factors needed to boost consumer confidence, business confidence and confidence on the international financial markets. These view security as the key factor for institutional investors - the main decision-makers on the financial markets.

One of the main factors behind the huge drop in consumer confidence is the rapid rise in unemployment, and in particular the increase in lay-offs. As the Committee noted in its Opinion on employment in Europe³ (CES 475/93, point 2.1.4.3): "The wave of lay-offs ... is also hitting technical and skilled workers, including service-sector workers; this did not happen to the same degree in previous crises." The Opinion concluded that "the build-up in unemployment is threatening all categories of workers." When a worker is laid off, it is not only that worker's level of consumption which immediately drops (in countries with relatively high social benefits this drop is estimated as at least 30%), but also that of family and others close to him or her, in a far-reaching chain reaction. However great the microeconomic justification, the macroeconomic effects of redundancy are devastating, hitting the whole social fabric and marginalizing more and more people.

2.2.3. All the communiqués issued at the end of EC meetings now mention the coordination of Member States' economic policies, but there is no visible evidence of such coordination in either the Member States' or the Community's decisions.

Greater openness in the debates and decisions taken by economic leaders at Community level would boost public confidence in the EC decision-taking process. Regrettably, the ECOFIN Council seems more concerned to stick to its traditional "authorized version" of events and the "theoretical principles" of its sound management, rather than implementing the guidelines set out by the Heads of State and Government or taking effective steps to tackle the present recession.

There is no denying that the economic policy pursued by various governments has aggravated the recession: instead of taking advantage of a period of strong economic growth (even stronger than predicted) to carry out necessary structural reforms and reduce budget deficits, they preferred to woo the voters by reducing the tax base and widening social security benefits. This has helped to deepen the present economic and financial recession.

³ Reference in footnote 1. See Point 2.1.4.3. in particular.

Closer involvement of the social partners in EC economic and financial decision-making - similar to that already practised in certain Member States - will help ensure that the measures adopted take due account of the social implications.

2.2.4. Confidence in Community decision-makers has also been undermined by the inaccuracy of the EC's economic forecasts and the repeated announcements that recovery was just around the corner, when the public could tell that the situation was getting worse.

It is understandable that forecasters should tend to overestimate the positive aspects and predict an early economic recovery. But the deepening of the recession since 1991, and the continued absence of real signs of recovery, have shattered the credibility and usefulness of macroeconomic forecasts.

2.2.5. Savings trends, and the fact that savings may be inadequate to meet future investment needs, particularly for infrastructure, have been cited among the factors affecting long-term interest rates and would thus explain their high level in real terms.

However in the short term if the household saving rate does not fall, there can be no sustained rise in private consumption and hence no recovery in investment and production. Here too, the conflicting signals relayed to the public are having negative effects.

The high level of interest rates is undoubtedly also partly due to (a) the failure of the financial markets to respond promptly to the deflationary policies of the 1980s, (b) the new balances between budgetary and monetary policy and (c) the climate of competition engendered by the deregulation of the financial markets, with the allocation of credit commonly being determined by price levels.

2.2.6. The inability to quell the monetary upheaval which began in September 1992 has also given rise to conflicting interpretations of events and differing views on the measures needed. Repeated assurances that the situation is under control have been followed by ill-timed measures which have given the lie to these assurances, and this has made the ERM even more difficult to administer.

More serious, however, is the absence of concrete measures and decisions that can be publicized, explained and defended in public in the Member States. In the present circumstances, the key priority is to restore monetary stability.

2.2.7. Budget deficits are another subject where the emphasis has been on oversimplified policy statements which have added to the general climate of disorientation.

The credibility of budgetary policy decision-makers is undermined by their repeated claim that their overriding aim has been to defend the nominal convergence targets which were laid down in the Treaty on Economic and Monetary Union at a time when economic and political

circumstances were quite different, making it difficult to meet these targets. Instead, they should have distinguished the structural component of the deficit from the cyclical component, and openly embraced the policy which was being pursued in practice (and which aggravated the deficits in almost all Member States).

2.2.8. Discussions about the competitiveness of the European economy have cited the loss of market shares in recent years and called into question the wage and non-wage costs which supposedly penalize European industry vis-à-vis its competitors.

This argument overlooks the effects which the changes in exchange rates have had on external competitiveness (see point 2.1.3. above). It also seems to forget that more than two thirds of European economic activity is for the internal market and that much of it does not consist of negotiable goods and services. Finally, the argument conflicts with the one made about the "inability" of the European economy to create more jobs while retaining the same economic growth rate, as the United States has managed to do.

Measures are needed to boost the competitiveness of those businesses which are most vulnerable to foreign competition. However, more efforts are also needed to devise job-creating measures for manufacturing and service sectors which are not directly exposed to international competition, and where many small and medium-sized businesses are found. Overall economic competitiveness cannot be analyzed solely in terms of the negotiable goods sector, as measures which target the sectors most vulnerable to international competition may be detrimental to the manufacturing fabric, particularly at local level.

3. Specific comments - short-term measures to promote economic recovery and to tackle unemployment in the Community

3.1. The first prerequisite is to restore public confidence and the credibility of the EC integration process. This means accepting unequivocally that the main goal of EC economic policy must be to emerge from recession and tackle unemployment. Stronger economic growth would provide the key to creating jobs and reducing unemployment, and to generating the climate of business, worker and consumer confidence which is necessary if investment and consumer spending are to rise.

3.1.1. Concerted action is needed by the Member States and their Central Banks to gradually reduce short-term interest rates, as the Committee has been urging since the beginning of this year. The new ERM fluctuation margins must be used to secure more effective Community coordination in accordance with the general interest, and not as a way of allowing each country to seek to determine its own policy.

3.1.2. The worsening budget deficits must be explained as being a consequence of the present recession, and a distinction must be drawn between (a) the cyclical aspects of the deficit, which are covered by the automatic stabilizers, and (b) the structural aspects, which require a policy

of containment to prevent the deficit spiralling out of control. The convergence criteria must continue to be seen solely as medium-term criteria, and must not be invoked as an excuse for not taking the necessary budgetary measures. As the Committee noted in May 1993 in its Resolution on Economic Growth and Employment in Europe, addressed to the Copenhagen Summit, "the growth and employment strategy must not be put at risk by restrictive budgetary policies damaging to economic growth".

3.1.3. A credible macro-economic policy would make it easier for the socio-economic partners to adapt their traditional policies, decide new labour market measures, and play a responsible part in the promotion of economic growth and the fight against unemployment.

Real wage rises which remain below increases in productivity will help to improve workers' purchasing power and channel more resources into the investment which is needed to restore Europe's competitiveness.

3.1.4. The priority need for investment must be met by adopting immediate measures on public investment, the procedures for which must be speeded up so that projects can begin ahead of schedule; the Community has already made a similar decision in the specific case of credit lines for small and medium-sized businesses and for the trans-European networks. In the present situation a boost to productive public investment could significantly help to improve conditions for an increase in private investment.

3.1.5. The Copenhagen Summit decision regarding the bridging facility enabling Member States to speed up the execution of investment projects financed by the Structural Funds and the Cohesion Fund must be approved by the relevant EC authorities very soon, as otherwise it will lose its point.

3.2. In parallel with these immediate measures, the completion of the internal market and greater Community solidarity should make it possible to carry out the medium-term structural measures needed to secure sustained and balanced growth.

3.2.1. In order to reconcile economic growth, employment and competitiveness, an overall strategy is needed for making better use of human resources across-the-board. This would comprise: education, initial and further training, efficient placement services, social policy to assist those who are marginalized or in special need, reorganization of working time, involvement of the social partners in the framing of the necessary policies, creation or development of mechanisms for in-company worker participation in order to make full use of their potential for improving working methods, introduction of new technologies and innovations in the production process. These are all key aspects deserving greater priority at EC, national and local level.

3.2.2. The short-term measures needed to revive the economy must not call into question the need for a radical rethink of the development model favoured by the Member States hitherto. This needs to be tailored to the new, emerging societal values and to reconcile the search for better living

and working conditions with the international climate of cut-throat competition, financial speculation and unequal development. Job creation must be encouraged in new areas of activity that meet changing needs, inter alia at local level. Telematic networks and infrastructure must be developed in order to give a boost to home-working and tele-working, thus helping to decongest city centres and improve regional planning. This in turn will boost the role of local populations and encourage greater responsibility, both individually and collectively.

3.2.3. An improvement in working conditions is vital if the European economy is to benefit fully from the improved skills of its workforce and exploit the greater potential and creativity generated by worker participation: work organization, the introduction of new technologies and innovations in the production process, equal opportunities and health and safety standards at work - all these must serve to improve production quality and must not be subjected to deregulation, as this would merely aggravate job insecurity and lessen any interest in improving quality and productivity.

3.3. Greater Community solidarity, by means of greater economic and social cohesion, must be backed by increased international cooperation, both in the GATT and in relations with the EFTA nations in the European Economic Area, as well as with the nations of Central and Eastern Europe. While there is general acknowledgement that the economic potential of such cooperation over the next few years will be particularly high, it is not being pursued as resolutely as necessary.

World economic relations are being restructured at a rapid rate. The Community must play an active part in this process, defending its basic values and thus seeing that the world economic order of tomorrow helps to reduce imbalances and inequalities and consolidate peace and cooperation worldwide.

Done at Brussels, 20 October 1993.

The Chairman
of the
Economic and Social Committee

The Secretary-General
of the
Economic and Social Committee

Susanne TIEMANN

Simon-Pierre NOTHOMB

RECORD OF THE PROCEEDINGS
of the
Economic and Social Committee
on Growth, Competitiveness and Employment:
Medium-Term Considerations and on the
Annual Economic Report for 1993

308th Plenary Session,
held in the Committee building, Brussels
on 20 and 21 October 1993

Meeting of 20 October 1993

Agenda Items 7, 8 and 9



The **CHAIRMAN** moved that the Committee turn to agenda items 7, 8 and 9 - adoption of Opinions on

Growth, competitiveness and employment: medium-term considerations, and on the *Annual economic report for 1993* (Additional Opinion).

The subsequent speakers were Mr Philippe MAYSTADT, Belgian Minister for Finance, President-in-Office of the Council of Ministers of the Community, Mr SCHMITZ, Chairman of the Sub-Committee on growth, competitiveness and employment, Mr PARDON, Chairman of the Section for Economic, Financial and Monetary Questions, and Mr ROMOLI and Mr Vasco CAL, Rapporteurs.

Statement by Mr MAYSTADT

I greatly appreciate this opportunity to speak to the Economic and Social Committee, for two main reasons.

First of all, I have always been a strong advocate of dialogue with the representatives of economic and social interests; this dialogue is an essential aspect of the European model of society which we must preserve at all costs, especially in a time of recession.

Next, I am pleased that the President-in-Office of the Economic and Financial Council has been invited to take part in today's debate on the strategy to be employed to meet the major challenges in the fields of growth, employment and competitiveness, covered by the **White Paper** which the European Commission is currently preparing.

At the informal meeting of the Economic and Financial Council in Genval, we had an initial exchange of views on the main points of this White Paper, following a statement by Mr DELORS. I would like to present to you the preliminary conclusions of our discussion.

I propose to divide my statement into three parts:

- i) firstly, I would like rapidly to explain the White Paper's position in relation to the thrust of the economic policies followed by the Member States and the Community.
- ii) Next I shall set out the latest thinking of my fellow Ministers of Finance on the seriousness of the current economic situation, especially with regard to unemployment.
- iii) Finally, I shall recapitulate the White Paper in the light of the three essential issues which it raises.

I. The White Paper and the main thrust of policy

The Treaty of Maastricht lays down that the Council of Economic and Financial Ministers is to draw up a draft scheme for **the main thrust of economic policies** of the Member States and the Community, and report on it to the European Council. The European Council is to reach a conclusion on the basis of the report, and in the light of that conclusion, the Council of Economic and Financial Ministers is to adopt a recommendation laying down the main thrust of policy.

This new instrument, created by Article 103(2) of the Treaty, is intended to ensure greater compatibility and consistency of the economic policies of the Member States, in order to avoid reappearance of the major divergencies which the financial markets punished in July 1993. In practical terms, this implies that the Member States should learn to align their cyclical policies better. Because of the enormous interdependence of European economies, this is an important political (commitment) and economic exercise. Growth must be symmetrical; it is the only way out of the crisis.

This exercise will be carried out for the first time under the Belgian Presidency. The **timetable** is fairly short, since it lays down that

- on 22 November the Council of Economic and Financial Ministers is to **draw up a draft** laying down the main thrust of policy, on the basis of a document drawn up by the Commission of the European Community;
- in December the European Council is to **adopt a conclusion** on this main thrust of policy;
- on 14 December the Economic and Financial Council is to **draw up a recommendation** laying down the main guidelines of policy.

What is the link between this procedure and the White Paper? The White Paper, which will be presented to the European Council in December, will deal with three questions:

- . how to strengthen the competitiveness of the European economy;
- . how to establish a better relationship between growth and employment;
- . how to implement a more active employment policy.

The replies which the White Paper gives to these questions will make it possible to launch a debate in the Brussels European Council which should result in the adoption of a common strategy for the years to come.

It is clear that the main guidelines of economic policies cannot be in contradiction with this longer term strategy.

As you can imagine, the joint setting of major economic policy guidelines within a Community medium-term growth strategy is an ambitious exercise, but we in the Ecofin Council are (almost) all convinced that it is necessary to make maximum use of the opportunities it offers for consolidating the economic base of the Community.

II. Diagnosis of the Community's economic situation

All my fellow Ministers of Finance are aware of the seriousness of the current economic situation, particularly with regard to **unemployment, which represents the most flagrant symptom of the disfunctioning of the European economy**. We note the following:

- unemployment, currently high in all the Community countries, has reached an unacceptable level;
- resumption of growth alone cannot generate enough jobs to absorb the likely increase in the economically active population; consequently, unemployment will continue to rise in 1994;
- a situation in which an increasing number of Community citizens are permanently excluded from the labour market would cast doubt on the place of the individual in our society and his relationship to work;
- such a situation would sooner or later cause disruption which could be fatal to the future of the integration process in Europe. It is therefore time to take action.

As to the competitiveness of the European economy, the diagnosis is equally worrying. The Community's share in volume terms of world exports is diminishing. And in some high-technology sectors the European Community's trade deficit is a clear sign of inferiority in relation to its major trading partners. An improvement of our performance on the world markets is therefore necessary in order to maintain medium-term growth prospects.

As regards the strategy to deal with the disfunctional problems of the European economy, there appears to be a consensus in the Ecofin Council on three principles:

1. **It would be illusory to think that the problem is essentially a short-term one, and that budgetary stimulation should be at the centre of a revival policy. This would give rise to false hopes. Budgetary stimulation, even though it could have a positive effect on demand for a while, would accelerate the rise in the already high structural deficits and debt ratios, and would therefore affect the medium-term credibility of the public authorities' actions.**

2. It is necessary to draw up a medium-term strategy, hence the importance of the White Paper. It is not by chance that the proposal which Mr DELORS made to the Copenhagen Summit for a medium-term plan was entitled "*On the verge of the 21st century*". One must be realistic, fundamental problems cannot be solved from one day to the next; it is necessary to allow enough time, without of course contenting oneself with declarations of intent.

3. The logic of subsidiarity must not prevent decisions being taken at Community level. The fact that an economic upturn will not be accompanied by a reduction in unemployment is an important challenge for all the Member States. It is therefore essential to be able to coordinate the efforts of Member States at Community level.

III. The questions raised by the White Paper

I turn now to three questions raised in the White Paper. Our discussions at the informal Ecofin Council meeting in Genval make it possible to clarify the scope of these questions and to identify the fields in which measures must be taken in the short and medium-term.

3.1. How can competitiveness be strengthened?

There are five types of conditions to check:

- a. **Macro-economic** conditions
- b. **Monetary** conditions (relationships between dollar, yen and strong EC currency)
- c. Conditions linked with proper use of **technical progress**
- d. Conditions linked with proper **management** of firms
- e. Conditions linked with **labour costs**.

Mr DELORS has promised us greater detail on each of these sets of conditions. Nonetheless, I would like to stress from the start the importance of the first set, namely **a return to a stable macro-economic environment**.

There is no doubt that this is a necessary condition for a return of economic operators' confidence, which has been shaken by the crisis in the European Monetary System, the delay in ratifying the Maastricht Treaty and the current economic recession.

In order to re-establish a stable macro-economic environment, four aims must be achieved.

1. **The timescale laid down in the Treaty of Maastricht must be respected by starting the second stage of Economic and Monetary Union on 1 January 1994 as planned.** In practice this means on the one hand adopting the "secondary legislation" which aims to give an operational content to the main operating rules of Monetary Union, and on the other setting up the **European Monetary Institute**.

On secondary legislation, the informal Ecofin Council meeting at Genval made important progress, which should make it possible to adopt legislation before the end of the year. The question of setting up the European Monetary Institute, which involves deciding on the site of the Institute and appointing its president, was not tackled at Genval but will be at the European Summit on 29 October.

2. **The credibility of the convergence process laid down in the Maastricht Treaty must be re-established.** The legitimate priority given to the problem of unemployment does not mean we are prepared to abandon the convergence criteria laid down in the Maastricht Treaty. Quite the opposite. Monetary stability and budgetary discipline remain the principal preconditions for moving on to a single currency. In addition, the convergence strategy is necessary to increase the level of overall savings, and thus encourage a fall in long-term interest rates and a rise in investment.

However, respect for convergence criteria must go hand in hand with the pursuit of economic aims which are closer to citizens' basic concerns. That is why Mr DELORS proposed that the convergence criteria be supplemented by two social indicators: the levels of youth unemployment and long-term unemployment. As Mr DELORS said at Genval, a strong political message must be given to European citizens.

3. **The Uruguay Round negotiations must be concluded before the end of the year.** It is essential to conclude this agreement in order to convince economic operators that governments do not wish to plunge into a trade war. Such an agreement would thus be one of the most positive signals which we could give to re-establish a climate of confidence and encourage long-term investment.

4. **The European growth initiative must be strengthened.** At the Edinburgh Summit, the Twelve announced the European growth initiative to help bring the European economy out of its present crisis. This initiative provides above all for a programme to modernize the infrastructure of the European economy, financed by the European Investment Bank, and the setting up of a European Investment Fund to enable European firms to participate in new projects.

One year after the adoption of this initiative, it can be seen that the **measures announced are being put into practice, but too slowly.** Positive results include the ECU 3 billion so far loaned by the EIB to finance 46 projects, amounting to a total investment of ECU 27 billion.

The most prominent projects are the "Store Bælt Link" in Denmark, the Jubilee Line in London, the high-speed train in Belgium, and the gas pipeline between Italy and Algeria.

But the success achieved at this level cannot obscure the fact that essential elements of the Edinburgh initiative are not yet in place. Thus, the European Investment Fund has not yet been ratified by all the Member States' Parliaments. Moreover, it is clear the **Edinburgh initiative should be strengthened** to improve the chances of an upturn in the fairly short term.

The Ecofin Council is to examine this question at its next meeting. In particular, we will discuss the practical measures to be taken to ensure the earliest possible implementation of the Edinburgh initiative, and we will examine to what extent that instrument could be strengthened.

3.2. **How can a better link between growth and employment be established?**

There are three types of question to tackle:

- a. How can indirect labour costs be reduced?
- b. What should be the link between distribution of incomes and of work?
- c. Are there unexploited employment possibilities?

I will deal here with the question of **reducing labour costs**.

All the Ministers of Finance are convinced that unemployment in the Community results partly from the very high wage costs borne by European firms, and that a significant reduction in labour costs and a consequent change in the relative prices of the factors of production would be likely to improve the employment content of economic growth in the Community.

The reduction of labour costs should encourage in particular the growth of employment in the "sheltered" services, where the labour-cost elasticity of demand for labour is from two to three times higher than that of the other sectors. This situation can be explained by the fact that there is a sizeable potential demand for new types of services to people, but this is not being fully met because of the high price of such services, linked to the excessive cost of the labour factor.

How can labour costs be reduced?

By reforming the way our social security schemes are funded. In most of the Member States these schemes are funded to a large extent by contributions linked to incomes; these contributions have risen considerably in recent years, increasing the cost of the labour factor.

At the Community level, an alternative funding solution could be based on the various proposals of the European Commission (for example, the proposal for a minimum tax on investment income and the proposal for a tax on carbon dioxide emissions and energy consumption).

At the national level, the possible funding measures could take the form of increases in certain taxes, stricter control of social expenditure and greater selectivity in social benefits.

3.3. How can a more active employment and training policy be achieved?

There are four areas to explore:

- a. Educational systems
- b. Links between technical progress, training and organization of work
- c. Flexibility of the labour market
- d. Reversing priorities: activity comes before allowances.

As regards the **flexibility of the labour market**: it is clear that certain rigidities in the labour market limit demand for labour and encourage the substitution of capital for labour. Measures should be encouraged particularly to develop part-time working, simplify procedures for recruitment and dismissal, ensure greater flexibility in working hours, and develop working at home.

However, it should be stressed that most of the Member States will seek to ensure that the social objectives of the European model of development are maintained.

As regards **active training policies**: in the face of far-reaching, rapid technological changes, the White Paper should stress the essential need for permanent training.

To this end, there is in particular a need for financial support for the efforts made to achieve concrete results in the training field - results which meet the needs of the business world and improve the opportunities for the groups at risk (under-skilled workers and the long-term unemployed) to rejoin the labour market.

Statement by Mr SCHMITZ

Mr SCHMITZ stressed that it was by a large majority (with one abstention) that the Sub-Committee on Growth, Competitiveness and Employment adopted its Opinion on the structural problems to be covered by the White Paper which the Commission is called upon to draw up after the Copenhagen Summit. The Sub-Committee's Opinion was prepared in a very short time and enabled the members, starting in some cases from very differing views, to arrive at a broad consensus. The Sub-Committee proposed solutions to the Community's structural problems in the framework of an overall model of European society ensuring the competitiveness of firms and leaving

an important role for the social partners. Finally, Mr SCHMITZ thanked the Rapporteur, the Sub-Committee members and the Secretariat for their contributions, which he described as exemplary.

Introduction by Mr ROMOLI

Mr ROMOLI first reminded members that the Draft Opinion under consideration (CES 960/93 fin) should be read in conjunction with the Sub-Committee's Report (CES 855/93 fin).

The Sub-Committee refused to regard unemployment as inevitable. It had to be possible to re-establish growth and competitiveness while at the same time creating new jobs and maintaining the social policy peculiar to the Community's development model. To that end, brave decisions were needed, firstly in the context of existing policies, together with clear priorities which would be adhered to. Europe was both economic and social. It was necessary to find a balance between the fulfilment of those who had work and the protection of those who were less fortunate.

In examining the causes of the structural problems, the Sub-Committee took account not only of labour costs but also of the various constraints which in recent decades had caused firms to lose their adaptability, flexibility and competitiveness. Attention should be given to all the restrictions affecting the world of production and labour - both those arising from national or Community rules and those arising from collective agreements. All these should be reviewed, and decisions taken on which to retain and which to abolish. In that spirit, the Sub-Committee expressed the view that the proper functioning of the labour market was essential for the Community's future. The Committee therefore addressed an urgent appeal to the socio-economic organizations concerned and to the national and Community authorities to help to improve the operation of the labour market, in order to increase the competitiveness of firms which was essential to meet international competition.

At the macro-economic level, it had to be acknowledged that household savings over the last ten years had been absorbed by the financial circuit which gave a higher return than that (subject to risk) of producer firms, with all the negative consequences that entailed for the level of investment and employment. There, too, action was needed. The Sub-Committee proposed two main approaches:

- the first, also suggested by Mr DELORS, was to make the most of all the opportunities offered by the internal market;
- the second, which had not been mentioned by the Commission President, was to make a direct contribution to economic development in third countries, with special attention to the countries of central and east Europe but also to developing countries around the Mediterranean and elsewhere.

As regards the active policies to be implemented in the light of those ideas, the first concerned R&D and was fully described in the report of the Sub-committee. The post-war technological revolution was proceeding at an incredible pace. Were research policies adequate? Were they sufficiently coordinated between the Member States? Between universities and industry? What had been done with respect to the technological programmes framed in 1985 with a view to the Single Act? Nothing. What had been done at the training level? Had attempts been made to find out whether national education systems were appropriate to the requirements of technology and competitiveness? No. According to a recent American study, oil production costs in Europe were 30% higher than in the USA because of infrastructure deficiencies. Was that the result of an intelligent energy policy? It was true that new policies were needed, but first of all the policies which had already been decided should be made to function (better).

Statement by Mr PARDON

Mr PARDON said that the Additional Opinion of the Section for Economic, Financial and Monetary Questions on the annual economic report for 1993 had been approved by thirty-four votes to one, with ten abstentions. That Opinion stressed the deterioration of the economic situation in the Community, unemployment, the budget deficits of the Member States and the loss of competitiveness. Those problems had to be considered in the context of solidarity. They were a challenge for governments but also for the Community - which should stop drifting - and for the social partners. Mr PARDON hoped that the Council would appreciate the importance of the role of the Economic and Social Committee which, alongside the Committee of the Regions, should play a specific role in the social dialogue and cooperation between public authorities and socio-economic organisations.

Report of Mr Vasco CAL

Mr Vasco CAL said that the Additional Opinion he was submitting tried to identify the factors responsible for the adverse economic trends in the Community. There were several, but the Finance Ministers had a heavy responsibility, for they announced policies which they did not apply and made predictions which proved inaccurate. The situation was serious and required decisions to combat unemployment. The Ecofin Council should devote more thought to the importance of a European social model. There was virtually unanimous agreement on what should be done in the economic and financial spheres and on education and training. There remained the problem of the labour market, which should be considered in the light of the European social model. Some were obsessed by the need to cut wages and social security in order to increase competitiveness. How was it possible to eliminate differences of 1 to 25 in order to compete with certain third countries?

According to Mr Vasco CAL, the situation in Europe required a wide consensus, and to obtain that it was necessary to take the analysis a step further. According to the OECD, the two countries which had taken deregulation furthest in recent years - the UK and the USA - had mainly

replaced stable male jobs with part-time female jobs. Was that consonant with the European social model? All recent studies on the competitiveness of the Member State economies stressed how advisable it was for companies to adapt. However, the necessary adaptations concerned not only the labour market but also management, technological transfer etc. It was essential to develop the skills and motivation of the workforce, and that could not be achieved by cutting wages and social security. The effort made by the Economic and Social Committee to achieve a consensus on the issue should be taken into account by the other institutions of the Community.

The CHAIRMAN opened the **GENERAL DISCUSSION**.

Mr BELL stressed the need to avoid encouraging excessive public expenditure. Money spent by public authorities had to come from taxation or borrowing (which had to be reimbursed from future tax revenues and had a perverse effect on interest rates). An increase in public expenditure could create jobs in the short term but destroy them in the long term.

Over twenty years, the Community had created a number of jobs corresponding to 0.2% of its population (as against 1.7% in the USA). Its public expenditure amounted to 51% of GDP as against 35% in the USA, and the return on investments was 13.5% as against 17%. Preference for long-term difficulties over short-term difficulties was liable to produce an immediate success followed by long-term failure. 15% of public expenditure in the Community was ineffective - social expenditure, subsidies for industry and agriculture (7% in the latter sector). That was why the Community economy lagged 15% behind its rivals.

Finally, **Mr BELL** proposed taking over the supply-side policies pursued by the USA and UK in the eighties, when cutbacks in public expenditure and taxation had generated substantial growth. The only way to create jobs was to transfer activities from the public to the private sector and to reduce the tax burden.

Mr GEUENICH referred to the social dialogue of September 1993, when sharp differences of opinion had emerged about the best way to tackle current socio-economic problems. However, he still hoped that a consensus would be possible. The unemployment problem could not be resolved simply by eliminating "labour-market rigidities", without risking a still worse situation in a year.

It was true that there were major structural difficulties. It was known that the Member State economies would experience difficulties till the end of the century. But it would be wrong to keep on pointing to those medium- and long-term problems and neglect the short term. If nothing was done to improve the current economic situation in the Community, there would be a financial disaster. If the current negative growth persisted for a number of years, savings would be completely inadequate to guarantee the continuity of investment. Attention also had to be paid to the tax burden and levies influenced by the economic situation. The flexibility of workers still had to be defined on

the same basis as that of employers. In Germany, industry had earned substantial sums in recent years. Should it be protected at the expense of workers, now that things were not going so well?

It was obviously necessary to improve the productive system. That presupposed modern management, good training, a sound R&D policy, good infrastructure and a certain degree of labour mobility, which was not possible without a minimal social policy. But it was also necessary to have an effective public sector catering for the fundamental needs of the population, which immediately raised the question of the limits to any privatisation. The autonomy of the social partners and the dialogue between management and workers should ensure participation of everybody in economic results. As regards the social-security systems which people wanted to improve or correct, they also served to avoid serious social conflicts. Those systems should be evaluated in the light of the circumstances prevailing in each Member State. The Community should apply the Social Charter, which laid down minimum social conditions, while taking account of the competition requirements at the single market level.

Mr STRAUSS favoured establishing a political union before the economic and monetary union. There was no point in seeking a wider political union as long as the national governments pursued different economic policies. It was claimed that, even if growth resumed, unemployment would remain at a high level. Why had the problem of the distribution of work not been dealt with? Was it wise to talk about privatisation during a recession? Privatisation meant investment in companies which already provided employment. Would it not be better to invest in new industries? Or was the purpose of privatisation of public-sector industries to reduce public debt and thus interest rates? Had it not been a mistake to cut taxes during the boom, given that it was no longer possible to cut them further at a juncture when that would have been necessary in order to stimulate the economy? Finally, Mr STRAUSS wondered what impact the GATT negotiations would have on the international business climate.

Mr MEYER-HORN asked whether achievement of the second stage of progress towards EMU was still a priority aim of the Council. What position had been reached in the discussions on the site of the European Monetary Institute and its president? Would it not be possible for the Committee to play a greater role in the "convergence programmes"? Would any action be taken on the Committee Opinion concerning "derived law" with a view to achievement of the second stage of EMU.

Mr CHRISTIE felt that the ESC discussions on growth, competitiveness and employment had been very interesting, especially as they had led to a wide consensus. It was very easy to reach wrong conclusions, as had just been done by Mr BELL who unfortunately had not attended the meetings of the Sub-Committee. The reply of Mr BELL was the simplistic reply of the United Kingdom: the UK had lost jobs because it had lost competitiveness; it had lost competitiveness because of excessive wage levels, the high cost of social security, excessive regulation and labour-market rigidities. The solution: deregulation and cutbacks of wages and social security. That argument

was both simplistic and wrong. The solution had been applied in the United Kingdom for fourteen years and had not functioned. The results were an increase in the number of unemployed (which had doubled since 1979), a rise in the number of long-term unemployed (which had also doubled), a terrible increase in poverty, homelessness and crime, and a large number of young people who could not find work. The Council President, Mr MAYSTADT, had suggested that wages were too high in Europe. However, wages accounted for a lower percentage of the GNP in Europe than in the USA or Japan. In those terms, it was the lowest for thirty years. So it was too easy to say that the problem stemmed from the cost of labour. That was not the answer.

The American model? The USA had a deficit which could not be managed by any other country. The jobs they had created were low grade.

The Community had not implemented the policies adopted at Edinburgh. It did not have an industrial policy, for it had not decided where to concentrate its efforts in order to give investments maximum effectiveness. It was wrong to imagine that taxes could be cut, for tax revenue was employed to fund useful, necessary jobs and those in employment should pay for those who did not have a job.

Mr ASPINALL thought that employment problems should be tackled by the Member States as a group. A tax on CO₂ would amount to getting the unemployed to foot the bill. It was essential to give the unemployed work so that they paid the taxes and social security contributions which were necessary in order to tackle the demographic problems of tomorrow. Would it not be possible to reduce for twelve months, for instance, the social security contributions paid by employers who created new jobs, while employees continued to pay taxes and their social security contributions normally? It would also be possible to:

- implement education and training programmes;
- encourage the banks to offer lower interest rates to small and medium-sized businesses;
- reduce interest rates generally, in order to encourage investment;
- establish local programmes for giving the unemployed work;
- adapt wages to labour-market requirements;
- cut taxes (high taxes stimulated the black economy).

Mr CAVALEIRO BRANDÃO said that the Sub-Committee and above all its Rapporteur, Mr ROMOLI, had made an enormous effort to achieve a consensus and to talk about the future rather than the past. It was true that the European development model was a bit tired. It was essential to open up new avenues and reconcile solidarity and the requirements of economic growth. Consensus should enable a new approach to unprecedented problems.

Mrs RANGONI MACHIAVELLI, also speaking on behalf of Mr BURNEL, said that the crisis was cyclical and structural, but above all the latter. An economic upturn would not

create enough jobs to mop up unemployment. Investments should therefore be used as effectively as possible. It was necessary to change mentalities, attitudes, manners of production and consumption. Competitiveness was a challenge for Europe, but Europe had a number of assets - its human resources, its culture, its traditions and its diversity.

With respect to solidarity, Mrs RANGONI MACHIAVELLI said it was essential not to be seduced by specious solidarity financed by inflation or budget deficits (which would be paid for by future generations). It followed from the Maastricht convergence criteria that the Community had to be based on a genuine solidarity, funded by tax revenue from a social market economy.

The Council President, Mr MAYSTADT, gave the following details:

- the problem of sharing work had to be tackled in parallel with that of sharing incomes;
- the second stage of the EMU should begin on 1 January 1994, in order to make the European integration process fully credible. The deadlines adopted at Maastricht had to be respected if the confidence of European economic operators was to be restored;
- the "derived law" envisaged by the Council was consonant with the Opinion just adopted by the Committee;
- the criticism of the "convergence criteria" in the Opinion submitted by Mr Vasco CAL was justified, for they were inadequate. In July Belgium had obtained that: (a) in future all Member States would have a convergence programme; (b) those programmes would cover the same period; (c) they would have the same macro-economic base; (d) the impact on other Member States would be examined; (e) the Member States would have to account for compliance with the convergence criteria (deficit, inflation) and other indicators such as youth and long-term unemployment;
- it was not wage levels but "labour costs" which were important for competitiveness and employment. Social security schemes were funded mainly by mandatory contributions from workers and employers. That expenditure was increasing for demographic reasons (expenditure on pensions increased as the population aged). An increase in workers' and employers' contributions would increase labour costs, which had an adverse effect on employment. High labour costs were only justified if productivity was high, and that was not the case for many unskilled workers. The result was that more and more workers were being replaced by machines, a substitution which was often necessary in sectors exposed to international competition but less justified in sectors which were not, such as supermarkets (where automatic check-outs were being installed). The question was how social security was to be funded in future without increasing labour costs, for social security had to be maintained, it was the special feature of the European system.

Mrs TIEMANN thanked Mr MAYSTADT for his statement and contribution to the Committee discussion. Committee members were available for a contribution to the search for solutions to the problems raised. (Departure of Mr MAYSTADT)

Mr DECAILLON regretted the absence of an industrial policy in Europe. The market, alone, did not guarantee economic dynamism. In South East Asia the concept of the (international) market and industrial policies were in tune. There was no cause-and-effect relationship between "rigidity" and employment, given that the labour market was currently very flexible. The Community should develop a market concept which was based on industrial development.

According to **Mr DRAIJER**, the two Opinions being considered correctly gave absolute priority to employment, for unemployment was a source of conflict and threatened the stability of society. If one wanted to talk about credibility and confidence in the Community, it was essential not to limit oneself to firms and institutions. Human beings, workers, citizens suffered from the current situation.

Mr DRAIJER appreciated the fact that Mr ROMOLI had not sought to reconstruct the American or Japanese models in Europe, but had spoken of a European model combining the market and social justice. It was in the framework of that model that Europe could improve its competitiveness and stimulate employment. The social market economy sought a consensus on major socio-economic measures. That presupposed a dialogue - i.e. supplementing of political democracy by social democracy - and consultation of workers' and employers' organisations, the whole being supported and accepted by a very large proportion of the population.

When one talked of labour costs one talked of the cost of the collective social system, which was the pivot of the European model.

Although international competitiveness was important, the internal market should not be neglected. Wage cuts in production units operating on the internal market would cut internal demand and thus make the recession worse.

Mr ARENA said it would be wrong to pursue an industrial policy without creating the "European company" with statutes enabling it to operate throughout the Community, as was the case in the United States where major production units were not confined to a single federal state. Europe needed an economic and monetary union for the simple reason that the first form of competition was monetary.

Mr PE said he was not enchanted by the comments of Mr MAYSTADT. If the White Paper took the same line, it was to be expected that there would be pressures and problems which threatened the European venture and the economic and social development of the Community. **Mr PE**

stressed the importance of the consumer for production and thus for employment. Reduction of the consumer's purchasing power would be a serious error.

Finally, the speaker asked what the position was about the social charter and its implementing programme, which were designed to safeguard all European measures by preventing social dumping. There was currently talk of labour-market rigidities which reduced the flexibility needed for competitiveness. Did that mean that the Social Charter was being buried?

Mr **GIACOMELLI** welcomed the comments of Mr **MAYSTADT**, who had identified the major problem facing European companies - excessive labour costs, which reduced the competitiveness and profitability without which there would be no jobs. Mr **MAYSTADT** had also been right to draw attention to the disquieting trade deficit of the Community. Mr **GIACOMELLI** disagreed with the assessment of competitiveness set out in the Opinion, i.e. the theory that changes in exchange rates were solely responsible for changes in competitiveness trends.

Mr **SMITH** wanted to know what were the "charges" on employers mentioned in 2.2. of the Draft Opinion submitted by Mr **ROMOLI**. Were those charges justified? Did they result from environmental constraints, which were indispensable and therefore justified? Or were they taxes? It seemed however that in many Member States tax policies had in recent years been more liberal for companies than for individual workers.

A major point to be mentioned in the employment dossier was doubtless the contraction of the military industry in Europe, a contraction which led to the closure of many production units downstream of that industry (e.g. naval shipbuilding).

As regards the question of labour costs, Mr **SMITH**, who came from an industrial branch which had doubled its productivity, moderated wages and halved production, stressed that relocation to third countries, which underlay the production cutback, was often attributable to European entrepreneurs who preferred to manufacture in countries with very low wages and without social security.

It was essential not to avoid privatisation at all costs and certain regulations were undoubtedly superfluous, but it was going too far to envisage fourteen year olds working in mines and refusing medical care for people over sixty five.

As regards taxation, it had to be remembered that taxation had been cut in boom periods for people who did not need the money, although it would have been much better to channel that money to infrastructure. Should not employers, who benefited from youth education and training, return something to society as well?

Mr ROMOLI replied to the various speakers and referred to various sections of the Sub-Committee report. He stated that:

- Signature of the GATT agreement at the close of the year would not resolve all the problems. The Americans pursued an extremely aggressive trading policy, and the formation of international trading blocs, contrary to the spirit of GATT (because contrary to multilateralism), was gathering pace. The Community should conclude a trade agreement with the USA, as the latter had done with Japan.
- Work sharing was important at a time when growth could not absorb unemployment.
- The Committee could be innovative. It should have an opportunity to consider the White Paper and weigh its pros and cons.
- The Community did not, unfortunately, have an industrial policy. The Committee had commented on the proposals of Mr BANGEMANN but it looked as if its comments had not been heard.
- Deficit spending should of course be banned, as had been stressed in connection with social policy which, according to the Committee, should be financed purely from taxation.
- Unfortunately, the system of the social market economy was not applied uniformly in the Community.
- Constraints on industry varied from Member State to Member State. In Italy, for instance, small firms needed commercial or tax experts because of the complexity of administrative formalities.
- A tax on CO₂ was only feasible if it was also levied in the countries which were major trade rivals of Europe.
- Taxation should be discussed in detail.

Mr Vasco CAL, Rapporteur for the Additional Opinion on the Annual Economic Report, had no comments to make.

FINAL VOTE:

The Opinion on *Growth, Competitiveness and Employment* was adopted by a majority vote, with eight abstentions. The Additional Opinion on the *Annual Economic Report for 1993* was adopted by a majority vote, with four votes against and ten abstentions.

Mr KAARIS said he had voted against the Opinion because he had not been convinced by the arguments put forward by Mr BELL. He regretted that he had been unable to table amendments, because of the agreement by Groups I and II to dispense with amendments to the two Opinions.

JOINT STATEMENT
OF
THE ECONOMIC AND SOCIAL COMMITTEE OF THE EC
AND
THE EFTA CONSULTATIVE COMMITTEE
ON
GROWTH AND EMPLOYMENT

Addressed to the Ministers attending the Joint EC/EFTA Ministerial meeting to be held in
Luxembourg on 19 April 1993.

UNEMPLOYMENT IN EUROPE HAS CLIMBED TO NEW HEIGHTS AND THE OUTLOOK FOR ECONOMIC GROWTH HAS WORSENERD YET FURTHER. THE ECONOMIC AND SOCIAL COSTS OF THIS ARE UNACCEPTABLE.

THE ECONOMIC AND SOCIAL COMMITTEE OF THE EC AND THE EFTA CONSULTATIVE COMMITTEE, REPRESENTING EMPLOYER, WORKER AND THE OTHER INTEREST GROUPS IN THE NINETEEN COUNTRIES, WELCOME THE FACT THAT IN ORDER TO COORDINATE EFFORTS AND CONFRONT TOGETHER THE DETERIORATING ECONOMIC AND SOCIAL SITUATION IN EUROPE, THE NORWEGIAN GOVERNMENT PROPOSED, AND THE EC COUNCIL PRESIDENCY AGREED TO A JOINT MEETING OF EC AND EFTA ECONOMIC AND FINANCE MINISTERS.

THE TWO COMMITTEES BELIEVE THAT CURRENT ECONOMIC POLICY MEASURES ALONE ARE INSUFFICIENT, THAT ADDITIONAL PRIORITIES ARE NEEDED AND THAT IMMEDIATE ACTION HAS TO BE TAKEN TO PUT THEM INTO EFFECT.

THE TWO COMMITTEES ASSERT THAT HIGHER ECONOMIC GROWTH IS THE KEY FACTOR IN SEEKING MEANS TO BOOST EMPLOYMENT AND REDUCE UNEMPLOYMENT. BOTH COMMITTEES, IN ADDRESSING THIS STATEMENT TO MINISTERS ATTENDING THE JOINT EC/EFTA MINISTERIAL MEETING, ASK THAT DECISIONS BE TAKEN IN A COORDINATED MANNER IN THE FOLLOWING AREAS:

ECONOMIC GROWTH

Europe needs a global strategy for growth so that coordinated economic and monetary policies, and effective confidence-building measures can be introduced to boost economic growth and create employment.

These policies must be backed up internationally to stall protectionist tendencies worldwide; a growth strategy in Europe needs a favourable international climate.

High interest rates continue to hamper growth in Europe and must therefore be cut; this should lead to the needed rise in investment and consumption, and to a reduction in the public debt burden.

BUDGETARY AND MONETARY POLICY

- . *Limiting budget deficits is necessary in order to bring public finances in line with medium-term convergency criteria.*
- . *The growth and employment strategy must not be put at risk by unnecessarily restrictive budgetary policies which could hamper growth.*
- . *Monetary cooperation must be strengthened in order to bring about greater exchange rate stability and, thereby, improve confidence.*

PROMOTING INVESTMENT

- . *Governments should create conditions that are propitious to productive public and private investment, which is urgently needed if economic growth and increased employment are to be achieved.*
- . *Infrastructure investment, involving EFTA as well as the EC, notably on the Trans-European networks in the transport, energy and telecommunications sectors, East/West as well as North/South, is urgently needed; projects must be initiated forthwith, and the amounts available for projects increased. Participation, including guarantees and financing, by EFTA countries in projects relevant to them would create synergy. Growth promotion can also be had from investment in environmental projects.*
- . *New technologies, and innovation in the production process must be encouraged in order to reinforce Europe's competitiveness.*
- . *The creation of a significant number of jobs depends largely on the conditions in which SMEs are set up and operate - avoiding bureaucracy and improving company competitiveness.*

SOCIAL EUROPE

- . *The functioning of the labour markets must be improved throughout Western Europe, aiming at a high level of employment without inflationary pressures. Avoiding bottlenecks is a central task for an active and flexible labour market policy.*

Education and vocational training must be more adapted to needs, thus reducing the mismatch between skills and vacancies and creating equal opportunities for men and women.

Governments should create the conditions that will strengthen the role of the social partners. The social partners must be consulted at Community level, within the framework of the EEA, and at national level, and workers should participate more at company level where that is not already the case. They will thus take their share of the responsibility for promoting growth and employment.

The social dialogue will be encouraged if there is a stable and credible macro-economic setting. Governments should create a framework of economic and fiscal policies which would allow the social partners to adapt traditional and devise new policies in combatting the high unemployment and the lack of growth.

THE EUROPEAN ECONOMIC AREA

COOPERATION BETWEEN THE 19 STATES PRESENT AT THE JOINT EC/EFTA MINISTERIAL MEETING, AND COORDINATION OF RESPECTIVE POLICIES ARE NEEDED AS NEVER BEFORE.

EC AND EFTA COLLABORATION ON A GROWTH AND EMPLOYMENT STRATEGY IS A PRIME EXAMPLE OF HOW THE EUROPEAN ECONOMIC AREA, ONCE CONSTITUTED, CAN PROVIDE NOT ONLY A STIMULUS FOR GROWTH, BY ITS VERY EXISTENCE, BUT ALSO THE MUCH-NEEDED POLICY COORDINATION; THE ECONOMIC AND SOCIAL COMMITTEE AND THE CONSULTATIVE COMMITTEE URGE IN THE STRONGEST POSSIBLE TERMS THAT RATIFICATION PROCEDURES BE SPEEDED UP TO BRING THE EEA AGREEMENT INTO FORCE ON 1 JULY 1993.

JOINT CONCLUSIONS OF THE PRESIDENTS AND SECRETARIES-GENERAL OF THE ECONOMIC AND SOCIAL COUNCILS OF THE EC MEMBER STATES AND THE ECONOMIC AND SOCIAL COMMITTEE OF THE EUROPEAN COMMUNITY IN THE RUN-UP TO THE EUROPEAN COUNCIL ON 10 AND 11 DECEMBER 1993

At their annual meeting, held in Luxembourg on 4 and 5 November 1993, the Presidents and Secretaries-General studied the situation and patterns of growth, competitiveness and employment in the EC countries.

On the basis of the Opinions adopted by the EC Economic and Social Committee and the national contributions prepared by the various national councils attending the meeting, they unanimously adopted the following joint conclusions:

Europe is firmly attached to its model of society: a market economy, corrected by solidarity. This model presupposes a constant pursuit of quality (quality of life and quality of production) and progression towards activities with high added value content.

Confronted by the intolerable surge of unemployment in the Community, a phenomenon with both economic and structural origins, generating an acute exclusion problem, they:

- feel that it is vital to complete the internal market, and in particular to respect the timetable for **Economic and Monetary Union**,
- insist on the importance of the inter-relationship between growth, competitiveness and employment, while not overlooking the social dimension of the action to be pursued;
- stress that growth must be stimulated by short and medium term (structural) measures to:

WITHIN THE COMMUNITY

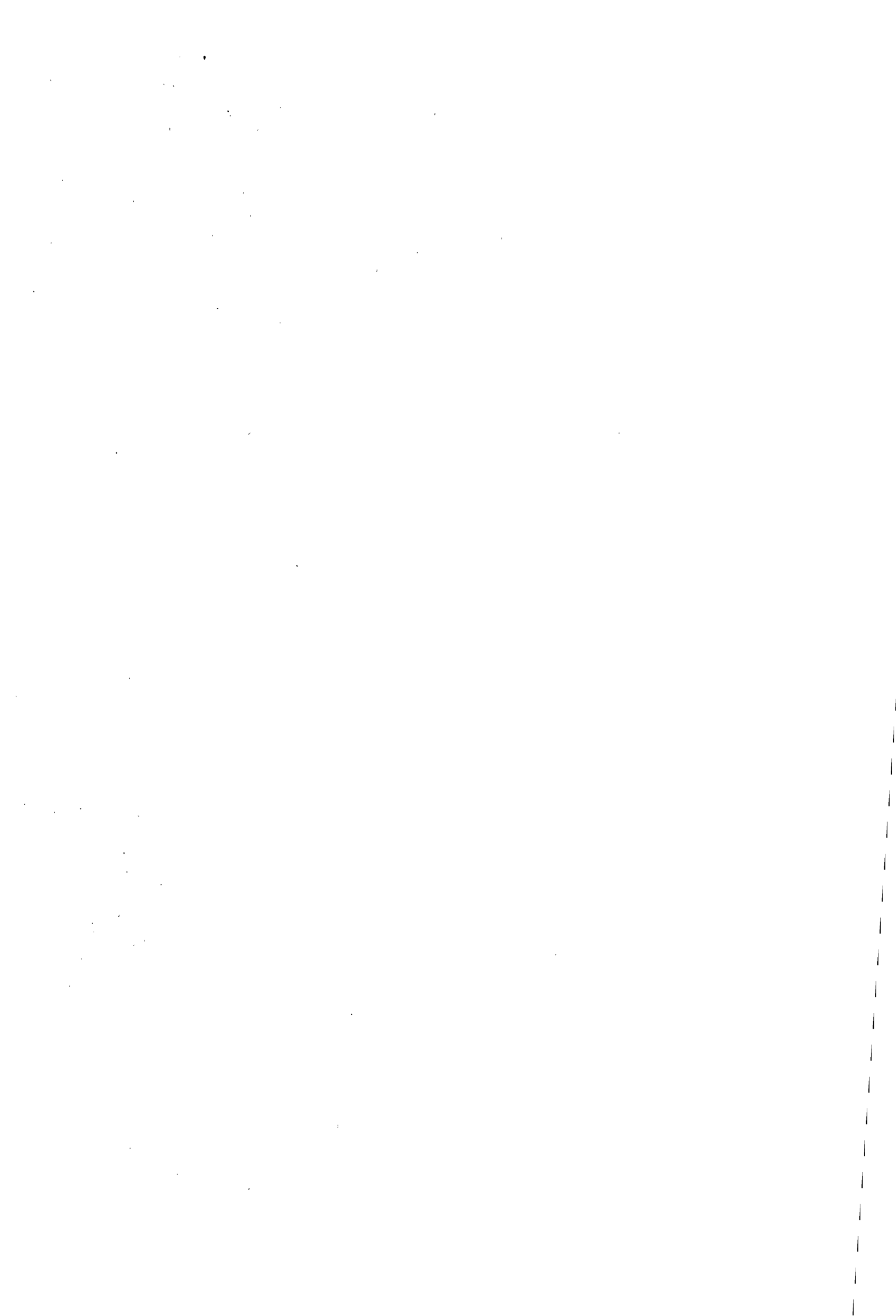
- re-activate the European cooperative strategy for growth and employment, closely associating the EC Economic and Social Committee and the national Economic and Social Councils in this endeavour and infusing new life into social dialogue;
- take concerted action to improve infrastructure, by facilitating access to the European Investment Fund and the new EIB lending machinery provided for at the Edinburgh Summit and speeding up investment under the Cohesion Fund;
- alleviate constraints on businesses, cut down red tape and remove obstacles to mobility on the labour market;
- substantially reduce interest rates so as to stimulate growth without triggering inflationist pressures;
- accelerate use of the European Funds, giving priority to spending directly linked with investment and the creation of new jobs;
- exploit the potential of the Single Market;

- consolidate measures aimed to prevent distortion of competition, in particular the social dumping that stems from the increasing use of illegal labour, unprotected by any social cover;
- start, without delay, to introduce medium-term measures;
- avoid the use of tax concessions as a competitive device so as to ensure, in the long term, free movement of capital through the harmonization - on as broad a geographical scale as possible - of tax treatment of the most mobile production inputs, including tax treatment of savings;
- embark, at European level, on co-ordinated deliberations on the apportionment of the direct and indirect, tax and para-tax, burden so as to encourage growth, competitiveness and employment;
- attain Economic and Monetary Union (2nd phase), in particular by coordinating economic policies in such a way as to avoid the emergence of competitive deflation and by striving for genuine convergence;
- assess economic convergence, giving heed to the development of the true essence of the economy, notably factors such as economic growth, the trade balance, competitive potential, rates of savings and employment;
- fix the priorities of future Community industrial policy and foster a European society: frame national and European research and development policies, funded by budgets comparable to those of Europe's industrial competitors;
- step up and co-ordinate the drive to promote education and basic and ongoing vocational training;
- influence the labour market: appeal to the social partners to opt for flexible solutions, including re-organization of working time on the basis of consensus so as to facilitate the access of young people to jobs and avoid social exclusion of the long-term unemployed;
- provide for a healthy, balanced, fair and sustainable method of funding social security;
- pursue unit labour cost patterns which are consistent with the aims of growth, competitiveness and employment;
- seek out, wherever growth is insufficient to absorb unemployment, new channels of job creation in related services (social, educational, etc.) and measures to redistribute work;

OUTSIDE THE COMMUNITY

Foster a dynamic, outward-looking external policy by:

- improving the technical effectiveness of EC trade policy instruments;
- pursuing, in trade negotiations conducted directly with competing economic groupings or within broader forums, comprehensive, balanced agreements between the countries and sectors concerned, without sacrificing any area of production which seems of strategic importance to the Community;
- incorporating, in relations with certain LDCs, a reference to social clauses inspired by the standards of the International Labour Organization with a view to triggering a process whereby these countries will be gradually and smoothly integrated into the world economy, while taking care to ensure that their access to international trade produces tangible social improvements in their national context; adequate aid and the mobilization of international financial and monetary instruments could also play their part;
- encouraging more active EC participation in the economic development of the countries of Eastern Europe, the Mediterranean area and the LDCs, in line with a strategy placing emphasis on mutual complementarity;
- promoting the coordination of economic and monetary policies, in particular as regards the exchange rates of the EC, US and Japanese currencies.



A P P E N D I X

**Summary of recent work by the Economic and Social Committee
on
Growth, Competitiveness and Employment**

**OPINION ON INDUSTRIAL POLICY IN AN OPEN AND COMPETITIVE ENVIRONMENT,
adopted on 27 November 1991 (Rapporteur: Mr Jens Peter PETERSEN - Employers -
Germany)¹**

The Committee welcomes the Commission's attempt to develop the concept of a modern and dynamic industrial policy. The focal point of this concept is the Community interest.

The Committee agrees with the Commission that greater European integration implies that industrial policy should be solved at European level and that structural adjustment measures should take the Community market into account. It also endorses the view that only an efficient and competitive industry can contribute towards Europe's economic and social development. The European Community will not master the challenges it has set itself in the Treaties, or intends to set on the path towards political union, by building a wall around its market and pursuing defensive policies to preserve existing structures.

However, the Committee would criticize the failure of the Community blueprint to give sufficient consideration to industrial policy's regional and social dimension. The strengthening of European industry's competitiveness will not suffice to develop industry in lagging regions or to cater for social needs. Therefore, the Commission must give greater prominence in its industrial policy blueprint to the interests of remote regions and work these interests more convincingly into its policy instruments. The general reference to the Community's Structural Funds does not go far enough. The view that dialogue and partnership between industry and the public authorities also has a "vital" role to play in promoting economic and social cohesion is ambiguous and therefore requires urgent clarification.

In practical terms, the Committee would urge that, apart from the horizontal measures for assisting structural change and increasing industry's adaptability a place must be retained for an industrial policy which (a) provides secondary support for the requisite (regional and sectoral) adjustment processes in problem areas, (b) cushions the social impact of structural change with the aid of suitable transitional measures and (c) reduces distortions of competition arising from international factors. This policy should include:

- a regional policy which is geared to evening out discrepancies, and which strengthens lagging regions' potential and ability to develop;
- adjustment assistance for offsetting social hardship in times of structural crisis or when industry is being slimmed down;
- measures under GATT to defend against and eliminate third-country corporate strategies which distort competition.

The Committee thinks that it would make sense to include key objectives and elements of a Community industrial policy in the Treaty, thereby providing firms in the Member States with the right conditions for exploiting to the full the benefits of the single market, economic and monetary union and the common research and technology policy. Provision should also be made for coordinating national industrial policy decisions with corresponding measures taken at Community level and for involving the Economic and Social Committee in this.

This Opinion was adopted by a majority, with one abstention.

¹ OJ C 40, 17 February 1992, page 31.

OPINION ON THE CITIZENS' EUROPE, adopted on 23 September 1992 (Rapporteur: Mrs Beatrice RANGONI MACHIAVELLI - Various Interests - Italy, Co-Rapporteur: Mr Tom JENKINS - Workers - United Kingdom)²

To back up the political and historic importance of the conclusions reached by governments at the Maastricht Summit, citizens must be kept more fully informed and involved in the building of the European Union. Decisions should be made at the level (European, national, regional or local) where the maximum democratic control and effectiveness is ensured. To this end, the Committee considers that Union-wide action should focus on the following:

- a) the need for "European Union" accession to the European Convention for the Protection of Human Rights and Freedoms, together with the incorporation into the Treaty of the "Declaration of Fundamental Rights and Freedoms" of the European Parliament;
- b) the need for a Treaty provision banning discrimination on grounds of sex, colour, race, opinions and beliefs;
- c) the need, on the basis of the elimination of obstacles and practical application of the "four freedoms" (free movement of goods, persons, services and capital), to assert equality of rights and duties for all citizens of the Union;
- d) the need for proper democratic accountability at European level guaranteed through legislative powers for the European Parliament, transparent Council decision-making procedures, full appreciation of the rule of law through the Court of Justice, and the defence and development of "open" European administration;
- e) the need for the European Parliament to be elected according to a uniform electoral system providing proper representation of various political currents;
- f) the need for the Economic and Social Committee - a European projection of similar national organs of social dialogue - and the new Committee of the Regions - a European projection of regional competences - to carry out and develop their functions independently, but to similar purpose, putting participatory democracy and their representative status to work in the interests of the European Union;
- g) the need for the Treaty unequivocally to enable the proper application of the Social Charter and Social Protocol Agreement to all citizens concerned throughout the "European Union" as a whole;
- h) the need for a similar EC commitment to wider social and societal rights in fields including the environment, consumer protection, cultural heritage and data protection, and concerning vulnerable disadvantaged groups and the disabled, the role of socio-professional groups and safeguarding the family. The "right of conscience" should also be upheld;
- i) the need for an adequate EC Budget in keeping with "European Union" and directed towards making an efficient contribution to economic and social cohesion, to training and to reducing unemployment;

² OJ C 313, 30 November 1992, page 34.

- j) the need to devise European policies for employment and vocational training, involving social dialogue and the increasingly active participation of other interest groups;
- k) the case for using the European Year of the Elderly (1993) as an EC initiative which, without overlooking the need to improve the wellbeing of today's senior citizens, also launches the policies needed to improve conditions for the elderly of tomorrow;
- l) the proposal to organize a biennial "Young European Convention".

The Opinion was adopted by a majority, with five abstentions.

OPINION ON EMPLOYMENT IN EUROPE, adopted on 28 April 1993 (Rapporteur: Mr Vasco CAL - Workers - Portugal)³

The serious and complex nature of the unemployment problem in today's society requires a comprehensive and resolute policy mix involving substantial investment in stimulating new creative skills for new and emerging needs, appropriate training, technological adjustment, labour market flexibility and a participative framework of industrial relations.

Given the economic structure of the Community countries and, in particular, data from the last decades on productivity trends, it is estimated that with an economic growth rate of 2%, it will only be possible to maintain employment at current levels and therefore unemployment will continue to rise; with an economic growth rate of 2.5%, unemployment can be contained at current levels; for unemployment to be effectively reduced, the economic growth rate will have to go above 3 or even 3.5% per annum.

For unemployment not to deteriorate further, it is vital, given the current circumstances, that the Community economy regain its potential economic growth rate as soon as possible. Measures to ensure a genuine cooperative strategy for growth and job creation should be taken as of now, particularly given that their impact on employment will not be immediate. This unanimous demand of the social partners is also based on the observation that the cooperative strategy announced in 1985 was not put into practice by Member States. In fact, the structural measures were constantly postponed and no advantage was taken of the period of economic growth between 1985 and 1990.

The macro-economic impact of measures decided at Edinburgh on the new lending facility for projects linked to trans-European networks and for a European Investment Fund is minimal; ways should be examined to make them more effective and speed up their implementation. The measures announced fall far short of requirements, especially if compared to recent initiatives in the USA and Japan, involving significantly larger amounts.

The amounts concerned - MECU 5,000 and MECU 2,000 respectively - should be revised upwards substantially and preparatory work should be speeded up on these projects so that they can be implemented as soon as possible.

Blueprints for trans-European networks should be drawn up as quickly as possible and preliminary work on existing projects ready to be put into practice should be speeded up.

Real wages growing at a lower rate than productivity will help improve workers' purchasing power and allow increased resources for the necessary investment. A stable and credible macro-economic background and social dialogue - not only at Community but at national and company level too - also encourages this wage restraint.

A further condition for improving the employment situation is to ensure that all parties concerned take comprehensive action so that education and training systems at all stages give direction to, and back up, economic growth and technological progress, taking account of workers' own individual interests.

More worker consultation and participation in firms is vital to ensure that the introduction of new technologies and production process innovations and improvement in working methods (a) result

³ OJ C 161, 14 June 1993, page 34.

in better social conditions and (b) help the European economy regain its competitive edge and retain it over the long term.

Reorganization of working time, combined with more flexible use of production equipment, should be negotiated as part of industrial relations agreements, with a view to boosting employment throughout the economy.

The Opinion was adopted unanimously.

OPINION ON THE FOURTH FRAMEWORK PROGRAMME OF COMMUNITY ACTIVITIES IN THE FIELD OF RESEARCH AND TECHNOLOGICAL DEVELOPMENT (1994-1998), adopted on 26 May 1993 (Rapporteur: Mr Tomás ROSEINGRAVE - Various Interests - Ireland)⁴

The Committee first notes that the Commission has recently submitted a second working document which takes specific account of the conclusions of the Edinburgh Summit and of the comments and views expressed on its first working document.

The Committee views the general tenor of this second working document as a praiseworthy move towards the recommendations made in the present Opinion. However, the document was received too late to be discussed fully at this stage.

The Committee's recommendations and comments may be summarized as follows:

Boosting the EC's industrial competitiveness

- research aimed at boosting the EC's competitiveness requires and deserves more resources at Community level than have so far been allocated in the Framework Programmes;
- the key to competitiveness is the quality of products and manufacturing processes which meet consumers' existing and emerging needs. Although the declared objectives include the contribution of science and technology to society's needs, the Commission lays insufficient stress on the identification of needs as market openings;
- swifter dissemination and exploitation of research results is also an important factor in improving competitiveness;
- the emphasis placed hitherto on improving productivity, globalizing industrial enterprises and reorganizing the manufacturing system has led the Commission to pay insufficient attention to improving employment opportunities;
- the focus should be on research into the creation of new products to satisfy existing needs; these could be a source of new markets and hence of employment. The potential of RTD for the provision and improvement of services could also be exploited more effectively;
- since work and employment constitute the basis of our mode of living changing needs in education and training are also an urgent research priority;
- in order to reconcile the two objectives of becoming competitive on world markets and achieving an acceptable quality of life for the citizens of Europe, ways of making the EC's economic, industrial and employment system more competitive have to be researched. This should cover the adaptation and reconversion of existing manufacturing plants, instruments of production, and their potential for maintaining employment while achieving competitiveness.

Economic and social cohesion

- all RTD activities - and not just dissemination, access to technologies and mobility - should contribute to economic and social cohesion;

⁴ OJ C 201, 26 July 1993, page 36.

- the human capital and mobility programme adopted under the third Framework Programme can make a special contribution to cohesion; it should therefore be developed in the fourth Activity of the fourth Framework Programme;
- there is also a need to promote coordination of Structural Fund activities with research initiatives under the fourth Framework Programme.

Small and medium enterprises

The Committee supports the measures proposed to help SMEs participate in Community RTD programmes and gain access to, and exploit, their findings. It also recommends:

- exploring the potential of the Structural Funds for developing the RTD capacity of SMEs;
- introducing procedures designed to stimulate cooperation between large and small businesses and between businesses and the universities through particularly suitable channels of evaluation or increased funding.

The Committee focuses its comments and recommendations on the first of the four Activities which the Commission intends to implement in the fourth Framework Programme. This concerns the implementation of RTD programmes and the various core themes proposed therein.

The Committee asks for priority to be given to research which leads to industrial applications. Positive criteria should be used to select research areas, such as:

- effect on employment;
- level of investment required;
- potential for cooperation with SMEs;
- consolidation of European experience and expertise;
- prospects for employing young researchers.

Other criteria relate to the need to concentrate resources on RTD in support of common policies designed to satisfy the needs of society.

Research should also be in the Community interest and should be primarily oriented towards employment within the Community.

The Opinion was adopted unanimously.

OPINION ON THE EUROPEAN COMMUNITY'S RELATIONS WITH JAPAN, adopted on 30 June 1993 (Rapporteur: Mr Aldo ROMOLI - Employers - Italy)⁵

The Opinion has nine chapters.

It sets out to consider the medium and long-term guidelines for economic and political relations between the European Community and Japan. Relations have already improved considerably since the Joint Declaration of 18 July 1991 and following a number of initiatives by both the EC and Japan, thereby paving the way for a genuine partnership.

The Committee recommends that the EC and Japan should not aggravate short-term trade frictions but should investigate the causes thereof and find ways of restoring the trade balance. Systematic consultation and coordination of the two sides' policies is considered to be of particular importance. The Committee also calls for thorough consideration of the scale of the Japanese trade surplus and of the opportunities which the use of the resulting financial surpluses might offer.

It might in fact be possible to embark on a new phase in joint ventures between EC and Japanese firms, both within the Community and elsewhere, as part of the wide-ranging economic and political cooperation suggested by the recent "Mano" report from the Japanese Ministry of Foreign Affairs.

The Committee calls for an action programme for the near future in order to create the conditions and instruments needed to give substance forthwith to the statements of intent that have been made.

Of key importance, however, is the need to improve mutual understanding and cultural and social dialogue between the European Community and Japan.

The Opinion is accompanied by an Appendix outlining some key topics which could be examined, with a view to making proposals, by joint committees comprising not only official representatives of the respective governments, but also academics and socio-economic operators.

The Opinion was adopted unanimously.

⁵ OJ C 249, 13 September 1993, page 34.

OPINION ON THE FUTURE OF COMMUNITY INITIATIVES UNDER THE STRUCTURAL FUNDS, adopted on 23 September 1993 (Rapporteur: Mr Campbell CHRISTIE - Workers - United Kingdom)⁶

Whilst welcoming the Commission's proposal that the number of Community initiatives be reduced, the Committee nonetheless considers it important that Community initiatives retain a degree of flexibility in order to enable policy to respond speedily to unexpected problems.

The Committee would stress that any reform of the Community initiative scheme must seek ways of clearly increasing the involvement of local participants, including the economic and social partners, in both devising and implementing programmes.

The Committee makes specific comments regarding the programming of Community initiatives, geographic eligibility and priority actions like cross-border, transnational and inter-regional cooperation and networks, rural development, outermost areas, employment and development of human resources and, lastly, management of industrial change.

In conclusion, the Committee welcomes the Commission Green Paper as offering a constructive and pragmatic contribution to the continued development of structural policies.

The Opinion was adopted by a majority, with one abstention.

⁶ CES 894/93.

OPINION ON SOCIAL EXCLUSION, adopted on 21 October 1993 (Rapporteur: Miss Ada MADDOCKS - Workers - United Kingdom)⁷

Social exclusion threatens the social and economic progress of Europe, threatens European and national unity and, ultimately, could threaten democracy itself. Social exclusion goes further than matters relating to the labour market and many - or even most - socially excluded people are outside the labour market. However, unemployment is the most important of the dynamic mechanisms producing today's social exclusion. Education and vocational training - especially of women - are central to the fight against unemployment, to the maintenance of family and community relationships and therefore to the fight against social exclusion. General and specific policies aimed at job-creation will also be necessary.

The decline in support for values such as solidarity and family life is an important phenomenon. This change has increased the incidence and intensified the experience of exclusion for women and children and other people affected by changes in family structure. The decline of solidarity has meant that people excluded from the labour market, or with only a tenuous connection to it, are more likely to face exclusion and that the experience of exclusion is worse. A structured dialogue is needed between the various actors in endeavours to combat social exclusion, including the Commission, the Member States, Regional, Municipal and Local Authorities, the social partners, non-governmental organizations and excluded peoples themselves. All these actors have a role to play in the fight against social exclusion. In the light of substantial increases in unemployment, poverty and homelessness, the Committee considers that the problem has almost certainly worsened in recent years. The Committee accordingly welcomes President DELORS' commitment to seek a doubling of the budget of the Poverty Programme. The Committee strongly supports the continuation and expansion of this and other relevant specific programmes - such as NOW and HORIZON.

The Community has a role in opposing intolerance, prejudice, segregation and negative discrimination and such an endeavour should be central to action against social exclusion. A commitment to combat social exclusion has implications for the future direction of the European Union:

- European social exclusion is unlikely to be defeated without the convergence of social protection policies;
- there should be both social and economic convergence criteria;
- the convergence of social protection policies will be unlikely without substantial further progress towards European unity;
- measures taken by Member States in compliance with Economic and Monetary Union, as agreed in the Treaty on European Union, may have severe implications for social protection policy and hence for the fight against social exclusion;
- from a social exclusion perspective, reduction in social protection expenditure by Member States to meet the EMU convergence criteria, are of particular concern;
- the Community should attend to the impact of such measures on social exclusion;

⁷ CES 1014/93.

- it would be useful if all Community policies were analyzed for their likely impact on poverty and social exclusion before being agreed upon.

A Community Charter (rather than a simple solemn declaration) is called for, including:

- public policies in accordance with the principle of solidarity;
- the right to a secure family life;
- the right of everyone to have access to be consulted on public decisions which affect them;
- the need for authorities, at the level of the Community, the nation, the region and the municipality to adopt and implement policies designed to counter social exclusion and counter unemployment;
- no-one should face negative discrimination in employment or the enjoyment of services or facilities on the grounds of sex, race, nationality, age, disability, political or religious views;
- access to education and vocational training designed to promote integration into the labour market.

These rights are not just important for socially excluded people. Such a Charter should not be a Charter for poor people or for the socially excluded; it should recognize rights granted to all citizens of the European Union.

The Opinion was adopted unanimously.

INFORMATION REPORT PUBLISHED ON 13 OCTOBER 1992 ON VOCATIONAL TRAINING: THE PROMOTION OF VOCATIONAL QUALIFICATIONS - AN INSTRUMENT FOR THE ECONOMIC AND SOCIAL DEVELOPMENT OF THE EUROPEAN COMMUNITY (Rapporteur: Mrs Giacomina CASSINA - Workers - Italy)⁸

It is widely agreed that high-quality skills are of strategic importance for EC integration. They boost business productivity and competitiveness, improve workers' living and working conditions and enhance their employment prospects, while contributing to economic and social cohesion and the ironing out of imbalances between the various Community regions.

It is very difficult to forecast economic, social and technological changes with accuracy, and hence to identify skills requirements in the medium to long term. Care must therefore be taken to ensure that vocational training structures systematically offer broadly-based, flexible qualifications. Such key skills as "learning to learn", social and communications skills and basic technical knowledge are taking on strategic importance, as is the ability to forecast and adapt to rapidly changing circumstances.

Community action to promote further training should encourage Member States and businesses to focus on the following population groups:

- persons in employment, to enable them to adjust to structural and production-related change and prepare for new forms of work organization;
- employees in sectors facing medium-term labour-shedding, to prepare them for new activities on the labour market;
- individuals with no formal vocational training, to prepare them for skilled work, drawing on their work experience, even if this is not backed by paper qualifications;
- socially disadvantaged groups of workers and unemployed (particularly immigrants, ethnic minorities and the disabled) with a view to their incorporation into the labour market;
- women wishing to enter the labour market or to resume work after a career break;
- any person wishing to enter the labour market or return to it after a career break, particularly disabled workers.

Special measures should be devised to help the long-term unemployed. Rather than excluding them from the labour market and dumping them on the social security system, there is a whole range of avenues that could be profitably explored: flexible, negotiated re-employment schemes and socially useful activities requiring straightforward skills are just two examples.

The Study Group's survey of situations in the Member States showed that the involvement of social groupings in training varies sharply from one country to the next. In most cases the State is responsible for initial training and the two sides of industry are frequently consulted on decisions. But continuing training - with the exception of labour-market schemes - is normally the responsibility of industry, with only a small input by unions. However, in nearly all Member States, employers and unions are at least to some extent willing to get involved in initial and continuing training and to conclude agreements, although this applies to both sides in only a few Member States.

⁸ CES 587/92 fin.

Social dialogue could usefully pay more attention to vocational training issues, as a way of solving current skills problems. The Commission could take up the European social partners' offer to contribute to vocational training policy, and leave the social partners to deal with the bulk of the issues at the most appropriate levels (particularly sectoral level), drawing on their experience with existing agreements. This would be in keeping with the spirit of subsidiarity.

The quality of the initial and further training available must be improved. Both must involve a flexible approach to the future requirements of both undertakings and workers, emphasizing the European dimension of qualifications. They must aim to impart comparable skills which can thus be recognized throughout the Community.

Both geographical and occupational mobility will depend on minimum evidence of qualifications that is generally comprehensible, standardized and transparent. Appropriate certification of training, further training and work experience must therefore be provided to ensure their general recognition on the labour market and in the employment sphere. To this end, consultations must be carried out at national level between the social partners and the relevant national and/or regional bodies, in order to decide on arrangements for recognition of qualifications.

Notwithstanding the need for a comparable basic training that is interchangeable from country to country, efforts must be made at Community level to secure the mutual recognition of certificates. Vocational and continuing training systems differ and will continue to do so as reflections of Europe's cultural diversity. On the other hand, the results produced by these national and/or regional systems must be amenable to mutual recognition. For this, a European framework will be required to provide a comprehensible explanation of all qualifications acquired, taking account of experience with the Directives on the recognition of regulated occupations and the equivalence procedure, as well as the need to:

- describe actual skills and qualifications in relation to responsibilities, so as to ensure genuine transparency of job content;
- be sufficiently flexible to take account of changes in skills and qualifications brought about by structural changes;
- reveal the numerous links between qualifications available under the different systems;
- define the responsibilities of the various parties involved, and the level at which they should intervene.

Far from regulating training systems, this European approach must create the conditions which will allow common vocational and further training systems to develop "from below" through cooperation between educational establishments.

Basic education also needs to be linked in with vocational training, as the EC's social partners pointed out in their joint Opinion of 19 June 1990 on education and vocational and adult training (education and initial training).

Member States must act jointly to ensure that schooling - while respecting the cultural peculiarities of the different systems - covers the common core of basic skills mentioned in 2.2.3. above. The Section lays particular stress on the need for a greater Community-level commitment to the promotion of language studies.

Specific measures should be devised to tailor training and retraining to the Community's socio-economic needs.

For small businesses and craft firms, the provision of high-quality training will be easier if training services are established to help groups of small firms, according to sector and geographical area. Such networks will be necessary to avoid an imbalance between the opportunities, potential and overall resources of large firms and those of the small firms that play an undeniable economic and social role in the Community. However, all the relevant parties should shoulder their responsibilities, ranging from the social partners in the firms involved to the various tiers of public authority (Community, national, regional, local).

Similar considerations will apply to the farm sector, since farms' competitiveness will be affected by the CAP reforms which involve measures to contain or redirect production. Retraining will be needed for the agricultural workforce, and this will require assistance from all the parties involved.

A number of schemes are under way in the less developed regions, as part of the reform of the structural funds. The numerous Committee Opinions on the subject contain analyses and recommendations.

The goal of economic and social cohesion makes it particularly important - under the reform of the structural funds and looking ahead to the cohesion fund - to safeguard and enhance the skills of the workforce in the less developed regions by linking training schemes to other forms of assistance and to local development potential. This will provide an important catalyst for investment, and will help stem the brain drain which is already all too frequent in such areas.

The service sector has grown enormously over the last few decades and continues to do so throughout the Community. Skills in this sector need to be constantly improved. The restructuring which is already under way (particularly in banking and insurance, public and local administration and transport) must not be aimed solely at economic rationalization and boosting productivity, but also at preserving and developing highly skilled employment.

Community action on vocational training must be integrated with EC industrial and R&D policy. It has been proved that even the most sophisticated R&D promotion policy may fail to produce results if the experiments and applications being pursued are beyond the competence of the available workforce.

What is more, an industrial policy is not worthy of the name unless it includes strategies for training. In this content, companies - and especially those which have hitherto paid only lip-service to vocational training policy - must shoulder their full responsibilities.

Lastly, joint action is needed from the EC institutions, national and regional authorities, and the social partners, at all levels. All these groups must shoulder their responsibilities for improving the training system throughout the Community, if it is to match up to present challenges and the legitimate ambitions of European Union.

The Session decided unanimously to forward this Report to the other Institutions.

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