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EDITORIAL COMMENTS

Growth, competitiveness and unemployment: the challenges facing the Union

At the special summit in Brussels on 29 October 1993, the European Council stated that "a situation in which the Community has 17 million unemployed workers and where a major portion of the population is cut off from the labour market on a long-term basis, is intolerable and every effort must be undertaken, as a matter of priority, to remedy that situation". Calling on the Council and the Commission to make concrete proposals for the December summit, the Heads of State and Government noted that "our economies are now so closely dependent on each other that we can only remedy the situation together". They noted that the proposals must relate to a medium-term strategy based on the Commission's White Paper, which had been requested by the Copenhagen summit, and on the broad economic-policy guidelines of the Member States and the Community. They also highlighted the role of the fourth research programme and that of the Structural Funds and trans-European networks in that connection.

The Commission's White Paper on "Growth, competitiveness and unemployment" notes that over the past three years, unemployment in the Community has risen sharply and now stands at 17 million people or 11 per cent of the work force. This figure should be compared to the 1990 level, which represented the lowest for a decade following five years of steady growth and still had 12 million unemployed, or 3 per cent of the work force. The White Paper states that the "Community must set itself the ambitious but realistic target of creating at least 15 million new jobs, thereby halving the level of unemployment by the year 2000".

The White Paper points to a number of factors which can improve competitiveness: the opportunities offered by the single market, the contribution to the development of regions benefiting from programmes financed in the name of social and economic cohesion, keeping pace with technological developments, increased cooperation in the field of research and technological development, an efficient network of transport and telecommunications infrastructures both within the Community and toward central and Eastern European countries, and a conductive world trading environment.

It suggests that there should be a gradual increase in the relative share of research and technological development up to 3 per cent of GDP. It considers that low-cost efficient trans-European networks in transport, energy, and advanced information networks are essential for competitiveness and, moreover, would ultimately create hundreds of thousands of jobs. Essentially, the White Paper is suggesting a massive new public works borrowing programme, costing some 20 billion Ecu per year, financed by Commission borrowing on the international capital markets; in fact, much of this sum was already envisaged in the Delors II package, leaving only some 8 billion Ecu a year to be borrowed internationally. Four hundred billion Ecu of direct public and private investment could be "mobilized" by 1999.

The Commission White Paper also emphasizes the "employment environment". It referred to the importance of educational priorities and of adapting and improving vocational training, work-sharing and the reduction in working time. It highlighted the promotion of new job-creating activities and the importance of reducing the costs of employment. In particular, it adverted to the arrangements for taxing labour and calculating social security contributions, which can discourage employment, especially of young people.

The White Paper notes that there must be a change of attitude if the Community is to find suitable remedies for the problems of employment and growth and is to enable its economy to adapt to a constantly changing economic environment. It maintains that the measures designed to create jobs are inseparable from those aimed at reviving growth and improving international competitiveness. Loss in competitiveness leads to loss in market share and hence to job losses. It stresses that the search for competitiveness must not be to the detriment of the Community's objectives of prosperity and social progress.

The target of creating at least 15 million new jobs would halve the present rate of unemployment, based on an annual rate of employment creation of about 2.5 per cent between 1995 and 2000. However because the labour force in the Community is expected to increase in this period, this figure will not be sufficient, and to bring down unemployment, much more is needed: a combination of higher growth but with an increased employment content. The White Paper thus looks to a growth rate of at least 3 per cent a year from the mid-1990s, structural changes as regards the competitiveness of Community industry and changes in the employment environment.

The White Paper suggests a number of ways in which a stable macroeconomic framework could provide for stronger growth. It mentions a reduction of interest rates and of public deficits, an increase in public saving, and wage and price stability. A strategy to improve competitiveness must henceforth be based on intangible aspects, including investing in human capital. Community industry should concentrate on those areas where it possesses competitive advantages, i.e. high-value-added products and services, as this would result in jobs being created mainly in highly specialized areas in sectors exposed to international competition.

The White Paper then identifies five issues as being essential to improve the working environment: education and training policies, improving the functioning of labour markets including greater deregulation (thus greater employer freedom), the possibility of work sharing and the reduction in average working time, an active employment policy, promoting jobs to meet new needs, and the reduction of labour costs. On the issue of labour costs, it maintains that social contributions, which on average account for more than 40 per cent of all labour costs on the Community as compared to 20 per cent in Japan and 30 per cent in the US, should be cut by between one and two points of GDP in the medium-term. The cuts could be partially financed by contributions of the newly-employed, savings in unemployment benefits resulting from lower unemployment (a case of boot-strapping here) and from savings in public spending. Revenue could also come from environmental taxes, taxation of income from financial capital (both already the subject of Commission proposals) and consumer taxes.

Initial reaction to the White Paper was mixed. Attention focused particularly on the financing of the package, having regard to possible duplication with the mission of the European Investment bank as regards funding the trans-European networks. Others wondered whether it was not just a job-creation scheme, although President Delors insisted that the trans-European networks were a medium-term project for strengthening European competitiveness.

At the Brussels summit of 10 and 11 December 1993, the European Council expressed support for the White Paper but it appeared to stifle the plan's core, the borrowing programme to finance the trans-European networks, by referring to the EcoFin Council the question of borrowing internationally the 8 billion Ecu necessary to arrive at the 20 billion Ecu budget for investment in the networks.

The figure of 15 million new jobs posited in the White Paper was abandoned and instead the European Council speaks of "reversing the trend and then, by the end of the century, significantly reducing the number of unemployed", without pledging specific goals. The Council also showed little enthusiasm for making any concrete commitment to embark on the projects or carry out other parts of the programme relating to job creation.

The conclusions of the summit stress the importance *at national level* of continuing education, flexibility within enterprises and on the labour market, economically sound solutions for the reorganisation of work (which must not aim at generalized redistribution of work but towards internal adjustments compatible with improved productivity), targeted reductions of indirect labour costs, notably as regards those on less qualified work which could be compensated in other ways (tax measures possibly relating inter alia to the environment are mentioned), a stabilization of statutory contributions and a reduction of the tax burden. There should also be measures to help young people and information for job-seekers.

At Community level, the Council was broadly favourable to the trans-European networks but with respect to funding, referred to the EcoFin Council as noted above. The research programme is to be supported to the tune of 12 billion Ecu, with a possible reserve of one billion Ecu being released later. There is considerable emphasis placed on the importance of the social dialogue. Finally, the Council provided for a *monitoring procedure* to take place each year in December, to take stock of the results of the action plan and to take any measures deemed necessary to achieve the objective set by the European Council. The exercise will be carried out on the basis of reports from the Commission (as regards job creation, the annual report on the operation of the internal market and a statement on the progress of the trans-European networks in the spheres of transport and energy and on the implementation of the operational programme in the area of information infrastructures), the Council (on the lessons to be drawn from national employment policies, possibly accompanied by proposals for new guidelines) and the annual report from the EcoFin Council on the implementation of the broad economic-policy guidelines.

It can be seen therefore that not all the Plan was accepted, nor was it rejected in its entirety. Work on the White Paper is to become an annual exercise, and it will, in the words of the Conclusions of the Presidency at the Brussels summit, provide "a reference point for future work". It is unfortunate that financing of the trans-European networks dominated discussions, and overshadowed the visionary part of the Delors document concerning growth and competitiveness. These connected issues should have been dealt with together with unemployment. They remain on the agenda, whether the European Council likes it or not. Moreover, apart from the networks, concrete action at national rather than Community level remained the focus, despite the recognition of interdependence at the October special summit quoted above.

If the plan succeeds, even as modified by the European Council, it will crown Mr. Delors' contributions to the Community, following the Single European Act and single market programme, and the Treaty on European Union. The Community needs the plan to succeed if it is to remain competitive, if it is to grow, and if the terrible social illness of unemployment is not to increase and fester. Unemployment has more than economic costs. As the Commission pointed out in the "reference document" accompanying its Green paper on Social Policy, the situation is now becoming socially dangerous. The cost of unemployment is higher than the cost of unemployment benefits. It has to be reckoned with in terms of poverty, ill-health, social unrest, drugs, violence and social exclusion. Unemployment wastes our greatest asset – our people.

EDITORIAL NOTE

With the entry into force of the Treaty on European Union, on 1 November 1993, the title of the European Economic Community Treaty has been changed to the European Community Treaty. The preferred abbreviation of this in the *Common Market Law Review* is the EC Treaty. The preferred abbreviation for the Maastricht Treaty is the TEU.

In the coming numbers of the *Review*, we will try to assist readers in becoming familiar with the new terminology, and in some cases new numbering of Treaty articles. Of course historical references are still to the EEC Treaty.