

Enhancing European Competitiveness*

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1. Introduction

The Competitiveness Advisory Group was formed pursuant to a recommendation of the Essen European Council. Its thirteen members are experts with professional experience in the field, mostly entrepreneurs and trade unionists.¹ This article briefly traces the Group's proceedings and the main themes treated in our first two semi-annual reports of June and December 1995.

The Group's mandate is to produce a six-monthly report on the state of the Union's competitiveness with the other principal countries and above all to offer practical policy proposals and suggestions to the Commission and the Council.

The Group is not a research team. Drawing on the diversified experience of individual members, we select the topics that we feel are most significant for purposes of improving European competitiveness and on these we state our opinions and make proposals, using existing studies and documentation.

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* This article is drawn in part from the text of my remarks to the group of Italian members of the European Parliament (30 January 1996) and in part from the first two reports of the Competitiveness Advisory Group.

¹ The original members of the Competitiveness Advisory Group were: C.A. Ciampi (Chairman), F. Maljers (Deputy Chairman), P. Barnevik, D. Simon, J. Gandois, C. Solchaga, P. Cassells, M.J. Rodrigues, J. Ollila, B. Breuel, G. Sapountzoglou, W. Peirens and K. Zwickel. A. Jacquemin attends meetings as the permanent representative of the European Commission. In the spring of 1996 the Chairman of the Commission appointed Maria Schaumayer and Hubertus Schmoldt to replace Ms Rodrigues and Mr Zwickel, who had resigned owing to new ministerial and professional responsibilities, respectively.

We are convinced that competitiveness is not a "zero sum game". In other words, an increase in competitiveness in one country does not come at the expense of another. On the contrary, gains in productivity and efficiency in different countries can and must be integrated and reciprocally reinforcing. The effort to enhance the competitiveness of the European economy is intended to increase Europe's capacity, potential and productivity in the framework of the world economy.

2. Europe by comparison with Japan and America

Our starting point was an initial observation: Europe is not able to exploit its full potential, as is demonstrated by high unemployment. Owing to such factors as low average female participation rates, discouraged job search among young first-job seekers, long-term unemployment, as well as certain structural features of the labour market, European employment rates are distinctly below potential. In the last two decades, even during cyclical upswings unemployment rates have held far above the so-called frictional level. This decoupling of recovery of output and improvement in the labour market is itself a symptom of malaise.

A comparison with the other two advanced economic areas, the United States and Japan, highlights the erosion of Europe's competitive position. During the last decade several indicators have pointed to a significant loss of relative performance by European manufacturing and the service sector *vis-à-vis* major Asian and American competitors. In drawing such a comparison, the need is to avoid oversimplification. Profound differences between member states, between regions and between different industrial sectors cannot be properly accounted for in aggregate indicators. Furthermore, many comparable indicators are affected by strong cyclical components and by recurrent currency gyrations affecting real exchange rates. The fact nevertheless remains that various aggregate indicators of underlying performance in manufacturing industry since the beginning of the last decade reveal clear signs of smaller productivity gains compared with Japan and also in some respects with the United States. In Europe slow growth in output is accompanied by a decline in output and sluggish gains in productivity.

Yet the foregoing should not lead us to imitate the Japanese or American model acritically, rather to bear them in mind in order to improve the working of a European model for growth featuring respect for the free market, but also profound concern for social problems. It seems to us, in examining the situation of Europe, that significant causes of our relative decline include institutional fragmentation, which is still pronounced, market segmentation, costly and inefficient infrastructures, the limited diffusion of technological innovation, inadequate preparation of human resources for today's new needs and possibilities, and persistent rigidity in their use. In tackling these problems we must take into account that we live in a world characterized by the globalization of markets and incessant technological progress, which not only modifies product quality, but at the same time production processes and thus requires significant change in work tasks and performance.

3. The new Europe: greater cohesion between East and West

Many people in Western Europe tend to see the prospect of integration with the countries of Eastern Europe after decades of isolation as a potentially costly political necessity rather than an economic opportunity. A threat from these still low-wage countries is perceived, giving rise to defensive and protectionist attitudes in a number of Western circles. Foreign direct investment in the countries of Central and Eastern Europe is modest, as is financial support (credits, guarantees, grants). As a whole, the policy of the European Union appears to be motivated chiefly by a desire to avoid political instability, a return to totalitarianism, a flood of immigration, or even military conflict. This attitude is fundamentally wrong.

The fact is that there are major opportunities, especially in some sectors:

a) *Infrastructure*: The countries of Central and Eastern Europe, gradually stabilized and then growing, offer a potentially enormous market for Western Europe, on our doorstep. The build-up of telecommunications, the exploitation of oil and gas and other resources, the revamping of energy and transport systems, the

retrofitting of huge but inefficient and polluting industries will represent a major opportunity for Western industry. Even though it will take time for sufficient domestic funding to be generated, in some of these countries such funding is starting to become available.

b) *Trade*: Rapidly increasing trade in both directions will lift living standards in both halves of Europe. The more the East is allowed to export to the West, the more it can earn to finance higher imports from the West. Moreover, a partnership in global trade is possible. With the greater attention that the East will be paying to social issues accompanying the consolidation of democratic systems, together Europe as a whole will gain and become even more competitive in the global arena.

c) *Investment*: Western European investment in companies in the East is another route to economic integration. Investment of capital and especially of business and management know-how can speed up the integration process. In this respect, Central and Eastern Europe has a big advantage over developing countries due to the presence of a large number of highly qualified people, especially in science and some areas of technology. What these people lack is modern Western management and organization, quality control, computers, costing and pricing and experience from operating in a market economy. High performance "islands", mostly in Western-owned businesses, have already increased productivity a hundredfold and begun to approach Western levels of quality and commercial reliability in spite of poor infrastructure.

The Competitiveness Advisory Group has called for ensuring that the following key policy programmes keep within the agreed time-frame:

- The Europe Agreements: these provisions, covering access by Hungary, Poland, the Czech Republic, Slovakia, Bulgaria and Rumania to Union markets, represent an instance of radical and challenging trade liberalization on the part of the EU. The three Baltic Republics and Slovenia have also initialled such agreements. Most of the agreed market access measures (e.g. abolition of quantitative restrictions and specific tariffs; gradual 2-to-5-year abolition of tariffs other than those in sensitive sectors) appear to be working well; some contingent protective measures remain.

- Partnership and cooperation agreements with the Commonwealth of Independent States: the European Union is potentially the most important partner of the CIS. Enforcement of this agreement will improve the investment climate, foster economic liberalization, expand trade links and provide financial assistance also in strategic areas such as nuclear safety.

- The White Paper for Pre-Accession Strategy, which was conceived mainly as a guide to assist associated countries in aligning themselves with the internal market by establishing their own sectoral priorities in order to further improve their overall industrial restructuring and trade performance. The Group has expressed the hope that the White Paper will not represent merely a legal document but rather a strong decision-making mechanism to propel East-West integration. The Technical Assistance Information Exchange Office, whose creation the Group counselled, will serve as a technical advisory tool for both the Commission and the public and private sectors.

4. The Single Market: institutions, infrastructures, the role of the state and privatizations

4.1. *The institutional aspects*

The need to speed up the completion of the internal market is the focal point of both reports.

The Group has not dealt with the issue of exchange rates, considering that this problem has been settled by the Treaty of Maastricht; it has nevertheless expressed its hope that the European Monetary Union be fully implemented as scheduled. On this, the Group has been highly explicit, declaring that any delay or postponement in the implementation of the Treaty could jeopardize the entire European edifice. We did not hesitate to cite the risk that any delay or postponement of the realization of a European Union economically and politically integrated under clearly set institutional arrangements might trigger much graver problems, such as the resurgence of nationalistic attitudes and demands.

We have also emphasized the importance of adopting a European Company Statute. The lack of such a statute is a grave shortcoming, weighing especially on businesses interested in operating on a pan-European scale. At present they are obliged to form subsidiaries in order to comply with the regulations in each country, with serious repercussions on costs and efficiency. The new legislation must also embrace legal forms of company statutes most suitable for small enterprises.

We have also called attention to a number of other internal market priorities:

- elimination of the remaining internal market barriers in critical areas where transposition at national level is too slow. Public procurement is one prime example of a still restricted activity which, if barriers were removed, would offer extensive opportunities for firms to invest across Europe, with positive fallout for jobs and for the quality of services offered to Europe's citizens;

- elimination of excessive regulation and speeding up of privatization. National monopolies, public and private alike, and the lack of cross-border competition are often reasons for high energy, telecommunications and other infrastructure costs which penalize European firms competing in the world market;

- simplification and review of Union legislation. The Group is strongly in favour of the application of cost/benefit analysis to new and revised legislation; it further holds that the issue of subsidiarity in its interplay with EU legislative initiatives should be considered;

- fiscal harmonization, including the rules concerning taxation of financial assets in order to prevent distortions in capital movements.

4.2. Infrastructure

A true internal market requires an efficient transnational infrastructure in telecommunications, road and rail transport, air transport and energy. Global surveys of decision-makers investing in the manufacturing and high-technology sectors confirm that infrastructure quality is the single most important factor influencing the siting of international investment.

The creation of an efficient transnational infrastructural network in Europe goes, however, beyond efficient national systems. It requires real interoperability of infrastructures across member states.

Trans European Networks (TENs) are an irreversible process endorsed at the Essen Summit. They involve expenditure of almost 600 billion ecu for the realization of major projects up to the year 2000. While it should be possible to finance most energy and telecom TENs from private sources (as indicated by the Information Society projects), public transportation projects in both the Union and Central and Eastern Europe require a supporting regulatory environment and public funding through public/private partnerships. In these projects, any least-cost analysis should also consider overall social and long-term benefits of resulting European integration.

To develop TENs, the Group has made the following recommendations:

- The Council of Ministers should entrust the Commission and the European Investment Bank with a mandate to re-accelerate the TEN priority projects.

- The Commission, the EIB/EIF and interested public/private partners should conduct cost-benefit analyses on specific TEN transport projects. The outcome of such analysis should contribute to any decision concerning which priority projects could usefully be accelerated with some increased public/private financing and EIB support. The choices should also take geo-economic criteria and the Union goal of cohesion into account; the pan-European interoperability of infrastructures increases their productiveness and enhances competition.

- Priority projects should move ahead more rapidly. Current obstacles, such as the financing gap, reservations expressed by the Ecofin Council and the difficulties encountered by public/private partnerships need to be overcome, as well as the outstanding regulatory obstacles.

The construction of a pan-European infrastructural network can fully work its effects only if the regulatory framework governing public services is revised.

The rail, energy and telecommunication sectors are being reformed throughout Europe, albeit at various speeds, and under strong EU deregulatory pressures. The countries and sectors that the Group

has surveyed work with a broad range of reform models, from state monopoly restructuring and controlled deregulation, at the national level, to pan-European deregulation and full privatization. The importance of an emerging internal market in all sectors, though especially in telecommunications, is already evident. The major changes worked by such public-sector reforms can be summarized as follows:

Before	After
monopoly	competition
state-owned	different types of share ownership
cost plus pricing	price determined by market
engineering-led	market-led
centrally planned	unbundling, decentralized
closed to new entrants	open to new entrants
national provision	international orientation

One common feature of public-sector reforms in most European countries and in all sectors examined so far is the attempt to introduce greater competition whenever possible. This is being achieved by unbundling infrastructures (where, typically, little competition is possible) from commercial operations (where competitive forces are more pervasive) and by opening the markets to new operators. What matters most is not so much that the ownership – and management – of public utilities moves from the state to the private sector, as that competition is introduced and extended wherever possible. Where government budget constraints limit much-needed infrastructural investment, privatization can provide sizeable benefits. However, the decision whether to privatize or not should be at the sole discretion of the member state concerned and always depends on local provisions and environment. It must also take account of the social impact in terms of unemployment, availability of basic services and the structure of prices.

Deregulation and privatization – adapted to the specific needs of public sectors – must be matched by a simpler, more transparent regulatory framework. Recent surveys confirm that the volume, complexity and cost of regulation (especially at the national level) still represent a major obstacle to competitiveness in key public sectors.

The degree of regulatory involvement and enforcement at national and pan-European level must be carefully defined. Excessive

proliferation of national regulatory agencies should be avoided. With the Commission clearly setting minimum levels of deregulation, there should be no major differences in regulatory enforcement at the national level which could prevent establishing a level playing-field in Europe. This embraces the whole area from technical standards to public procurement, from environmental regulation to the unbundling of infrastructure and operational activities, from the injection of competition and customer choice to the achievement of the internal market.

Deregulation at national level may not be sufficient for the creation of a truly pan-European market. Operators in one member state must be put in the condition to operate in another member state. Without interoperability, European markets will remain segmented and the functioning of the internal market will be hampered. It is essential therefore that the regulatory framework and the choice of standards in the telecommunications, energy and transport sectors be designed to promote effective integration of national markets across Europe.

We have further recommended that the Commission should draft clear rules specifying minimum standards for public procurement, for instance; that should monitor and compare the way in which different countries handle the problem of basic infrastructure and its management; and that should publish regular reports on the best public-sector reform practices.

4.3. *The role of the state and privatizations*

The role of the state in the economy, as it is now emerging, looks radically different from what we have been used to. The state must no longer act as entrepreneur but as guide, arbiter and regulator. We feel member states should now optimize their role as regulator and coordinator to increase competition and the supply of cost-effective and high-quality public services, becoming in a very real sense a “regulator of deregulation”. In their improved role as regulator, the member states can also act as important facilitators to create new markets and services. These, in turn, will require both retrained and new labour skills.

This is the context in which privatizations will be conducted. The degree of state ownership in key sectors is significantly greater in Europe than in Japan and the US.

TABLE 1

PERCENTAGE OF SECTOR THAT IS STATE-OWNED

	Telecom- munications	Electricity	Gas	Rail	Air
EU 12	85	75	50	90	75
Japan	33	0	0	25	0
US	0	25	0	25	0

Source: OECD 1989 (no more recent study currently available).

With rapidly growing demand for efficient and cost-effective transportation, power and telecommunications infrastructure, but markedly insufficient public funds to provide the massive investment required to keep abreast of technological advances, the retention of extensive state ownership in these sectors could threaten Europe's ability to maintain high-quality infrastructure.

The only limit to privatizations should be the risk of a private monopoly supplanting a public one or a threat to security of supply of essential services. As I noted earlier, privatizations must also be a tool for enhancing competition in the marketplace. The pace of privatization depends, in turn, on conditions in the individual member states, and in particular on the state of their financial markets.

An examination of the experience of the various countries of Europe confirms the benefits of the privatizations carried out in terms of service quality and pricing practices, which have been significantly affected by the introduction of more competition into the markets.

5. Companies and technological innovation

In the corporate sector, the Group considers especially important and urgent to promote initiatives that encourage innovation and the diffusion of advanced technology. In this regard all the members of the Group assigned particular importance to the problems of small and medium-sized companies. Personally, I had thought that this was an issue of significance mainly to Italy, but I soon realized that is a common interest in all the countries of the Union. In part this is the consequence of the new technologies. Technical advance has impac-

ted on production processes, modifying the industrial approach based on mass production and economies of scale. The flexibility, the productive elasticity that characterizes the small and medium-sized enterprises (SMEs) is viewed as one of the best tools for better and more rapidly adapting production to technological progress and the evolution of demand.

In a highly innovative context that rapidly makes products and processes obsolete, drastically shortens the life cycle of investments and transforms traditional industrial products into service activities, it is often in the smaller businesses that innovation is achieved most efficiently and economically.

Of course, smaller enterprises do not comprise a homogeneous group. Generalized policies will therefore be inappropriate. The Group's focus has been on those enterprises which have the capacity to add value and employment through innovation and the application of technical advances in response to current or developing market requirements and social needs. By innovation, we mean any improvement or invention – in products or processes – which is successfully introduced to the market. In our concept, whenever we discuss innovative SMEs, we envisage companies active in any sector of the economy, including distribution, tourism and the services. No less than industrial companies, through the introduction of technological innovation, these can make a strong contribution both to competitiveness and to employment.

The Group does not believe that government can create entrepreneurs. We do, however, believe that at both the national and the European level, public policy can be designed in ways which favour the commercial application of research and which support the creation and development of new and existing small enterprises. We thus identify three areas – research infrastructure, finance and regulation – in which developments in policy at the European level could be of material benefit. All three will have a positive impact across the whole productive system, but in particular on SMEs.

5.1. Research infrastructure

The primary task is to establish and maintain the necessary networks linking research, entrepreneurs and the financial community.

A number of larger enterprises have demonstrated the ability to widen their own access to academic work and to innovative activities of smaller companies by creating advisory boards comprising external specialists. Efforts to achieve greater linkage have taken place in every member state, and at EU level. Throughout Europe, investment is being made to increase flows of information between the research community and entrepreneurs, including the network of information centres (EICs) which have been established to disseminate information to SMEs on EU legislation, programmes and opportunities and to assist businesses on participation in EU and cross-border activities. Though there is not a single universally applicable model, the importance of the linkage merits thorough analysis by the European Commission to benchmark past experience in Europe and elsewhere in order to identify best practice.

The appropriate role for the state in this process is that of facilitator. Prime examples are the technology foresight programmes – developed initially in Japan, but recently introduced in Germany and the UK. Technology foresight programmes have been used successfully to identify research priorities reflecting the opportunities provided by technological progress and the needs of industry (and of society as a whole). They have also successfully demonstrated the considerable potential which exists for interdisciplinary research.

We have recommended that this approach also be adopted at the Union level with the establishment of a European technology foresight programme, which we believe would help to improve coordination between work at both national and EU levels, combining efforts and reducing the risk of duplication. A European technology foresight programme would build on the work already done by the Institute for Prospective Technological Studies.

5.2. Finance

Access to finance remains an obstacle to many actual and potential entrepreneurs who wish to establish or develop a business through innovation. In its first report the Group endorsed proposals to create a European equivalent of the American NASDAQ stock market, which provides capital to new and expanding small businesses.

But replication of the NASDAQ experience in Europe will not be enough. Many small enterprises require access to finance, including venture and seed capital, during the earliest phases of an innovative development. Experience particularly from the United States suggests that one important factor in creating a climate conducive to investment and innovation is the availability of a reliable assessment process which can reduce the perceived risk of novel ideas and products to individual and corporate investors.

An initiative by Dutch and Flemish institutions has led to the creation of the Technology Rating Project Group. The idea is simple, namely to provide full assessment of an innovation project and report the findings to all parties involved (market, management, banks). The approach has been tested on 25 pilot projects. Initial experience with the scheme shows that it can overcome reluctance on the part of financial institutions to fund a project, particularly when such institutions are unable to evaluate on their own the technological and economic soundness of the project.

The Union has a key role to play in facilitating the efficient operation of the capital market by fostering the emergence of *independent and objective sources of advice* to help investors screen new projects which can also, through acting as mentor, strengthen the links between existing entrepreneurs and potential sources of finance.

There is also scope for better deployment of public funds to support innovative commercialization of European successes in research. The use of a larger proportion of the EU's *Structural Funds* to promote innovative small businesses, particularly in the less-developed areas of Europe, would be beneficial.

5.3. Regulation

In addition to issues of infrastructure and finance, government at all levels has a responsibility *to ensure that the regulatory climate supports innovation and the establishment and development of smaller companies*. Inappropriate regulation – particularly regulation involving complex and time-consuming administrative and legal procedures and especially at the national level – discourages the application of innovation. Equally, patchy enforcement of regulation across Europe can become an obstacle. Smaller enterprises in particular can be faced with high fixed costs, undue complexity – particularly given the lack

of coordination of regulatory requirements imposed by local, national and European authorities – and by delays which, in highly competitive sectors, can make the crucial difference between success and failure.

A recent study of the administrative cost burden facing enterprises of different sizes in the Netherlands has demonstrated the extent to which smaller enterprises are disadvantaged.

TABLE 2

AVERAGE COST OF ADMINISTRATIVE BURDEN IN THE NETHERLANDS, 1993
(in ecu)

Number of employees	Cost per enterprise	Costs per employee
1-9	12,100	3,500
10-19	20,500	1,500
20-49	47,100	1,400
50-99	62,000	900
100 or more	171,000	600

Source: EIM 1994.

A clear regulatory framework setting straightforward and enduring goals is an essential precondition for the development of an innovative and competitive European economy. Regulations which vary from one country to another impose costs and discourage intra-Union trade and investment.

In all cases, *regulations should only be enacted once it is clear that the benefits exceed the costs* on the basis of clearly understood and widely-accepted definitions of the impacts being measured.

The EU and member states have a responsibility to ensure that all procedures, particularly those which affect innovation, operate with the maximum possible efficiency while respecting the need for a soundly based assessment of social and environmental impact. The need for simplicity and clarity extends to company law. I have already noted the importance of establishing a common European corporate statute also embracing *legal forms most suitable for small enterprises*. Commission initiatives, such as the statute for European association and the statute for a European cooperative society, go in this direction.

Appropriate and well-designed regulation can be a highly positive force, stimulating innovation and helping small enterprises to thrive and grow, opening sectors of the market closed by monopolies and national barriers. Regulation can also assist small businesses by ensuring that public procurement is fully open. Procurement at government level accounts for at least 15% of gross European product but, according to a recent study, no more than 2% of public-sector contracts are awarded internationally.

A concerted approach to the removal of all barriers to cross-border trade and investment within the Union should be central to the Commission's policy in support of smaller enterprises and their internationalization.

6. The company and environmental policy

Innovation combined with effective regulation is also the main key to the simultaneous achievement of two of Europe's prime objectives – protecting the natural environment and improving the competitiveness of European business. The two objectives may create pressures and potential conflicts, but they are not incompatible goals, especially in the longer run.

In some areas, however, inappropriate or ill-designed regulation has damaged competitiveness and employment while achieving little or nothing in terms of environmental protection. In other areas, weak regulation can increase rather than decrease waste, and can raise the long-term costs of environmental protection. If regulation is focused too narrowly, it can fail to correct weakness in pricing structures which do not always reflect the cost of resource depletion and can impose undue costs relative to the benefit achieved.

The Group has voiced its belief that in order to achieve environmental protection in a least-cost way, *market-based instruments should be used whenever possible, rather than quantitative regulations*. The latter can be most effective when well-proven health hazards are at issue, or when only a limited number of companies is involved. In general, however, quantitative regulation cannot guarantee that the marginal cost of pollution abatement will be equalized across uses and firms. A typical case is the relative cost of a further unit of reduction

of pollution at a well-run plant within the EU compared to the much smaller amount required to achieve the same improvement in an outdated plant in neighbouring Central or Eastern Europe. Quantitative regulation can therefore lead to wide disparities in the costs of emission reduction, depending on the starting point of improvement.

Compatibility of the objectives of competitiveness and of a clean and secure environment rests on the quality of the regulatory process. *To be successful, the process must be based on a high-quality dialogue, underpinned by sound expert advice and up-to-date scientific evidence that need not compromise the independence of environmental policy-making from the interests of industry and of labour.*

We believe that the optimal regulatory process is one in which:

a) the development of the regulatory framework is open with full participation from all parties;

b) regulation is framed in terms of goals, which should be precise, scientifically valid and clearly understood by all parties;

c) the costs of achieving such goals – in terms of their impact on competitiveness and employment – are made clear before regulation is enacted, as is the way in which any such costs are to be met;

d) the goals are set, but the means of achieving those goals are normally not prescribed, creating the incentive for enterprises to develop innovative and cost-effective ways of meeting the objectives, for instance through the application of technical advance;

e) whenever possible, pricing instruments (such as taxes or incentives, tradable permits, etc.) should be used, rather than quantitative regulations.

The presence of multiple regulatory systems operating within the EU imposes further costs. *A simplification of the regulatory structure to establish a single clear set of objectives applicable to enterprises throughout the Union would be highly beneficial.* Pan-European, rather than national, regulations should play a greater role in the environmental field. In many cases, environmental protection cannot be tackled in an effective way at a national level. First, there are obvious externalities in pollution abatement across member states. Reduction in trans-boundary pollution originating in one country would also benefit others. Second, the functioning of the Union's internal market must not be constrained by national environmental policies.

7. Reaping human resources

Another central theme to both reports is human resources. We are now living in the "information society". To realize its full potential, we must match it with a "learning society". This is the way to generate a virtuous circle in which gains in competitiveness and the creation of skilled jobs are reciprocally reinforcing.

One important obstacle to the transition to the information society is the inadequacy – and even obsolescence – of European education and training. Despite the often undervalued efforts by our teachers and trainers, European educational and training systems (if with important regional differences) lag far behind current advances in technology, methodology and organization.

Accordingly we have proposed the creation of a series of Knowledge Resource Centres and suggested that the Commission conduct a pilot scheme of linked centres. Acting as facilitators between information supply and demand, the centres should provide: organized information on training objectives, curricula, scientific and technological content available via different multimedia supports (databases, CD-ROM, CD-I, videocassettes, etc.); demonstration services for new multimedia and new teaching methods; specialized trainers and consultants; promotion and guidance for training of trainers; links to Internet and other information carriers. The Knowledge Resource Centres formed in Europe should join together to form a network with links to education and training institutions and to companies.

In short, in addition to being sources of information, the Knowledge Resource Centres should foresee and appraise future skill requirements stemming from new technologies. At the same time they should help develop methods and tools for preparing, training and retraining the work force so that workers can respond to the emerging demands of the productive economy.

What underlies this approach is the conviction that training should be seen as a continuing process that lasts throughout an individual's life, that must involve an ever-larger part of the labour force, and that must not be limited simply to creating "islands of excellence". Thus both of the Group's reports so far have emphasized the importance of the phase subsequent to basic education and training, an area in which Europe appears particularly lacking.

We believe that post-school training is principally the job of companies, and we have suggested the creation of clusters of firms undertaking joint initiatives to this end. On-the-job training and updating are not sufficient; they must be supplemented by specific training activities, which should be given government support.

We already have significant instances of cooperation between industry and academic institutions and also joint efforts between corporate management and the social partners. Just three examples of action are described here.

i) Educational institutions and companies collaborating to combine both technology transfer and professional training at a high level:

University-enterprise training partnerships (UETPs)

UETPs aim to promote technology transfer and training, sometimes on a regional basis, sometimes on a sectoral basis. In one region in Spain undergoing major industrial restructuring and experiencing mass unemployment, a UETP has been established between seven universities, 10 enterprises and 18 professional associations. By reaping the economies of scale through collaboration, this has helped to redeploy through training and retraining many of those lacking the skills which are essential for the new jobs being created. This approach contributes to both economic and social regeneration. It not only encourages existing producers to invest in modern production methods and organizational designs, but also attracts new producers to the region by making them more confident of finding the necessary skills.

ii) Companies which take very long-term views of the need to enhance the learning capacities of their employees and have reached agreements with employees, trade unions, colleges and universities.

Employee development schemes

These schemes have emerged in a number of member states and sectors with particular take-up in manufacturing. One example serves to highlight the key features.

One UK company aimed to promote better relations with its workforce and the active involvement of the trade unions was seen as a key element. The original intention was to provide opportunities for

personal development and training for all employees. Later this was extended to include the pursuit of healthier lifestyles and career development. Each employee may receive a grant of ecu 250 per year towards the cost of courses which have to be undertaken voluntarily outside working hours and treated separately from any job-related training in progress. Initial predictions that about 5% of employees would apply were well exceeded, for one third of employees did so in the first six months of the scheme. Subsequently this level of commitment has increased – virtually half of the workforce is now involved every year. Such a scheme extends the idea of continuous learning to a wider group of employees than might usually be involved regularly for vocational reasons. A capacity for learning cannot be turned on and off at the convenience of the organization. It must be developed and maintained.

iii) Government and/or social partners agreeing to fund special training efforts for the long-term unemployed, low-skilled and other groups which are vulnerable to social exclusion. For instance, an agreement could provide for devoting a percentage of the wage bill to this end. Such schemes establish a direct sense of responsibility, an element of solidarity, between employees who are in strong positions in the labour market and those who are not.

Social cohesion and the learning society

In Belgium, by agreement between the social partners and the government, 0.25% of the wage bill of the private sector is devoted to the training and integration of risk groups. Collective agreements have to be concluded by sectors and enterprises which provide for training of the long-term unemployed, young people studying half-time and working half-time, unemployed people with schooling limited to the lower secondary level, and older employees facing dismissal from the sectors and enterprises which are, themselves, running the initiatives.

These innovations will depend for their success on much more rigorous monitoring and evaluation than is currently the experience in Europe. Costs incurred by social partners and other groups involved need to be recognized as a worthwhile investment.

8. Growth and employment

In brief, in designing its work programme the Group began from two observations: the insufficient utilization of Europe's productive potential and the uncoupling of economic growth and employment. We are faced with this grim reality: faster economic growth is no longer accompanied by comparable expansion of employment.

The central themes of the first two six-monthly reports have been completing the internal market and improving the quality of the European economy.

Creating an internal market in Europe means first and foremost speeding up institutional unification and checking its implementation as well as realizing the major communications networks, guaranteeing the indispensable European interconnections. The construction of basic infrastructure, carefully organized and scheduled, must become a permanent component of aggregate demand, all the more important in a world of quickening economic cycles and shortening time frames for investment planning.

Raising the quality of the European economy means expanding research and diffusing it throughout the productive fabric, making both capital and labour more productive, working on each of these and, even more importantly, on combining them.

As regards capital, we need to stimulate entrepreneurship, as well as provide favourable conditions for strengthening the productive fabric and sustaining new initiatives.

As regards human resources, in addition to improving the quality of basic schooling, the need is to establish continuous training and retraining.

To improve the link between capital and labour, new models of industrial relations are needed.

This is the kind of response Europe can offer to the challenges of market globalization and technological progress, in a vision of the international division of labour whose points of reference must be the major areas nearest to us.

At the beginning of this article, emphasis was given to the importance for the European Union of close ties with the countries of Central and Eastern Europe. Of equal importance are our links with the neighbouring states of North Africa. North-South relations are

assuming greater and greater significance and at their heart lies the Mediterranean.

There will inevitably be increasingly frequent contacts between peoples having different cultures and traditions and living in very different social, economic and demographic conditions.

The risk of conflicts must be dispelled by establishing relations which, while respecting historical, cultural and religious heritages, will allow economic instruments to bring benefits for both sides and contribute to lasting peace.

Solution of Europe's problems and solution of the problems of our neighbours are linked. Successfully enhancing European competitiveness, which is indispensable to our own progress, also implies the will and the capacity to sustain the nearby regions to our East and South in their social and economic transformation.

In keeping with the substance of its first two reports, the Competitiveness Advisory Group has decided to devote its third report, to be presented on the occasion of the Florence European Council, mainly to human resources issues, which we have examined, so far, mainly in terms of post-basic education and training.

Although it may be premature to reveal the contents of a document still in course of preparation, I can confirm that the main theme will be the combination of productive factors, i.e. of the main participants in the productive process, with a view to their enhancement both macroeconomically and microeconomically, within the single enterprise or factory.

In today's economy, cost and quality are of equal importance. Product quality, in which Europe must aspire to excel in a dynamic fashion, means quality of production processes; it means quality of labour. And a combination of productive factors based on the quality of both of these, no less than on their cost, implies a new pattern of labour relations.

A high level of skill, if it is to be fully utilized, requires awareness, the active involvement of the worker in the productive process of which he or she is a part; hence, workers' presence in the organization of labour. Such participation can be realized in various ways (to cite two extremes: the German and the British models), but it must not undermine the principle of managerial responsibility. To clarify, let me cite two terms, "concertation" and informal "consociation", and stress the fundamental importance of the great divide

between them: we endorse concertation, not consociation, which is tantamount to the confusion of responsibilities.

In many quarters the call is heard for greater flexibility in the utilization of labour. This is a legitimate requirement. It must be satisfied in ways that do not make flexibility the product of whim, rather that help to achieve the universally shared goal of increased employment. Think of the potential benefits for employment, for job stability, even for labour costs (direct and indirect), of a new way of conceiving and enforcing work hours. Flexible arrangements in keeping with the firm's production requirements could diminish the necessity for both overtime and layoffs, increasing employment and making it more stable over time.

These are the kinds of themes the Group intends to take up in its third report. They affect all of Europe, in a climate that is tensely dramatic owing to the high level of unemployment but brightened by an increasingly broad consensus on a number of key guidelines for action.

This consensus has already produced enormously important effects, such as the interruption of the cost-wage-price spiral. Yet if, as is necessary, the intention is to advance on the path to quality, this is not enough.

The Competitiveness Advisory Group will be satisfied if its contribution on these issues is one of clarity and practical proposal.

One example of a policy for expanded employment with price stability is represented by the industrial relations agreement signed in July 1993 by the Italian government, employers associations and trade unions. In the first part of the agreement, the social partners and government laid the practical, operative foundations of a modern wage policy that has withstood the acid test of these difficult years for the Italian economy, placing it within the context of accompanying macroeconomic relations aimed at non-inflationary growth in full respect of the free market. In the negotiations that led to that accord, the two sides demonstrated great consistency and foresight, going beyond the question of wage determination. In the second part of the document, they raised and at least framed an approach to all the principal themes of labour relations. Unfortunately the sequel, the realization of solutions, has so far been lacking.

It is in the spirit of continuity with that experience that I and my colleagues in the Competitiveness Advisory Group are framing our third report.