

# BEATING THE CRISIS

## A CHARTER FOR EUROPE'S INDUSTRIAL FUTURE

AN ACTION PLAN FROM  
EUROPE'S SENIOR INDUSTRIALISTS

- TO BEAT THE ECONOMIC CRISIS,
- TO REBUILD COMPETITIVENESS,
- TO RETURN TO ECONOMIC GROWTH  
AND EMPLOYMENT.

A REPORT FROM THE EUROPEAN ROUND TABLE OF INDUSTRIALISTS



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## A CHARTER FOR EUROPE'S INDUSTRIAL FUTURE

<i>THE MESSAGE IN BRIEF</i>	5
<i>THE CHALLENGE OF COMPETITIVENESS</i>	8
<i>THE CHARTER FOR INDUSTRY</i>	11
<i>Fundamental Principles</i>	13
<i>Conditions for Competitiveness</i>	18
<i>The European Competitiveness Council</i>	27
<i>GROWTH AND EMPLOYMENT - THE VIRTUOUS CIRCLE</i>	28



# PREFACE

*Europe must raise its quality and lower its costs or its difficulties will grow worse - that is the central message of this Report, addressed by senior industrialists to the governments of Europe and the political authorities of the European Community.*

*Industry knows that the present economic crisis has deep roots. Only radical action can put things right. Europe has fallen behind in economic dynamism, technical leadership, financial solvency and full employment.*

*The actions we propose will meet this challenge. They will raise industry's competitiveness and establish a new confidence in Europe's future, opening the way to sustained economic growth and a substantial reduction in unemployment.*

*The Members of the European Round Table strongly commend these proposals to Europe's political leaders, and urge that the competitiveness of industry should from now on be kept right at the top of the European agenda. A full settlement of the Uruguay Round trade talks would get this whole process off to a good start.*

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*December 1993*

# BEATING THE CRISIS

## THE MESSAGE IN BRIEF

### 1. THE CRISIS IN EUROPE

**E**urope has become a high-cost, low-growth economy that is not adapting fast enough and is therefore losing its competitive advantage to more dynamic parts of the world. As a result it has too many people out of work.

The basic reasons are deep and complex. Concerted action is urgently needed on a wide range of solutions, both short and longer term. The European Round Table calls for a radical shift in Europe's approach to industrial development and economic growth.

### 2. RETURN TO GROWTH

**A** return to more rapid and sustained economic growth should be the central target of policy. The single most immediate stimulus to growth would be a full settlement of the Uruguay Round trade talks, to bring the dynamism back into world trade and to stimulate vigorous action by European industry to penetrate the more open markets. Special interests can no longer hold the global economy to ransom.

The second element of growth must be a substantial increase in investment in Europe, which will only come when people believe that growth is back on the agenda and that Europe is well placed to win a stronger share of world business.

### 3. FOCUS ON COMPETITIVENESS

**T**he fundamental issue, if Europe is to return to sustainable growth led by exports and investment, is the competitiveness of European industry. This is where we have fallen behind, and there are three factors that require the most urgent attention.

**...bring the costs down...**

Labour costs are the single major cause of falling competitiveness and rising unemployment. Work is there, but not at these prices. Action is needed to reduce the "wedge" between the high cost of employing people and the much lower sums that they take home after paying tax and social charges.



Productivity needs to rise, but it is rising in other countries too, and Europe no longer has a productivity edge to justify high labour costs. The social pain and waste of unemployment are unacceptable, but if the unemployed are to be priced back into the market then the total cost of employing them must be brought down.

Transport, energy, financial and other costs all require similar attention. Plans exist to modernise Europe's infrastructure but there is no sense of urgency to put them into action. Patchworks of national monopolies stand in the way of European efficiency, as though the Single Market did not exist. The Single Market itself is a vital tool of cost reduction but much still needs to be done to realise its full benefits.

### **...cut the regulations...**

There is enormous scope to simplify government and reduce the excessive overhead of bureaucracy. The aim of Europe should be to reduce the degree of control, but industry is hampered by cumbersome rules and an increasing burden of employment regulation at both European and national level.

What is needed is a standstill on new regulations. Rules should be harmonised only where this is useful and adds value to the economy. Costs and benefits of new rules should be measured systematically. New priorities, such as the environment, should be dealt with by a cooperative approach, not by additional taxes and regulations.

### **...raise the quality...**

Unless Europe is at the leading edge of innovation and technology, with the very highest quality of products and processes, it cannot pay its way in the modern world. Two steps are needed, and both call for closer cooperation between government, industry, and the academic world.

One is to mobilise Europe's massive scientific resources and put them to work in a more systematic way. The huge cost of technical projects today often exceeds what single companies or even countries can do on their own. The second is to pay closer attention to lifelong education and training, raising the skills of everybody from young children to experienced working people.

## **4. THE ROLE OF GOVERNMENT**

**G**overnment and industry must find a way to work more closely together. Neither can handle the crisis on its own. But what Government can do is to enable industry to do its job, especially by action leading to those three goals of lower costs, fewer regulations and higher quality.

Uncertainty is the enemy of investment, and it has been fuelled by exchange rate instability, changing political priorities and unpredictable proposals on trade policy, competition policy, taxation and energy costs. Governments should therefore demonstrate their commitment to consistent economic policies that will generate confidence in Europe as a good place in which to invest.

The other task for government is to cut the level of waste which eats away at the economy. Too much output goes through the public sector, too much activity is distorted by state aids and monopolies, too many resources are transferred from the productive parts of society to the un-productive. What is needed to reduce public spending is not public poverty but lean government based on value for money.

## 5. THE ROLE OF INDUSTRY

**I**t is the task of every single company to raise its quality, lower its costs and break into new markets. Governments cannot achieve this, all they can do is to make it possible through the actions recommended in this Report.

The responsibility of industry is to generate business and so to create wealth. Wealth will lead to job creation if the costs are right, the skills are available and the labour markets function properly.

But while big companies (including ERT Members) can do much to set the flywheel of the economy moving, it is the small and medium companies which have the greatest potential for job creation. They are today the principal victims of rigidities and regulations, and they will need most help and encouragement in the future.

## 6. A PLAN FOR ACTION

**A**ll these points show a mixture of short and longer term requirements. Today is not too soon to start moving. But to achieve Europe's goals the action must be sustained for many years ahead. We need a long-term cooperation between government and industry based on a commitment to common goals, yet we also need an urgent start to rebuilding confidence. The ERT therefore calls on Europe's political leaders to do three things:

**1** to commit themselves to a **Charter for Industry** setting out a strategic approach to economic recovery and listing specific policy priorities;

**2** to set up a **European Competitiveness Council** representing industry, government and science to advise on and monitor the detailed implementation of the Charter;

**3** to put the Charter into full effect by means of **practical policy decisions** to rebuild the competitiveness of Europe.



# THE CHALLENGE OF COMPETITIVENESS

**T**he potential of Europe, and especially of the European Community, is very high. With more people than the United States, at least as well educated and potentially as productive, the Community should be well equipped to face the most testing challenges.

But the results fall short of the potential. The Community has not taken the opportunities that lay before it. Member governments have not worked closely enough together. There has been a lack of direction at Community level and no concerted effort to maximise the advantages offered by the unified Single Market.

The European economy has stopped growing. Despite everything that has been done to modernise industry the fact is that other parts of the world offer a more favourable business environment and are moving ahead faster. With its financial, economic and political systems still fragmented and its leaders still divided, Europe has failed to organise itself for economic growth as others have done.

Europe is losing its competitiveness. Its share of world markets is declining and fewer of the most important new investment projects are coming to Europe.

Here lies a principal cause of high unemployment. Unemployment is a human tragedy and a waste of resources, but it is also a political time-bomb. If it cannot be put right then all of Europe's policies will lose their credibility.

The basic reasons for stagnation are deep and complex, and have been analysed many times. But government action still falls short of what is needed. And the problems are not being cured by time, they are growing steadily worse. Two calculations show the enormous scale of the challenge now facing Europe:

- Economic growth of 2.0 % a year would be adequate to maintain the current level of employment; 2.5 % would create extra jobs to absorb the rise in working population but leave unemployment as it is. **But sustained growth of 3.5 % a year** is what Europe needs in order to make a significant impact on unemployment.
- Growth is impossible without investment. Europe used to invest 25 % of its output, now the figure is below 20 %, which is not enough to generate high growth rates. **Additional investment worth 4 % of European output - more than ECU 200 billion a year** - is what Europe needs if it is to achieve such a high rate of sustained economic growth.

These targets are far beyond the ambitions of current policies. That is why we believe that industry and government need to work together for a radical solution.

## THE NEEDS OF INDUSTRY

**I**ndustry is ready to shoulder its prime responsibility for competitiveness, innovation and wealth creation. But to do its job properly industry needs three things:

- A stable political and economic framework to encourage investment and innovation.
- A strategic approach to industry that rebuilds confidence.
- Specific policies that enable industry to become competitive, that lower costs, raise quality and liberate the efforts of management.

Governments should act on a wide range of individual policies designed to put competitiveness first. But it is equally important that they should plan and present their actions in such a way as to give industry full confidence in Europe's political direction.

Industry needs to know where Europe is going and that political leaders are totally committed to do what is necessary.

## THE ACTION PLAN

**1** We therefore call on governments and Community authorities to demonstrate their commitment to economic recovery by agreeing a **Charter for Industry** which sets out the essential **Conditions for Competitiveness**, including the political and economic framework, the strategic approach and the specific policy requirements.

The governments that agreed the European Social Charter should give at least the same status to the Charter for Industry, which embodies the truth that there can be no social progress without economic progress. It should be adopted formally by the European Council on the basis of a text discussed and agreed with the representatives of industry. In this Report the ERT presents its own proposals for input into the Charter.

**2** We then call on the heads of government to go one step further and establish a **European Competitiveness Council** drawn from industry, government and science, and give it an official mandate to keep Competitiveness at the top of the policy agenda and to report back on how the Charter is being implemented. Further suggestions for the Council are set out in this Report

**3** We finally call on the Community institutions with the full backing of all member governments to put the principles of the Charter into effect by means of specific and detailed **policy decisions** designed to rebuild the competitiveness of Europe.



## WHAT INDUSTRY WILL DO

**I**ndustry will be far better placed to fulfil its own responsibilities if the policies set out in the Charter are put into effect and backed up by a strong Competitiveness Council. Specific policies may take years to produce their full effects, but if there is a solid commitment the first results can come quickly, as with the Single Market programme which has already transformed Europe.

In fact, since the Single Market was launched, industrial companies have shown what can be achieved by restructuring and reorganising. Entrepreneurship, innovation and unremitting efforts have made European industry far more efficient than it was in 1985.

Another leap forward is now within reach if governments will make the fresh commitment that we ask for. This will enable industry to lead Europe out of the crisis, by investing in people and technology, designing products of the highest quality and selling them at competitive prices in world markets.

The world economy is the proving ground. Industry wants a strong Europe in a growing world economy, which cannot be achieved by building a fortress closed against our neighbours. The large companies of the European Round Table operate on a global scale and can clearly identify the causes of declining competitiveness. International cooperation drives their businesses. But to act as an international partner Europe must be strong, innovative and supremely well-organised. Otherwise who needs us?

Later in this Report we outline those policies needed to generate a substantial reduction in unemployment, but the starting point must be the return to economic growth. The economic crisis is not the result of bad luck or a few minor errors of judgement, but the inevitable consequence of decades of neglect and missed opportunities, when Europe failed to adjust to the challenges of a changing world.

But if Europe shows itself determined to make the necessary changes, a new age of recovery and rising prosperity is still within reach. In the next pages we indicate some of the specific policy priorities to be covered by the Charter for Industry and give an outline of the proposed Competitiveness Council. Further proposals can be found in other ERT publications, which are mentioned where appropriate and listed at the end of this Report. We would appreciate the opportunity to discuss these ideas with governments.

► See also:

*Reshaping Europe, ERT, 1991*

*Rebuilding Confidence, ERT, 1992*



# THE CHARTER FOR INDUSTRY

## FUNDAMENTAL PRINCIPLES:

- A. *A Positive Political & Economic Framework*
- B. *A Strategic Approach to Industry*
- C. *Lower Unit Costs as the Key to Employment*

## THE CONDITIONS FOR COMPETITIVENESS:

- 1. *Total Priority to Innovation & New Technology*
- 2. *Education & Training*
- 3. *Favourable Financial Conditions*
- 4. *Trans-European Infrastructure*
- 5. *A balanced approach to Environment Issues*
- 6. *Competition Policy based on Market Realities*
- 7. *An open world Economy*

## MONITORING AND ADVICE:

- 8. *Establish a European Competitiveness Council*



## FUNDAMENTAL PRINCIPLES

### *A. A Positive Political & Economic Framework*

**1 A clear statement of agreed political objectives** - to set out where Europe is trying to go over the next five to ten years.

Such a statement existed in the Treaty of Rome and in the Single European Act, but it has been lost sight of during the confusion of the last two years. Now that the Maastricht Treaty has been ratified it is essential to know how it will be implemented, so that each company and each individual can plan within a definite frame of reference. The future relationship between the Community and the countries of EFTA and Central & Eastern Europe must also be spelled out in full.

**2 A manifest unity of purpose** - industry wants twelve and more countries to work together for a strong Europe, to treat Europe as one and take advantage of its great strengths, not to drift apart.

Such unity of purpose is the essential condition for decentralisation. The practical experience of management shows that it is only when people share an objective that the decisions and management control can be pushed down to the lowest level.

**3 Effective political institutions** - which can tackle complex problems, take the right decisions at the right time, and win public support.

The major problems we face are European or global in scale. That is why we need effective decision-making bodies at a European level even where implementation is better left in national and regional hands.

Industry looks to political leaders to strengthen Europe where strength is needed, not to undermine it by fragmentation, and to build a well-informed and supportive public opinion.

**4 Cooperative management of the European economy** - with no more go-it-alone nationalism.

The European economies depend on one another. Economic management must be closely coordinated with a single philosophy and a single set of policies aimed at sound, stable and sustained economic growth.

The Single Market is the foundation for everything that Europe has so far achieved, and the size of that market is our greatest asset. It is vital to pursue a rapid and thorough integration of the entire market, removing the barriers that still exist and harmonising all those policies which are needed for free trade.

**5 A return to the path of monetary stability and economic convergence** - if current government and banking systems have not been able to deliver this goal the answer is to improve the systems, not to drop the objective.

Once convergence is close enough, monetary stability will follow and the road to monetary union will again be open, for it remains true that a single market without a single currency is still only half the battle. The new European Monetary Institute must have the resources to take this policy forward, starting with a more effective method of day-to-day monetary cooperation.



Industry will welcome any steps that can be taken to accelerate this process, whether by the Community as a whole or, failing that, by

those countries which are ready to make that commitment now.

## ***B. A Strategic Approach to Industry***

**1 A commitment to industry & entrepreneurship** - what industry needs is freedom to develop and grow, and government should act as an **enabling force** to make it possible for industry to do so. **Cooperation** is the essential concept, with government and industry working together to build a society organised to achieve the highest quality at the lowest costs in a free and open economy.

**2 Technical leadership** - developing new products and processes to meet the changing needs of the modern world. Competitiveness totally depends on this, and many of the policy proposals in this report have technical leadership as their goal.

**3 Investment** - every aspect of public policy should be designed to encourage more new investment as the fundamental engine of economic growth. There is a legitimate place for both private and public investment, but in both cases certain principles, that are echoed throughout this report, must be followed:

- Investment must be designed to meet genuine needs or else resources are simply wasted.
- Investment must involve the highest quality, the most modern technologies, the lowest costs, the least waste and the best possible use of resources, otherwise customers at home and abroad will turn to our competitors.

- Investment requires from society both a high level of savings to provide the finance and a high level of political and economic stability to justify the risks.
- Investment must generate profits to finance the next wave of investment and to reward those who saved their money and took the risks. Cycle times are coming down as technology accelerates, and Europe will need to rebuild its assets far more rapidly in the future than it has done in the past.

**4 A free and competitive Single Market** - this should be completed as rapidly as possible, with truly open frontiers, and an end to technical barriers.

National monopolies, selective subsidies and differential tax systems that distort competition within the market should be cut back. Policies should encourage investment in new industries, permit the restructuring of old industries, and give an extra stimulus to small businesses and new ventures. Industry also expects more open access to world markets, in return for giving our competitors better access to the Single Market in Europe.

**5 Deregulation** - industry wants fewer and simpler legal and technical controls, not a return to the old confusion of twelve different national regulations.

Where government policies affect the operation of business on a European scale,



then they should be harmonised at a European level. If proposals are bureaucratic and restrictive they should be simplified or done away with altogether, not renationalised. Simplicity and relevance are the crucial concepts, not a dogmatic battle between centralisation and decentralisation for their own sake.

**6 The Priorities of Society** - industry is well aware that the creation of wealth is a means to an end, not an end in itself.

That is why businessmen are ready to share responsibility for reconciling industrial activity with other objectives, including social welfare and environmental improvement.

What industry cannot accept is that the pursuit of other objectives is used as an excuse for damaging the wealth-creating machine itself, whether by raising its costs or blocking its development. There can be no healthy society or healthy environment without a healthy economy to pay for them.

If society will set its objectives, declare its priorities and allocate its resources, then industry can make a major contribution. That is what we mean by cooperation, a positive approach to building a more effective and dynamic society, instead of working through contradictions, controls and conflicts as we do today.

## ***C. Lower Unit Costs as the Key to Employment***

**T**o turn economic growth into a **substantial reduction in unemployment** much more needs to be done. That goal is within the reach of policy-makers if they put some clear principles into practice: lower the cost of employing people in Europe, raise the quality and productivity of the workforce, and achieve a better balance between the supply and demand for labour.

**7 Costs per unit of output - lower the cost of employing people**

The cost of labour is the biggest single element in manufacturing costs. All the efforts made to raise productivity in Europe are no longer enough to yield acceptable unit costs. The high cost of labour per unit of output compared with our competitors is the main reason for high unemployment. These costs must be reduced, and there are three ways to tackle the problem.

**(a) Wages** are for negotiation between employers and employees. The right balance depends on the circumstances of each situation. But negotiation should take account of the wider context. Nobody can compare Europe with its main overseas competitors without concluding that wage levels are already close to or may even have passed the limit of what the economy can stand.

**(b) Non-wage costs** on the other hand are at the mercy of government and are much higher in Europe than in its main competitors. There is an urgent need to cut back the enormous "wedge" of tax and social security costs which actually create artificial unemployment.

If it costs an employer ten units of money to employ a man who takes home only four units, because the other six go into tax and social security, the inevitable result is that some less-qualified people will find themselves out of work through no fault of their own.



In effect Europe has imposed a tax on jobs. It is time to find a better system. The total level of taxation and social security charges should be reduced by giving more responsibility to each individual for his own welfare, and more of the remaining burden of taxes and charges should be switched from production to consumption. Governments should launch a thorough-going enquiry into how this might best be done.

**(c) Productivity** is the third element in the equation. Industry can only afford to pay higher wages than its competitors if productivity gains are high enough to match the extra costs. But the higher productivity must come first. We cannot keep increasing wages, and then trying to solve the problem with extra productivity afterwards, because our competitors are raising their productivity too, and the only result is even more unemployment in Europe.

Productivity and quality depend on employees' skills and their attitudes to work, their accuracy, reliability and adaptability. The prime responsibility lies with each individual, and at its best the quality of the European workforce is very high indeed. The issue is how to bring everyone up to the best standards. A major responsibility lies with education and training systems to develop such qualities and skills in every young person, not merely in a few.

## **2 Flexibility and deregulation - a better balance between supply and demand**

Full employment is restricted by the mismatch between the people who are out of work, the skills that are needed and the location of the new jobs. There are too many regulatory barriers leading to additional costs which actively discourage the hiring of extra people. These barriers must be torn down, and

the responsibility rests largely with government.

- New forms of work should be actively encouraged, not held back by unnecessary regulations. This category includes flexible hours, seasonal work patterns, job sharing, part-time work and a whole range of new types of useful occupation lying in the "grey area" between formal jobs, self-employment and social work.
- Labour markets should be more transparent and further deregulated, with a wider mix of employment services and a better exchange of information between different national and regional markets. It must become easier for the smallest businesses, those least able to cope with administrative costs, to take on extra people including temporary workers.
- Relocation of industry is an essential part of change and requires a higher degree of mobility throughout the Community. Mobility should be made easier, for example by simpler arrangements for social security and pensions for migrant workers and by mutual recognition of skills and qualifications.
- On the other hand large-scale migration of labour would compound social problems. It is important to develop a healthier regional balance of employment, by encouraging backward regions to become more entrepreneurial rather than trying to preserve the work patterns of yesterday.
- The proper role of the legislator is to assist those too weak to help themselves, and the best way is to pull them into the jobs market rather than squeezing them out. Special aid programmes should be restricted to specific target groups, for



example emergency action to help the worst hit (the young and the long-term unemployed) and to prevent them from becoming non-members of society.

All these measures can unlock the potential for "employability" that exists in Europe today. What alarms industry is to observe the Community moving in the opposite direction, towards increasing the level of employment regulation and imposing harmonised standards without any concern for local needs or business realities. The harsh fact is that many current policies are more likely to add to unemployment rather than reduce it. This is why industry insists that a radical change of direction is needed.

### **Cooperative Industrial Relations**

It cannot be too strongly emphasised that economic progress is the only route to social progress. Controls and regulations cannot bring that about.

The people who work in industry at all levels constitute the vital resource whose effectiveness must not be impaired either by obsolete management styles or by collectivist concepts from a bygone age. Management has a responsibility to bring out the best in each

employee, and many companies do a great deal for productivity and motivation, through good employment policies, positive industrial relations, high quality training programmes and decentralised responsibility.

Every employer should pursue these goals and the best should continue to improve, always remembering the overriding responsibility on every employer to earn a profit and stay in business, without which nothing can be achieved.

New forms of communication and consultation between employers and employees are an essential part of modern management. But they must be built on cooperation not antagonism. They need freedom to grow and develop according to local circumstances without becoming unwieldy or bureaucratic.

#### See also:

*European Labour Markets - An Update on Perspectives and Requirements for Job Generation in the Second Half of the 1990s, ERT, 1993*

## CONDITIONS FOR COMPETITIVENESS

### 1. *Total Priority to Innovation & New Technology*

**M**OBILISE EUROPE'S MASSIVE SCIENTIFIC RESOURCES - AND PUT THEM TO WORK IN FULL PARTNERSHIP WITH INDUSTRY.

Governments and industry should work together to identify strategic areas which meet the needs of society and embody those **enabling technologies** where a major industrial society must be strong, including:

- microelectronics
- information processing and communications,
- biotechnology,
- process engineering,
- advanced materials.

It is then the role of industry and science to examine these areas and judge what is relevant to the needs of the market place. What is technically feasible? What can be done by companies on their own? What needs a joint commitment of major resources? To achieve these ambitious goals requires a systematic approach embracing the entire research effort, public and private, at both national and Community level.

**Industry** should be free to form **clusters of industrial companies** including both user and supplier industries, to work together on major technologies whenever the challenge exceeds the resources of individual companies, and to guide the efforts towards the needs of the market place. The clusters would need a legal status compatible with the rules of competition policy.

**Universities** and other research bodies should be equally ready to pool their own efforts and cooperate with industry to achieve

the best possible results. The industrial clusters should discuss the research priorities and help the scientists to build "**laboratories without walls**" - world-class centres of excellence cooperating in European networks and directing large scale projects that probe deep into key technologies, not chopping research up into tiny fragments.

Basic research is largely a responsibility of the state and the universities, and should be funded accordingly. The application of technology in the market place is primarily the job of individual companies. But between the two extremes lies a broad area where the industrial clusters can share responsibility with the public sector, including the funding and management of joint projects.

**Government** should not design projects in detail, but help concentrate the human, technical and financial resources so as to build a scientific infrastructure largely dedicated to the long-term development of European industry. But governments should do more to direct work towards agreed priorities and ensure effective coordination at European level, rather than having twelve competing national programmes and a Community programme as well. More money may not be needed if what is already available is used more effectively.

Governments should also act to make it easier for more companies to participate in research projects and to use their results. Purely administrative procedures should be simplified without compromising safety standards. New technologies should not be discouraged by over-regulation. Governments should work actively with industry to win public acceptance where this is appropriate.



**Public procurement** also provides an important opportunity for government. Many new markets reflect the needs of society as a whole, rather than those of individuals. Government is either a direct purchaser or a major player in such areas as health, education, environment, transport, energy and telecommunications. In these case government should become fully involved from the start with researchers, suppliers and customers at a European level, and use its purchasing power wisely so as to drive the pace of change.

Europe has the resources, the knowledge base and the industrial management skills to do all these things. But it needs a better coordination of our efforts to face up to the biggest challenges - that is what industry asks for.

➤ See also:

*Bright Horizons, ERT, 1990*

## 2. Education and Training

**C**OMpletely rethink and redefine the priorities for European education - directed towards the needs of the future, not the legacy of the past.

In the long term Europe's only real resource lies in its own people. They need the very best of education and training. The teachers and professors are entitled to ask for a clear statement of society's objectives and for help in achieving them. But society is entitled to ask them in return to be more aware of how the world is moving and more open to changing needs.

As a basic objective every citizen should be fully equipped to live and work where he chooses in Europe. This needs a global approach to the education process, placing the emphasis on:

- what is needed to develop the human potential,
- what is needed to make a good European citizen, and
- what is needed to make Europe competitive in world markets.

**Basic education** - up to the age of 17 every child should learn both science/technology and arts/humanities, and at least two languages. Every child should learn how to learn, how to adapt to change, how to work effectively in teams and how to communicate.

**Higher education** - should be closely relevant to the needs of society, with a strong emphasis on scientific knowledge and understanding. At the highest level teaching should be concentrated into centres of excellence for specific disciplines in order to achieve the quality needed for technical leadership.

**Vocational training** - must be the keystone of Europe's competitiveness. Training should enable young people to acquire competences, to find jobs and to perform them at the highest level of which they are capable. The different systems in Europe should be improved and recognised as a fundamental tool of personal and economic development.

**Lifelong learning** - most people's jobs will change radically in the next ten years. Every working person will need to adapt continually through life. The responsibility for this

must be shared between employer, state and individual, with special attention paid to re-training programmes for people displaced by large-scale industrial restructuring. It is vital to ensure that distance and other learning systems of the highest quality are readily available through life.

At all levels a European dimension is needed, not merely to teach the languages and history of other countries, but to help students to a practical understanding of how to communicate across cultural barriers, how to learn from other points of view, and how to value and work with the diversity that is Europe's greatest asset.

More money may not be needed, but better organisation, better management and better use of modern technology are clearly required at every level. For these industry is well placed to give to the educators the benefit of its own experience.

► See also:

*Education & European Competence, ERT, 1989*  
*Lifelong Learning, ERT, 1992*  
*Reshaping European Education, ERT, forthcoming 1994*

### 3. Favourable Financial Conditions

**RAISE THE LEVEL OF SAVINGS TO FINANCE INVESTMENT AND LOWER THE LEVEL OF TAX AND INTEREST CHARGES ON BUSINESS.**

Financial costs are the heaviest charge on industry after labour costs, and European industry has long been handicapped by higher tax and interest rates than its major competitors. These burdens reflect two other weak points of the European economy, the declining level of savings and the high volume of government expenditure.

In the 1960s and 1970s the Community saved one quarter of its income, the current rate is less than one fifth. That decline amounts to ECU 250 billion a year, an enormous sum of money which could be available for productive investment.

It is hardly a coincidence that, according to the calculations of the European Commission, this is roughly equal to the

increase in investment required to bring Europe back to a growth rate of 3.5 % a year, the rate needed to bring about a sustained reduction in unemployment.

These figures are so large as to require a more ambitious planning of overall financial flows within the Community, to ensure that savings and investment expand in line with each other, and that all assets, financial and physical, are used as efficiently as possible. But the basic lines of approach are clear:

**1 Individuals** should be encouraged to save by letting them keep a higher proportion of what they earn. More of their income should be guided towards industry by modifying those tax rates and tax structures which penalise savings.

**2 Industry** should be encouraged to save by holding down the level of total costs. The tax burden should be reduced so that industry can plough more of its own



money back into investment and innovation. Lower and more stable interest rates are needed to make it cheaper to borrow new money as well as reducing the cost of servicing existing debt.

**3 Capital Markets** should do the job of allocating resources. This means greater transparency and greater integration between national financial markets, another urgent reason for monetary stability. Capital market structures should be more favourable to the small investor and more accessible to smaller borrowers. An end is needed to disparities in tax and financial systems between different countries which only distort competition and direct investment into the wrong channels.

**4 Government** should be required to bring an end to the high deficit levels of recent years. This can only be achieved by far-reaching cuts in public expenditure without crowding out productive investment. **Less of our output should be channelled through the public sector, and what is should be better spent.**

To achieve this governments need to acquire some new skills, for example:

- how to achieve more with fewer employees (as private industry has been doing for decades);
- how to focus welfare payments on people who need them most, while letting others pay their own way;
- not to provide services or fund projects which could be better done by the private sector;
- not to subsidise unprofitable projects at intolerable expense to the rest of the community.

Above all they must understand how to obtain value for money. Industry perceives a great deal of **waste** in the public sector, money spent on prestige projects, on competing or overlapping bureaucracies, or on valid social projects but out of all proportion to measured benefits.

Just as some areas of spending could be better decentralised to the lowest possible regional level, there may be other cases (perhaps military procurement or diplomatic representation) where a single Community system could save enormously over twelve competing national structures.

A concept of lean government should now be developed to match the emphasis on lean production in industry. Businesses and private citizens would all stand to gain substantially from cost-effective and well-managed public services. The drive to privatise virtually all state-owned business activities should be pursued with great determination. None of these things are easy, but they are all possible, and urgently needed.

## 4. *Trans-European Infrastructure*

**A**CCCELERATE THE CONSTRUCTION OF TRANS-EUROPEAN INFRASTRUCTURE NETWORKS - with greater political determination, a commitment of more resources, a higher involvement of private finance and management, and a closer attention to the needs of European competitiveness.

The ERT has repeatedly pointed to the high cost and low efficiency of Europe's out-of-date infrastructure as major drags on industrial competitiveness.

Infrastructure investment has fallen over the last twenty years in spite of accelerating demand, while the planning of infrastructure has not matched the changing structure of needs. Everybody who works in industry has to carry this extra burden of inefficiency.

What industry needs are modern systems for moving goods, people and information across Europe at high speed and low cost. ERT studies show that the technology and resources exist in Europe to achieve this. The Commission's Trans-European Networks programme and the proposals from the Edinburgh European Council both point in the right direction. But the sense of urgency is not there and the projects are not materialising quickly enough.

In broad terms investment in transport infrastructure has fallen from 1.5 % to 1 % of European GDP over the past twenty years. To reverse that would mean spending an additional ECU 30 billion a year. But spending more money is only part of the answer, nor could governments alone find the necessary resources.

Instead, industry proposes a planned approach to infrastructure in Europe which sets three simple tests for every project:

- that the **user** not the taxpayer pays the main cost, in return for the direct benefit that he receives,
- that **private investors** put up a substantial share of the finance and management, so as to multiply the impact of limited public funds,
- that each major project fits into an overall plan explicitly designed to meet **trans-European** rather than local needs.

Measured against these principles we see a substantial need for increased investment in strategic **transport** areas such as main roads, high speed trains, integrated air traffic control, city centre transport systems, combined transport (especially road-rail interlinks) and waterways. Better information is needed to check the merits of individual projects, and the most relevant data will be collected, analysed and published by ECIS, the new European Centre for Infrastructure Studies recently launched by the ERT.

Such projects if well conceived will raise the direct efficiency of industry. They will do much to integrate Central & Eastern Europe as well as the more isolated regions of Western Europe into the economic mainstream. They will also reduce the congestion, pollution and waste that do so much harm to major cities.

We also emphasise the growing links between information technologies and telecommunications summed up in the concept of



**“Information Highways”**, which will provide the most important channels for communications and knowledge to flow across Europe. A European network of digital utilities, computers, communication systems, data bases, consumer electronics and media services will facilitate the exchange of information and knowhow between companies. This will raise productivity and competitiveness in industry and services, generate new enterprises and new jobs, and change the way we work and live.

An integrated **Information Network** for Europe provides the clearest example of a very large-scale project representing a genuine economic and social need and offering a major

contribution to European competitiveness and employment.

For such a venture the private sector could mobilise resources of money, management and technology. But it is essential to have governments committed right from the start to work together and plan the project at European level.

➤ See also:

*Missing Networks*, ERT, 1991

*Growing Together - one Infrastructure for Europe*, ERT, 1992.

## 5. A Balanced Approach to Environment Issues

**D**EVELOP A PRACTICAL AND “SUSTAINABLE” ROUTE TO IMPLEMENT THE PRINCIPLES OF SUSTAINABLE DEVELOPMENT.

Sustainable Development is an objective which needs a businesslike approach. Companies seek to protect their capital and society should do the same. But a high quality environment comes at a high cost and therefore needs a strong economy.

Europe can have such an environment only if it is willing to pay the costs, provide the resources and make its economic and environmental policies support, not oppose each other. A practical approach to sustainable development should follow clear principles:

**1 Close consultation from the start** between government, industry and science, with an end to the adversarial approach and “government by pressure-groups”. Industry knows about managing

technical change and the use of resources, but it must be involved in the discussions if it is to contribute.

**2 Political setting of priorities.** Not everything can be achieved at once. Difficult political decisions need to be taken. Political debate should involve industry and science. But once the objectives are defined, the best way is to allow industry to choose how to attain them.

**3 A flexible approach towards defined objectives.** Industry has shown what can be done to conserve resources and achieve environmental goals by voluntary action based on open consultation. Regulations and taxes are not the only way. Tradeable permits may be useful where some given level of total emissions is environmentally acceptable. Technology is rapidly evolving and a flexible approach to environmental problems is much the best way to stimulate novel, imaginative and cost-effective solutions.



**4 A total systems approach.** Action to reduce one form of pollution can sometimes increase another. Many such cases illustrate the technical complexity of environmental questions. What is needed is not scattered legislation on separate material items, but the integration of a large number of processes in their full context, cradle to grave, to work out the best overall balance. Such a total systems approach is precisely what industry knows how to do.

**5 Rigorous analysis of costs and benefits.** The "polluter pays" principle is attractive, but it does not eliminate costs. The highest standards cannot be attained without massive investment, and in the end society as a whole still has to pay. So society must ask more insistent questions about value for money. What are the highest priorities? What is the most cost-effective way to reach a defined objective? Does the extra improvement justify the extra cost? Is there a real environmental hazard to be eliminated?

**6 Consistency.** Large investments and changes in technology need time to mature. It is vital to develop policies and then stick to them over many years. A consistent longterm strategy would allow for the gradual improvement in production processes and the phased shutdown of older plant. Overnight changes in regulation do immense harm and

work against the fundamentally long-term concept of sustainable development.

**7 Closer involvement of the consumer,** who can be a major source of pollution in his own right, and is often unwilling to change his habits or pay the high cost of environmental standards. There is a role here for public authorities to help involve and educate the consumer in the improvement process.

**8 Closer international cooperation.** Higher environmental standards than necessary must not be used as an excuse for protectionism. It is nonsense to commit huge funds to reducing minor hazards while little or nothing is done in other countries, or to close clean production units in the most advanced countries while encouraging imports from polluting factories elsewhere.

Dumping waste in other countries is wholly deplorable. There is serious risk of transnational damage and confrontation. Industry would welcome harmonisation within Europe (including the transport of secondary materials for cleaning or recycling) as a first step towards a realistic framework at global level.

► See also:

*The Efficient Use of Energy, ERT, 1992*

## **6. Competition Policy Based on Market Realities**

**D**EVELOP A GLOBAL PERSPECTIVE THAT PERMITS THE GROWTH OF STRONG EUROPEAN COMPANIES.

The ERT has always supported the Community's policy of fostering strong compe-

tition. Only competition can create a strong European industry, government cannot do so. In this sense competition policy is a crucial element of any industrial policy aimed at renewed economic growth. Several areas require special attention.



The working of a free market requires that competition rules should be applied in a way that **least hinders the natural progress and development** of individual companies. Companies need to change, develop, restructure, come together or pull apart. They should be free to do so, as far as possible, provided always that effective competition is not prevented.

Competition should be judged against a global perspective and the needs of competing on **world markets**. Competition in the Single Market is the best way to develop world players. Government should not try to create "European champions" but nor should it try to block their development. There should be a bias towards freedom of action.

Within the **Single Market** itself, industry wants a "one-stop shop" where any competition issue can be judged once and for all. In time this should lead to a single European competition policy system with a common philosophy and no possibility of conflicting jurisdictions. The "one-stop shop" should be characterised by speed, transparency and pre-

dictability. Any attempt to turn the clock back, to play down the European dimension and reassert the role of national authorities, must be firmly resisted.

Competition should be genuine, and industry looks forward to seeing the steady rundown of **national subsidies** which distort competition. Public sector support for industry should be devoted to the general infrastructure of the economy - transport, technology or training - where the benefits are available to everyone.

In the same spirit, we would expect to see competition policy working actively to prevent either private or public **monopolies** from operating to the detriment of European competitiveness. If some markets (such as postal services) lend themselves naturally to monopoly structures, then steps must be taken to ensure that they operate to the highest standards of efficiency and with up-to-date technology.

➤ See also:

*Freedom to Compete, ERT, 1993*

## 7. An Open World Economy

**W**ORK TOWARDS THE DEVELOPMENT OF THE OPEN WORLD TRADE AND INVESTMENT SYSTEM BASED ON FREE MARKETS AND INTERNATIONALLY AGREED RULES.

The first necessity is still to bring the **Uruguay Round** to a successful conclusion. The Community should then ensure the strengthening of the GATT, preferably by establishing a strong **World Trade Organisation** with agreed rules and with powers to police the system and override any forms of protectionism.

Success in the Uruguay Round should be followed by a system of "**continuing negotiation**" to reduce and abolish other barriers to open trade.

To manage the new situation the Community should put its own house in order and refrain from protectionist measures. There should be no controls on imports except to cover blatant contraventions of free trade principles, and any such controls should be strictly limited in duration and applied in conformity with GATT rules.



It is important for the Community to apply a **single trade policy**. It cannot win public confidence in open trade unless it shows the ability to act quickly and firmly when rules are broken. Unfair competition is the enemy of free trade. Dumping goods at prices that are subsidised and unrelated to production costs does serious damage. The Community must be able to act rapidly and effectively, using transparent procedures within an overall free trade framework.

When disputes do flare up and major disruptions threaten the trading system, the Community must have the strength and inner cohesion to be able to lower tensions, to isolate the cause of conflict, to limit the damage and avoid escalation into trade wars. The interests of industry at large and the cohesion of the trade system as a whole must not be sacrificed to the special interests of particular sectors.

The Community has a special responsibility to open its own markets as quickly as possible to its neighbours in **Central & Eastern Europe** and to help their transition to a true market economy. With all the countries of the developing world a stronger trading relationship must be developed that leads towards a full business partnership.

For the longer term the **globalisation of industry** is expected to become a dominant factor in the world economy and the Community will need to pay attention to issues much wider than direct trade. World-wide policies on investment rules, taxation, competition policy, intellectual property rights, environmental and technical standards and the export of strategic or dual-use goods will all assume greater importance - and greater complexity.

The Community must equip itself to negotiate on these issues and provide a greater input into the international debate within such bodies as the OECD, the IMF and the World Bank, working always in the direction of openness and economic freedom. For these purposes it is vital that the Community quickly moves to a position where it determines policy and negotiates **as one body** rather than fragmented into twelve national administrations.

The competitiveness of European industry depends on winning and preserving a strong position in global markets. The Community must work for an international framework which enables European companies to tap the fastest growing markets with both exports and investment. There is a geographical dimension to industrial growth, which means not only developing new products but also selling them into new markets in every corner of the world.

It is not only Europe which stands to benefit. Trade and investment are the driving force of the world economy, and much could be done to further their development by a Europe which was strong and acted as one. There is no greater contribution that we can make to the welfare of the entire world community.

► See also:

*European Industry - A Partner of the Developing World, ERT, 1993*



## MONITORING AND ADVICE

## 8. The European Competitiveness Council

To ensure maximum impact for the Charter for Industry and its policies there needs to be a body with clear responsibility for advising on implementation and keeping competitiveness in the forefront of policy debates. The

European Round Table recommends the establishment of a European Competitiveness Council, following the US initiative to set up its own Competitiveness Policy Council, and suggests the following outline as a basis for discussion.

### *Membership:*

Representatives from industry, both employers and employees, from government and from science. Industry must play a substantial role, with the employers represented

by prominent businessmen. Total membership must be small and the whole structure non-bureaucratic.

### *Status:*

Established by decision of the European Council, confirmed by the Council of Ministers for General Affairs and equipped with a budget for a small permanent staff and for commissioning research work.

Subcouncils to be formed to consider individual policy areas.

### *Mandate:*

- to advise the European Council and the Community institutions on the development and implementation of policies for competitiveness within the framework of the Charter for Industry;

- to identify priorities, monitor progress and report back to the European Council at regular intervals;

- to encourage continuity in the development of policies and consistency between the actions of member states and the Community as a whole;

- to stimulate a well-informed public debate.



# GROWTH AND EMPLOYMENT

## THE VIRTUOUS CIRCLE

**T**he prize for which Europe should now reach out is a "virtuous circle" in which policies for growth and policies for employment are carefully designed to support each other. The proposals set out in this Report will achieve that goal:

- Every measure contained in the Charter for Industry which stimulates the activity of European business will have a positive effect on employment.
- Conversely, everything that can be done to make labour more cost-effective will raise the competitiveness of Europe and stimulate further economic growth.

As Europe pulls out of the crisis a special responsibility will lie with the big companies, including the Members of the European Round Table. As global players they lead the way on innovation, investment, exports and growth. To do so they must raise productivity even faster than the average and focus more closely on what they do best, to generate new ideas, to get the flywheel of the economy moving again and so create wealth and activity.

It is important that society should understand that, to achieve these aims, the big companies are unlikely to employ more people directly themselves in future as more of their work is passed on to other companies, especially in medium and small manufacturing and service businesses. These smaller companies will take over a higher percentage of total employment, taking on more people to do more efficiently the jobs which big companies used to do for themselves and doing completely new jobs stimulated by the level of activity and innovation.

The small and medium companies will thus acquire a new role, to capitalise on the growth opportunities created by the big companies, and they need every help and encouragement to play this role to the full.

That is one example of how the structure of industry is now changing more rapidly than it has ever done before. The pattern of employment needs to do likewise. Nothing can be done today the same way as we did it yesterday; that is what we mean by "flexibility" and "freedom", key words that run right through this Report.

We hope that we succeed in stimulating debate on these issues which are so crucially important for the future of Europe.





## THE EUROPEAN ROUND TABLE OF INDUSTRIALISTS

*The European Round Table of Industrialists (ERT) is a group of some 40 European industrial leaders. Each has pledged his experience and expertise to the ERT with the aim of strengthening Europe's economy.*

*The ERT seeks to create the right environment for European industry to achieve economic growth and prosperity. It identifies and studies the key issues, and promotes wider awareness of Europe's most urgent problems.*

# MEMBERS OF THE EUROPEAN ROUND TABLE

*Chairman:*

**Jérôme Monod**

Lyonnaisse des Eaux-Dumez

*Vice-Chairmen:*

**André Leysen**

Gevaert

**Floris Maljers**

Unilever

<b>Umberto Agnelli</b>	Fiat
<b>Américo Amorim</b>	Amorim Group
<b>Jean-Louis Beffa</b>	Saint-Gobain
<b>Marcus Bierich</b>	Robert Bosch
<b>Yves Boël</b>	Sofina
<b>Vincent Bolloré</b>	Bolloré Technologies
<b>Bertrand Collomb</b>	Lafarge Coppée
<b>François Cornélis</b>	Petrofina
<b>Gerhard Cromme</b>	Fried. Krupp
<b>Etienne Davignon</b>	Générale de Belgique
<b>Carlo De Benedetti</b>	Olivetti
<b>Casimir Ehrnrooth</b>	Kymmene
<b>José Antonio Garrido</b>	Iberdrola
<b>Fritz Gerber</b>	Hoffmann-La Roche
<b>Pehr Gyllenhammar</b>	Volvo
<b>Denys Henderson</b>	ICI
<b>Wolfgang Hilger</b>	Hoechst
<b>Daniel Janssen</b>	Solvay
<b>Jak Kamhi</b>	Profilo Group
<b>Heinz Kriwet</b>	Thyssen
<b>Luis Magaña</b>	CEPSA
<b>Helmut Maucher</b>	Nestlé
<b>Harald Norvik</b>	Statoil
<b>Theodore Papalexopoulos</b>	Titan Cement
<b>Heinrich von Pierer</b>	Siemens
<b>Antony Pilkington</b>	Pilkington
<b>Edzard Reuter</b>	Daimler-Benz
<b>Antoine Riboud</b>	BSN
<b>Stephan Schmidheiny</b>	Anova
<b>Hugo Michael Sekyra</b>	Austrian Industries
<b>Patrick Sheehy</b>	B.A.T Industries
<b>David Simon</b>	British Petroleum
<b>Poul Svanholm</b>	Carlsberg
<b>Serge Tchuruk</b>	Total
<b>Jan Timmer</b>	Philips
<b>Marco Tronchetti</b>	Pirelli
<b>Cándido Velázquez</b>	Telefónica