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Stockholm's missed opportunities

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Europe must pick up the pace of economic reform if it is to compete successfully with other continents, argues **Peter Mandelson**

European economies must reform themselves, or our continent will not achieve its potential for growth and prosperity in the next decade. I believe strongly that reform is vital for jobs and businesses throughout the European Union and that it is time national governments gave reform the priority it deserves.

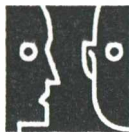
Last month's Stockholm summit was a missed opportunity after the successes of Lisbon. Vested interests too often won out. In resisting the need for greater liberalisation in energy markets, and in failing to resolve the single European sky initiative, the EU diminished its potential. We need to do better.

To get to grips with reform, the EU must confront three central economic and social challenges. First, increase the number of people in work. Second, raise productivity to match that of the US. Third, modernise the European social model.

Since 1975 the EU employment rate has declined from 64 per cent to 61 per cent; in the US it increased from 62 per cent to 74 per cent. Europe has not yet created the right balance of incentives, opportunities and obligations to find work. Member states throughout the EU need to bite the bullet of greater conditionality for benefits: claimants must demonstrate that they are making every effort to get paid work and acquire skills.

In return, the state has a duty to provide training of the highest quality, especially focusing on new technologies but not ignoring the low rates of basic numeracy and literacy among economically inactive groups. Britain is making progress but there is still more to do.

Member states must implement further tax-benefit reform. We have to make work pay by subsidising low-skilled labour, topping up low-skilled workers' pay, combined with a decent minimum wage.



PERSONAL VIEW

On productivity, Europe has to face up to its poor performance. The US has achieved per capita growth in gross domestic product of 18 per cent since 1990, compared with 13 per cent in the EU. Notwithstanding Wall Street's recent troubles, America remains well ahead in high-technology investment, especially for hardware, software, business services and telecoms.

To close the productivity gap Europe needs a more focused and better networked research and development effort, encouraging many more regional economic clusters where universities, research institutions and companies collaborate to share knowledge and develop new products.

It is vital that there are no more delays in economic liberalisation. We need fully to

open up European e-commerce, energy and telecommunications markets and do the same for pension and venture capital funds.

In the long term, Europe will increase its productivity rate only if member states invest seriously in lifelong retraining. Education systems must create many opportunities for citizens to enhance their skills and knowledge throughout their lives. The value of learning must become more central to our cultures and we must close the gap between the information rich and poor.

The final challenge is reform of the European social model. While there are significant national variations, the common assumption since 1945 was that the state could protect workers from the calamities of economic change through mac-

roeconomic policy, public ownership, subsidies, regional planning and wage bargaining agreements with the trade unions. This turned out to be over-optimistic and eventually it became counter-productive.

European societies need a new philosophy of the role of the state. First, governments require an approach to economic restructuring that encourages sectors where Europe's relatively skilled workforce can really prosper, by raising individual skill levels and employability. Propping up industries that are not in the long term competitive will only inflict greater damage on European economies.

Second, we must promote a modern concept of trade unionism. The value of social partnership is not confined to the mass-production, industrial economy. Social dialogue is crucial for the service-based economy, including small and medium-sized businesses and new entrepreneurs.

Finally, we need a modernised social model that extends to quality of life issues: encouraging family-friendly employment practices, striking the right work-life balance, alongside proper emphasis on learning and anti-discrimination measures. These may not be traditional aspects of collective bargaining - they are about citizenship as much as employment - but the European social model must take them seriously.

We have the opportunity to pick up the pace of economic reform in Europe at the Barcelona summit next March, creating renewed momentum after Stockholm. We should be thankful that the Spanish presidency can once again invigorate the cause of reform.

The writer was a minister in Tony Blair's cabinet until January

Thomas Frank on US Social Security privatisation: www.ft.com/personalview

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