

EUROPEAN UNION: A NEW ECONOMIC DEVELOPMENT MODEL

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It was in 1993 that the member States of the European Union and the European Commission found it necessary to consider what action could be taken against the major problem of growing unemployment rates in the European Union. Last year in the White Paper on Growth, Competitiveness and Employment, the European Commission proposed a more rational exploitation of natural, environmental and human resources which would strengthen the overall competitiveness of the European Union economy, hence producing solid employment prospects and improving the quality of life of all citizens. This presentation describes the sketch of a new model for sustainable development contained in the above mentioned White Paper.

Structural Links between Environment and Employment

The Inefficient Use of Resources in the European Union

The current development model, in the European Union, is leading to a sub-optimal combination of two of its main resources, i.e. labour and nature. The model is characterised by an insufficient use of labour resources and an excessive use of natural resources, which results in a deterioration of the quality of life. The European Union needs to analyse in which ways economic growth can be promoted in a sustainable way which contributes to higher intensity of employment and lower intensity of energy and natural resources consumption.

The "Underuse" of Labour Resources

The use of labour resources has been persistently discouraged for several decades. Although the growth in labour productivity has been a major element contributing to a continued net increase in net per capita income, a critical point seems to have been reached.

The financial requirements of social security arrangements increase the indirect labour costs further, intensifying the tendency towards labour saving and hence leading to the increase of unemployment. In addition, this mechanism has led to a considerable loss in competitiveness on external markets as sophisticated technology is increasingly being installed in low-wage countries.

The "Overuse" of Environmental Resources

The "underuse" of labour is combined with an "overuse" of environmental and natural resources. During the last two decades, it has become increasingly clear that natural resources are not available in unlimited amounts. Because the market prices do not incorporate, sufficiently, the limited availability of those natural resources and the environmental scarcities related to their consumption, their overuse has become systematic.

The Search for a New "Sustainable Development" Model

The inadequate use of available resources, such as too little labour and too much use of environmental resources, is clearly not in line with the preferences of society, as they are revealed through the democratic system. People expect for themselves and for their children more jobs, a stable income and a higher quality of life. The latter element is reflected through an increasing demand for enjoyable jobs and environmentally-friendly products and public services.

A more adequate policy should therefore be able to offer society a better quality of life with a lower consumption intensity and, as a consequence, with a reduced stress on environmental resources. In this same context, more challenging jobs are to be created and the valorisation of human capital in local networks will soon foster individual responsibility and social participation. The new development model for the European Union, therefore, has to address the inefficient use of available resources in a wide perspective, i.e. taking into consideration the citizens' overall quality of life.

Clean Technology is a Key

A major element, of the new development model, will be to decouple future economic prosperity from environmental pollution and even to make the economic-environmental relationship a positive, instead of a negative, one. The key for doing this will ultimately lie in the creation

of a new "clean technology" base through the following:

- improved "nature productivity" of products: e.g. increased energy efficiency, less raw material-intensive products
- a longer product lifetime: making labour-intensive activities, such as repair and control services, more attractive
- more reuse and recycling: use the same raw materials or spare parts far more frequently
- improved process technology: the production processes, and not the final consumers, generate the largest quantities of waste water or solid waste

The new clean technology is likely also to generate, apart from a substantially improved environment, considerable secondary benefits for the European Union:

- In competitive terms or with "double perspective," the European Union would improve the overall strength of the economy through optimal use of its resources and the prevention of costly clean-up operations, while a first-mover advantage can be exploited. The latter element is not to be underestimated as the new technology is not only a necessity in the industrial world but also in the NIC's and LDC's.
- In strategic terms, the enormous dependence of the European Union on the rest of the world for its imports of energy and raw material, would be reduced and better managed.

Ways to Facilitate the Structural Change

The Need for a Strategic Microeconomic Policy

The decoupling of economic prosperity from environmental deterioration through the creation of a new clean technology base, is unlikely to happen without an active and imaginative policy support. To that end, existing policy instruments will have to be reoriented in so far as they encourage the inefficient use of resources in the European Union. Particular attention will have to be given to many regulations developed gradually during the last few decades but no longer serve objectives that belong to the new sustainable development model. On top of that, market prices will have to systematically internalise all the external costs that they generate to society. Such a review should end up in a set of clear signals and incentives to all economic agents and decision-makers.

The second key element concerns the "speeding up" of the implementation of basic research results into marketable innovations. To that end, a consistent set of pragmatic incentives is to be developed to economic agents considering investments related to the new products and production processes, including new and innovative forms of work organisation.

Policy Instruments at a Macroeconomic Level

Particular attention should be paid to the use of :

- Indirect taxes on pollution as a powerful way to address hidden subsidies. Therefore, market prices may have to be corrected to cover the environmental damage related to the use of particular products, e.g. energy resources according to their CO_x content.
- Fiscal regulations and in particular tax deduction schemes as a way of encouraging sustainable economic activities (e.g. pre-market research on green innovations).

Policy Instruments at a Sectoral Level

The European Union possesses, instruments in particular sectoral areas, the importance of which, is likely to grow the more the European Union strives at the above-mentioned new economic model. The following sectors merit particular attention and have been explicitly addressed in the fifth environmental action programme of the European Union: Energy, Transport, Agriculture and Industry.

A new set of business-minded environmental instruments is to be exploited and a start has already been made through eco-auditing, eco-labelling, voluntary agreements and liability schemes. Some of those instruments will create new job opportunities, particularly in environmental services.

Who Does the Job?

The next question is who has to do the job? The new development approach does not make the choice for heavy involvement by governments, a very detailed intervention of the state, with perspective planning and regulations, because it will be inefficient. It does not address responsibility to the citizens and business groups. It would imply very heavy reliance on public money, public budgets and it would also result in a loss in the overall competitiveness of European economy.

On the other side of the spectrum, of course, there is the idea of "let us leave it all to the private enterprises." Absence of regulation is not the proper answer either. It would give the wrong market signals; it would overuse environmental resources and shift the burden to future generations; it would threaten, in another way, the overall competitiveness of our economy in the long term.

So, what we are looking for with this new development approach is an intermediate approach, a new balanced third way. This would involve a maximum reliance on market dynamics, within a European level playing-field and a framework of legislation, assuring internalisation of external environmental costs and consistency of environmental objectives with economic and sectoral policies. By involving integration within other policy areas, it should also stimulate the use and the exploitation of technological innovation. There is, of course, great potential but this potential needs good guidance and technological innovations should work in the proper direction.

In the classic "laissez-faire" economy, there are people who believe that technology will always solve the problem and do the job. In economies with a heavy government influence without provisions environmental care, the result will be economic survival, at the expense of the environment or, perhaps, even no economic survival at all.

For a while, many countries have taken the route of thinking about "controllable society." They took care of the environment and avoided environmental risk. That was a controllable society concept. But, there is also the idea of safeguarding the environment through shared responsibility, by combining a more liberal approach, with the avoidance of environmental risk.

Conclusions

- The serious economic and social problems the European Union currently faces are the result of some fundamental inefficiencies which are, an "underuse" of the quality and quantity of the labour force, combined with an "overuse" of natural and environmental resources. Both elements are at the heart of the economic development model followed by the European Union during the past few decades.
- The basic challenge for a new economic development model is to reverse the currently negative relationship between environmental conditions and quality of life on one hand, and economic prosperity on the other.
- The transition towards a new "sustainable development" model, requires the development of a consistent set of market incentives. The basic task will consist of a systematic review of existent macro and sectoral policies with the basic guideline that market prices have to incorporate all external effects.

George Strongylis' academic background in physics and astronomy includes working as a Research Assistant at the NASA Goddard Space Flight Centre. In 1981, he joined the European Union Directorate General XI on the Environment, and was involved in the preparation of the Montreal Protocol, as well as the 1987 Task Force for the European Year of the Environment. Within the Global Environment Unit, he has managed a team working to implement the Montreal Protocol, through European Union regulations. Mr. Strongylis is also managing a team involved with economic and regulatory EU measures, participating in the International Panel on Climate Change, implementing the Climate Change Convention, monitoring the mechanisms of EU CO₂ and other greenhouse emissions, and evaluating member state national programs for control of these emissions.