Tomorrow's Europe

Niall FitzGerald

This pamphlet is based on a lecture given at the London School of Economics on 12 June 1997

Summary

Niall FitzGerald, Chairman of Unilever, urges the British Government to seize the initiative on Europe by insisting upon the completion of the Single Market; committing to the principle of the Single Currency; and proposing a new Social Agenda focused on enhanced competitiveness

In this speech Niall FitzGerald re-affirms the case for Europe's nations working together to deliver peace and prosperity. He argues that for Tomorrow's Europe to be successful, three economic pillars must be in place.

First, the Single Market must be completed and enlarged as swiftly and smoothly as possible.

Second, the Single Currency must be set up in a way that ensures its long-term success. This means only the truly convergent core proceeding, with other would-be participants committing to join as their economies further converge. This *phased first wave* would allow EMU to proceed on time.

If the alternative on offer after negotiations is so broad-based that the Single Currency would be weak and unsustainable, then Europe's leaders must face up to the possibility of delay. Handled correctly and with a re-affirmed commitment from Europe's governments—including Britain—to join, then delay would not mean death.

These two options, a phased first wave or timetabled delay, should be chosen over an abandonment of the project. This is because set up with the right participants, on the right terms at the right time, the Single Currency will promote economic stability, encourage trade and enchance competitiveness.

The third pillar necessary for economic success is increased labour market flexibility. The impact of the Social Chapter is much exaggerated. Nonetheless it is vital that any future measures brought forward—and the new Employment Chapter itself—fully reflect the need to enhance the competitiveness of Europe and thereby increase the employability of Europe's workforce.

This increased employability is a matter not just for Brussels but for each nation state and must be linked to the idea of flexibility-plus—that is increased training and skills and reward for enterprise. In this speech Niall FitzGerald outlines some practical measures to encourage this approach.

In conclusion, he urges the British Government to seize the initiative on Europe by insisting upon the completion of the Single Market; committing to the principle of the Single Currency, and proposing a new Social Agenda focused on enchanced competitiveness.

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Tomorrow's Europe

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Describing the old Common Market, Walter Hallstein, the Commission's first President, remarked: "Anyone who does not believe in miracles in European affairs is no realist". Given the obstacles which lie in the path of further integration, perhaps it's time we all became realists. Walter Hallstein witnessed the 'miracle' of the Common Market come to fruition. There have been others as part of Europe's evolution but if the European venture is to go forward more are needed. But, of course, miracles are usually the result of mere human vision, planning, hard work and indeed sweat and some tears.

The task of reforming outdated structures which contain self-interested satellites is not a problem which is exclusive to European politicians—try running a multinational company! And just as Unilever must always plan for the future, so must Europe and its leaders—however awkward and uncomfortable the future may sometimes look.

Certainly Europe must not go backwards—it cannot afford to. The Single Market by creating a unified trading base has enhanced competitiveness—and brought immense benefits to every European consumer. Yet despite its impressive successes, the European Union cannot stand still—or take time out. There are fresh challenges within Europe—the task of completing the Single Market, the issue of Enlargement, and of course the Single Currency. At the same time, there are fresh challenges from outside Europe—competition from emerging markets and evolving regional economic blocs which seek to gain many of the benefits of scale and scope which they see flowing from Europe's Single Market.

How can we ensure that Tomorrow's Europe succeeds?

I intend to devote tonight's lecture to the three economic pillars that together would enhance competitiveness, growth and employment within the Union.

First, there is the Single Market, which has provided a huge stimulus to competitiveness. It must be completed quickly and enlarged as smoothly as possible.

Second, there is the Single Currency. Set up with the right participants on the right terms at the right time, the Single Currency will enhance competitiveness. I will outline my belief in the need for a 'phased first wave'. A phased first wave which offers the opportunity for maximum participation as well as maximum commitment—and will improve the chances of success. I will also suggest that delay should be contemplated and discussed maturely as a practical necessity; if Europe's leaders are to lead rather than be led by events.

Third, I will address the way in which greater labour market flexibility will underpin European competitiveness. Labour market reform is a crucial pre-condition for the Single Currency's success—no less important than adherence to the financial criteria. As global change accelerates, European businesses must be as adaptable and quick-footed as our Asian and American competitors. Labour market reform should be part of a reoriented social policy which emphasises not regulation but employability and competitiveness. If implemented, a new Social Agenda for Europe will provide the platform from which businesses can meet the global challenge, and beat global competitors.

We can get bogged down in difficulties and detail. We should not forget the huge opportunities ahead if we get things right. The horizons of today's young people stretch further than any previous generation. Studying, working, even living—across the continent come naturally to growing numbers of British kids.

So, of course my argument is based on the assumption that Europe must continue to function as a union—a union of rich diversity certainly, but a union nevertheless. However vocal its detractors, the European Union cannot be broken up according to petty nationalist concerns. European integration has always served the most pressing global aspiration. In the aftermath of World War Two, it forestalled the prospect of future European military conflict.

Regionalisation is a global response to a changing world. No longer a theory but a fact in North America, Latin America and Asia. And it is there for all to see in successful multinational companies. Unilever sees itself as a multi-local multinational company. Like many other international businesses, we have restructured ourselves along regional lines in order to function more effectively in these rapidly coalescing regions.

And so, given the global, regional nature of the world economy, it is almost impossible to imagine 15 neighbour countries all acting according to their own standards, trading practices and negotiating positions. To imagine such a scenario would be to imagine the 15 separate bodies, huddled in their small-time back yards, cowering under the looming shadow of the world's fast growing economies. Picked off and swallowed one by one. For the harsh truth is that on current OECD projections only Germany and possibly France will feature in the world's top eight economies within 20 years.

The Single Market

The Single Market stands as the foundation stone of the new Europe, and its completion is of the utmost importance. It is often forgotten that Britain played a key role in establishing the Single Market—much of it was driven through by Lord Cockfield, one of our Commissioners. If nothing else, this should put an end to the myth that we are destined to forever follow in the slipstream of Germany and France. We have led the way before, and can do so again.

The achievements of the Single Market have been notable: it has resulted in higher growth and more jobs, as well as enhanced career and business opportunities for some of the brightest and best in Europe. Companies large and small pay testimony to the importance of the Single Market. Ian Gibson of Nissan UK has warned that if it wasn't for the Single Market, French and German consumers would be more likely to buy domestically produced cars. His conclusion is as clear as any I have heard: "the UK market on its own is too small for survival".

At the other end of the business scale, Dockspeed, a Kent-based company which exports to France, has been able to cut costs and journey times thanks to the removal of barriers. Their turnover has tripled to £6.25 million, and they have hired 50 new employees. I could give you hundreds of similar examples.

Unilever once had factories producing soap in every European country—now toilet soap for the whole of the continent is produced at our Port Sunlight factory in Merseyside—generating great economies of scale and consumer and environmental benefits.

However, this is no time to rest on our laurels. We will only continue to be successful if we manage to predict and exploit future areas of growth. The Commission's White Paper on Growth, Competitiveness and Employment forecasts massive growth in biotechnology, telecoms and environmental technology. Yet, worryingly, it is in these industries—telecommunications, energy and pharmaceuticals—that the Single Market has the furthest to go. Completion must be a priority, for it will encourage competition, which in turn will lead to innovation and growth.

It is essential that Europe concentrates on its strengths, creating wealth while adding value through innovation and the productivity derived from the best technology, itself made possible by the economies of scale of this vast regional market. Fast moving consumer goods are a European strength. So are media and communications. And the service industries, too often belittled, are another area of strength, delivering high growth and supplying the vast majority of new jobs.

What other reforms are required? Unjustified state aid and subsidies must go. The desire to favour national champions or prop up old industries—especially where a local community is heavily dependent on a single firm—is understandable, but ultimately counterproductive and doomed to failure. Resources would be better spent on research and technology, transport and communications networks, and training. Leon Brittan put it very well when he said: "Subsidies should equip industry for the future not lash it to the past".

Intellectual property, indirect taxation, recognition of vocational qualifications and the need for a 'European company statute' all require action. The double taxation of business should be eliminated. Public procurement must be opened up. And as these areas are tackled, we must give the Commission, Parliament and the Court of Justice sufficient power—whether we like it or not—to police the system effectively.

The entry of the countries of Central and Eastern Europe to the EU is to be welcomed, not just for the economic opportunities they bring but for the democratic advances their membership represents. But they will bring their own competitive challenge. They are potential 'Euro-tigers': ambitious, hardworking, skilled with a low cost base. Their consumers are very demanding, seeking high quality products at prices they can afford.

Businesses looking for growing markets will benefit: the emerging and developing markets of Central and Eastern Europe are a lot closer than China. Unilever for one has invested successfully in the Czech and Slovak Republics, Hungary, Poland, Romania and Russia and sees growth of 20 per cent per annum. Some of our newly built manufacturing plants in this region are among the most technologically advanced in the world, yet they can operate at a third of the cost of those in Germany. An opportunity indeed in our continual quest to meet consumers' exacting demands for quality at ever improving value for money. Enlargement brings exciting growth markets which Europe's businesses must embrace.

The Union itself will not be immune to change. That limited recognition drives the moves towards the institutional and voting reforms that will be under discussion at the InterGovernmental Conference this weekend. Reform of Qualified Majority Voting, vital in a larger Union, would give us a real chance of wider reform. Those who seek an enlarged Europe should recognise that the choice is not between a wider or a deeper Europe—the two go hand in hand.

This, then, is the first foundation for increased competitiveness—the Single Market must be completed and enlarged as swiftly and as smoothly as possible. It is one of the most significant challenges facing the British Presidency, which begins in January 1998. I hope the European Council takes up the points in the Action Plan for the Completion of the Internal Market to be discussed in Amsterdam. The benefits we reap from the single market will be even greater the more complete it becomes. Government and business must be ready to contribute ideas, energy and enthusiasm. They usually do this separately, but in David Simon's case it is now manifest in one body! He is at the heart of the competitive challenge. David, like many other international business leaders, has long argued the case for closer co-operation in Europe, and for a workable Single Currency. I, like many others, am encouraged to have him there and I wish him well. But his formidable presence does not mean that the rest of business can take a back seat.

The Single Currency

If we have true economic convergence, Economic and Monetary Union would be the logical extension of the Single Market. Transparent prices would aid competitiveness, and if EMU was set up properly we could expect inflation and interest rates to be lower. Traders and investors would face a more certain world. Investment, growth and jobs would all receive a welcome boost.

However, these alluring benefits will only be realised if convergence is genuine enough to sustain a single, low-inflation monetary policy. Starting rates and participants will have to be carefully judged to avoid political tensions that might in due course tear the currency union apart. But it is not just a matter of who enters when and at what exchange rate. Labour market flexibility and fiscal probity will also be necessary if the currency union is to be sustainable in the long term.

Setting entry conditions is relatively easy. Judging whether or not a country has met these conditions is considerably more difficult. The desire to uphold the criteria must not result in arbitrary decisions, taken at a snapshot in time. What matters is underlying and long-term convergence. A country should not be discounted over 0.1 per cent here or there—which equates after all to less than a morning's output. Far more important is whether they are moving in the right direction—and can sustain this movement. These are difficult calls to make, but that shouldn't obscure the vital importance of making the right decisions.

Of course if the Euro is set up on the wrong basis, the Single Currency could be blown apart within a few years—never to be seen again. That would carry great costs. Those now suggesting there is a case for a soft Euro with up to 11 participants are no doubt well intentioned but may inadvertently deal the whole EMU project a mortal blow. Economic convergence is a pre-condition because without it a Single Currency cannot be sustained. To seek to drive economies together based solely on political willpower is a recipe for chaos. However, I believe —along with the financial markets—that a small core of countries could proceed in 1999. The economies of the so-called 'first wave core' have converged sufficiently to ensure the project's success, and indeed their currencies have been managed on a converged basis for many years.

It is essential, however, that politics does not come before economics in deciding the size of the initial core group. Countries should not be included for sentimental reasons of the 'good European' variety. The true position of the 'good European' is that no country should join until the economic convergence criteria are in place. That is not to say that the 1st of January 1999 becomes a literal deadline. If a country is moving solidly towards convergence, then non-participation in the first 24 hours of the Single Currency should not condemn it to a distant 'second wave'. Such a country should be able to declare its commitment and be invited to join the first wave at a later date. This 'phased first wave' would provide the right economic and political mix to ensure lasting success. In this scenario, the real core would not be just the first countries to sign up, but also their fellow, phased first wavers, who would be likely to join them within 3 years. We must eliminate the 'macho' need to be part of the first wave only at one minute past midnight on January 1st 1999.

What should Britain do? First and foremost, Britain must engage fully in the discussions, for even if Britain decides to state it will never join a Single Currency, the success of such a currency across much of our home market will be crucial to British business. It is directly in Britain's interests to make sure that a Single Currency is set up on the right basis. Moreover, I take it as axiomatic that at some point Britain would want to join a successful Single Currency. It could still be that Britain might decide to participate in the first wave. Bar the ERM condition, it will certainly fulfil the convergence criteria handsomely thanks to Ken Clarke and now Gordon Brown.

Some will be tempted to argue that Britain should continue a 'wait and see' policy. That we should wish the project well—but do not get committed before we see whether it works. Such a policy could be disastrous. It would repeat the mistake Britain has so often made in its relations with Europe: in 1956 when the Treaty of Rome was signed; in the 1960s when the Common Agricultural Policy took shape; and in 1978 when the Exchange Rate Mechanism was set up. On each of those occasions we stood on the sidelines and missed the opportunity to shape events in our national interest. Let's learn the lesson—and participate rather than spectate.

Business will play a role in the debate, not as blind Europhiles but as players with a legitimate interest and insight. The Confederation of British Industry will be setting out the arguments clearly and without prejudice. But other parties have been strangely silent. In particular, I am thinking of the City of London. The occupants of the Square Mile have much to gain in the long term from a successfully launched and sustainable EMU. Yet the City has, for the most part, been remarkably quiet on this issue.

Abstention is a dangerous thing. Does the City really believe that the powerhouses of New York, Tokyo and, let's just say Frankfurt, will continue to regard London as focal to their operations if the British economy is peripheral to mainstream Europe? Will Britain not be consigned to some sort of 'off-shore' role, picking up the crumbs from the rich men's table? And think not just of the prospect of decline but of the opportunities for growth and success foregone. Bernd Pischetsrieder, the Chairman of BMW, sounded his own personal warning earlier this year that if the Single Currency proceeds without Britain: "the financial capital of Europe will be Frankfurt not London". Who knows? But it must be a possibility. It is certainly time for the City to enter the debate—we need to hear the sounds of bankers leaping from fences.

There might be a legitimate economic argument against Britain joining the first wave immediately. We have higher interest rates than the continent because we are at a more advanced point in the economic cycle and inflationary pressures are stronger here in Britain. In these circumstances I believe that we should give an unequivocal commitment to go in at a later stage—on a clear timetable. This would allow us to continue to influence discussions and make our own internal policy preparations. In this scenario, we will enjoy the benefits of a successful Single Currency as speedily as possible.

One final word to those who claim that delay to the start of EMU would be death that momentum once interrupted would be lost forever. This is in danger of becoming a self-fulfilling prophecy. Surely Europe's political leaders wish to drive events and not be led by them. Surely they have sufficient self-confidence to decide if necessary on a later, controlled start if that is what is essential to ensure sustained success. A pragmatic British voice with credibility and authority restored through its clear commitment to the success of EMU is now essential in the crucial months ahead. Better this than some eccentric appeal to speculators to take control.

Labour market flexibility

There are many fascinating questions which surround the issue of the Single Currency, but surely one of the most important is whether Europe can make its labour markets more flexible. Without that flexibility, employment will suffer and political support for Economic and Monetary Union will be fatally undermined. With this scenario in mind, let me explain the philosophy of flexibility and why I believe it is right. Then I would like to set out why I believe the time is ripe for Britain to take a lead. And finally to suggest what that agenda of action should be—a new Social Agenda for Europe that should guide the actions of companies, Member States and the Union itself.

What, then, do I mean by flexibility? Let me start by saying what it shouldn't mean. Flexibility should emphatically not be management-speak for lower wages and a return to nineteenth century working conditions. It is only proper that there be a minimum set of rights for working people. Unless we see sustainable economic advantage from sending 10 year old boys down chimneys. Good companies already protect their employees and pay them well. But it is not unknown for less scrupulous businesses to use employer power to exploit workers, and because of this it is entirely legitimate for the state to adopt measures to protect people at work.

So what does flexibility mean?

It means flexible working patterns, the ready availability of workers with the right skills, and—crucially—a less rigid labour market, with lower social costs and less regulation that enables the rapid response to continuous change. Businessmen and women can then take on the people they need as opportunities arise, and in turn people have the mobility, adaptability and skills to grasp new opportunities. Businesses will succeed if they can adapt to fast moving consumer tastes, keeping up with new technology and productive processes. But if these same businesses are over-burdened by regulation and costs, then they won't be able to create new jobs.

However, the insecure 'hire and fire' culture of the worst US businesses is socially undesirable and economically unsuccessful. In a world where success depends on a company's ability to adapt, highly skilled and well motivated employees are crucial. The training and team building necessary for innovation cannot happen without some measure of security and stability nor would their employers' investment in them be justified. For this reason, the long tradition of social responsibility and consensus shown by European companies is still valuable. The danger occurs when security turns into rigidity, creating a 'security' that is nothing more than a delusion. If companies cannot change according to new conditions then they will fail.

The challenge, then, is not to choose between two antagonistic models—the Anglo-American versus the European—but to realise that Tomorrow's Europe must learn from both. The European Commission's Competitiveness Advisory Group, on which Floris Maljers, one of my predecessors, and David Simon sat, put it simply: "We need to encourage mobility, positive flexibility and change in the labour market, avoiding rigidities which become disincentives to work and take on new employees".

So why is the time ripe for Britain to take a lead in this vision of flexibility? Britain's new Government has a tremendous opportunity in Amsterdam. The Prime Minister has stated his intention to sign both the new Employment Chapter and end the British opt-out from the Social Chapter. Neither of these proposals is much loved by British business. However, Tony Blair has a real chance to turn what some see as a threat, however mild, into a positive opportunity.

If Britain says yes to the Employment Chapter, it must include proper acknowledgement of the need for flexibility and real labour market reforms in many Member States. And when Britain signs up for the Social Chapter, it should insist on the adoption of a new Social Agenda. Though we should remember that, despite all the hullabaloo, only two measures have been adopted using the Social Chapter in the last five years—parental leave and European Works Councils. Which suggests that the Social Chapter is unjustly being used as a proxy for other undesirable continental social habits.

Nonetheless, I hope the socialist victory in France will not give credence to those who claim a whole raft of new regulations is a-brewing. What better way to do this than to require the Commission and Presidency to come up with an urgent action programme to reform the European 'social model'. We must remove the labour market rigidities that are barriers to new jobs and promote increased employability instead.

To this end I was delighted to hear Mr Blair's comments at the recent mini-summit in Noordwijk, in which he said that Labour will not allow the Social Chapter to be used to introduce legislation that could damage British competitiveness. Also his recent address to the European Socialists' Congress was encouraging in its focus on the new realism in social policy.

But Britain is not alone. There are numerous examples of change across Europe in areas that are decided nationally, not by the Union. For example, Germany has made changes to sick pay entitlement. And in the Netherlands unemployment has fallen to half its level in the early '80s. A Goldman Sachs study there shows how employers' social security contributions have been cut, part-time working made easier, and bottom end marginal taxes reduced—reforms I might add that are directly related to the Dutch decision to allow the Guilder to shadow the Deutchsmark, as a precursor to Monetary Union.

But there is a long way to go. Spain knows that its rigid labour laws—which have contributed to a quarter of the workforce being unemployed—cannot survive EMU. And in Italy, where non-wage costs on employers are 44 per cent, even the brave attempts at reform by my ex-Unilever Board colleague Romano Prodi are seen as too little and too slow.

Let me give you a practical illustration of what must change. In many Member States there is a cumbersome and costly procedure that must be followed if a company wants to close a plant. In principle employees should be consulted, but the current requirements go too far. In France, regrettable but necessary decisions to close plants lead to court cases and unnecessarily long delays—of over a year in the case of one Unilever plant. We would prefer to spend that time working with staff to help them find alternative work and offering advice and help on re-training—something we did when we closed our Cairn Mills plant in the UK. By the time that plant closed only a handful of people remained to be placed. That is a positive social agenda.

It is crucial to recognise that the rigidities exist, for the most part, at the national level. The move to a Single Currency has impelled nation states to tackle these problems. It could be said that the monetarist prescriptions that Mrs Thatcher urged on Britain are being forced on the rest of the continent by the disciplines of Economic and Monetary Union. A delicious ironic twist as many of those passionately opposed to EMU are of a Thatcherite persuasion. They should recognise that the dynamics of the Single Market and Currency are working to break down the worst rigidities and over-regulation of the old 'European model', not build them up.

What is the agenda of action Europe needs in place?

I am not saying that there should not, and indeed will not be a push for improved social standards in the future. But employee security must be based on increasing employability rather than on the illusory security drawn from rigid workplace protections. The former aids competitiveness: the latter puts it at risk. We must move from regulation towards benchmarking and promoting best practice, plenty of work has been done on this, we must now apply it. Each year at least 10 per cent of jobs disappear and are replaced by new, different jobs. These, in turn, require new and different skills. Government and EU initiatives must work with that reality.

And it is here that a crucial element of our success lies, and there's even a name for it—'flexibility-plus'. Europe must have a better trained and more adaptable workforce. For it is incongruous that even with current levels of high unemployment, companies report difficulties filling positions.

Flexibility plus skills. By this I mean not just training for one particular type of work but the core skills necessary to adapt to new work demands: communications and organisational skills; interpersonal skills; the ability to work in a team and to take responsibility; as well as the three Rs.

This skilling up cannot stop at 18 or 21. It must be ongoing throughout an individual's working life. And it must embrace people of all levels of attainment. The development of an underclass, unskilled and unused to the world of work, is not just morally unacceptable. It is also hugely costly to the public purse and bad for business. A growing army of unskilled, illiterate, uninvolved, embittered communities with no stake in society or the economy can neither buy the products we offer nor play a part in expanding the production of those products. To allow such an underclass to continue unaddressed is destructive and a damning indictment of our claims to be a civilised society.

It should be made easier to join the educational flow at any level and at any age. Companies should do their bit—after all, it is in their direct interest to do so. Initiatives like Investors in People should be showcased across Member States. And we should research what our partners can teach us.

Work done by academics for the Leverhulme Trust has demonstrated clearly the importance of lifelong learning. Those European countries which have provided high levels of education and training to the unskilled have given them the chance to climb up the labour market ladder, so they are not condemned to unemployment or dead-end jobs with poverty pay.

Alongside this new flexibility, we need to make one further change—a change harder than adopting a new policy. We need a new mindset for Europe. For if labour markets are more flexible and workers more skilled, the final ingredient is the entrepreneurial spirit to create value with these.

The entrepreneur is crucial. It is one of the most startling differences between the economic culture of South East Asia and the USA on the one hand, and Europe on the other. In South East Asia and the US the risk taker and business builder are valued, and these are the people who create opportunities—the opportunities which a flexible labour market can respond to meet. The successful entrepreneur or business leader is also allowed to retain a reasonable amount of the fruits of his or her enterprise—admired not envied.

We need to remember that the vast majority of European employees don't work in the Unilevers or Siemens of this world. Only one third of private sector employees work in companies employing more than 250 people, another third in the classic small business of 10-150 employees, and a surprisingly large third in companies with a staff of less than ten.

My Dutch Co-Chairman, Morris Tabaksblat, recently presided over a European Round Table inquiry into the relationship between large and small companies. Its report argues that there is great potential for creating jobs through mutually beneficial partnerships between large and small businesses. Large companies can help SMEs to set up and grow by sharing their considerable experience through mentoring schemes. In return SMEs bring a breath of fresh air to large businesses able to respond nimbly, for example in the development and marketing of R&D projects.

The ERT report also reflects concern at the social costs small businesses face. Lack of flexibility affects smaller companies more acutely. They find red tape and over-regulation more costly than bigger businesses. The Competitiveness Advisory Group estimates a burden of 3,500 ECU per employee compared to just 600 ECU for larger companies.

In the future most of our new jobs will be in SMEs, admittedly, as the study shows via their symbiotic relationship with larger companies. Brussels must take note of these points. We must realise that this shift to smaller businesses affects how we train our workforce. In the past the big company in the 'jobs for life' culture took responsibility. That can no longer be sustained. They cannot guarantee lifetime employment but they can help to develop lifetime employability.

Individuals must be encouraged to take responsibility for themselves. A growing private sector for training, a competitive marketplace of vocational training would revolutionise what is available. Companies and individuals need tailored, professional advice. Support from trade bodies and government agencies is not enough. At present it is those advising on financial capital who are integral to a company's future planning. In Tomorrow's Europe they must be joined by the training advisers and providers. In my company it is not a lack of financial capital that is seen as a constraint on our growth but a lack of skilled human capital.

To achieve labour market flexibility we need a new social approach - in both Brussels and the Member States. That new approach needs to make a start this weekend in Amsterdam. Britain's signature of the Social Chapter should herald not just a change of policy on the part of the British Government, but the adoption of a new agenda throughout the Union in which the whole question of social costs and labour market rigidities is looked at anew. This must be reflected in the text of the new Employment Chapter too. Britain's new Government has given a stimulus to thinking across Member States and freed people from the stale posturing of recent times. Europe is genuinely galvanised - it is an opportunity we must not pass up. The required direction is clear: the emphasis must change from increased regulation to increased flexibility and employability. To achieving change through the promotion of success not through an increase in regulation.

The best businesses operate on the principles of flat hierarchies and good communications. Too often it seems that the Union imposes increasing layers of regulations. These must be stripped away. The principles guiding the new Social Agenda should be clarity of function, no overlapping, and true subsidiarity. In short do things only once, at the most appropriate level. Or as we seek to do in any business, at the level that adds the value.

But this is not to say that there is no scope for European initiatives. It is my view that there are areas where action on a European level can secure greater opportunities for all parties.

I would like to see some of the following ideas explored: ensuring a liberal Europe-wide framework of labour law and regulation specifically for small businesses; the re-focusing of Structural Funds on people, rather than physical infrastructure; a greater role for private capital in enhancing infrastructure; the benchmarking of competitive best practice across the EU through the establishment of multinational task forces; the promotion of best practice in training including in particular, an EU push to promote language skills; and pensions reform so that people can move their pension entitlement with them and the growth of properly funded pensions is both encouraged and facilitated.

I would also like to see more encouragement for more pan-European research projects of practical application to business competitiveness, greater emphasis on building trans-European transport and information networks, and the determination to fully utilise the potential of new information media such as the Internet.

I do not claim to put before you a fully worked out set of proposals nor do I lay claim to great originality. But what is needed is fresh thinking to direct the Union onto a new agenda. These ideas are a modest personal contribution to a very necessary debate.

Making this case, and changing our agenda on 'social Europe' in favour of flexibility, learning and enterprise will not be easy. So let me repeat to you the foundations I have described for a more competitive Europe: a completed Single Market; a successful Single Currency; and more flexible labour markets with the emphasis, clearly and directly, on better skills and adaptability.

And today a British Government with new authority can lead on all three:

★ they can make completion of the Single Market the hallmark of the British Presidency

★ they can make commitment to the principle of the Single Currency the basis for leading the shaping of a sustainable EMU

★ they can use their political credibility to drive for a new Social Agenda which will enhance competitiveness and bring Europeans back to work.

Europe must not go backwards. A new mindset must move us forwards. Today I have painted a picture of what Europe could be like if we played our part. If we stand aside we damage ourselves. Europe needs the dynamic of our own successful experience. To be at the heart of Europe means contributing ideas, insights, experience. Let us be ourselves, not complaining on the periphery but active in the centre.

Europe will move and change and grow. It is time to fashion our vision of Tomorrow's Europe. For Tomorrow's Europe must be our Europe—there is no time left for us to wait and see.

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About the Author

Niall FitzGerald became Chairman of Unilever in September 1996, having been a Director since 1987. He chairs the CBI's Europe Committee and is also a Non-executive Director of the Bank of Ireland and the Prudential Corporation.

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