Impact of the SEM upon the Gloucestershire Economy

Final Report

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PREFACE

This study was funded by Gloucestershire County Council. The authors are grateful to the Steering Group for their helpful comments during the course of the study.

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The aim of the project was to assess the impact of the Single European Market upon the economy of Gloucestershire. In providing a macro-economic assessment of the SEM's impact on Gloucestershire we have drawn on the macro-economic modelling work of our own institute, particularly that of Professor Robert Lindley and Dr. Rob Wilson and we are grateful to them for making their results available to us.

This report has tried to give as full an account as possible of the economic consequences of the SEM and the process of economic convergence within the EC which is currently taking place. In this respect the report provides a context against which future policy shifts in the process of economic convergence may be addressed.

A limited amount of comment has been made on agriculture in this report - this reflects the uncertainty attached to the future of the Common Agricultural Policy and its place in the Uruguay Round of GATT negotiations. However, agriculture is now a relatively small part of the Gloucestershire economy.

This report does not reflect the opinions of either the Institute for Employment Research at the University of Warwick or Gloucestershire County Council. The authors accept sole responsibility for the opinions expressed in the report.

Terence Hogarth,
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ABBREVIATIONS

CEC	- Commission of the European Community
CSF	- Community support Framework
DGV	- Directorate General V of the CEC (Social Affairs)
EAGGF	- European Agricultural Guidance and Guarantee Fund
EC	- European Community
EC-4	- UK, France, Germany and Italy
EC-12	- Twelve European Community Member States
ECB	- European Central Bank
ECOFIN	- Council of Economic & Finance Ministers
EMI	- European Monetary Institute
EMU	- European Monetary Union
ERDF	- European Regional Development Fund
ERM	- Exchange Rate Mechanism
ESCB	- European System of Central Banks
ESF	- European Social Fund
GDP	- Gross Domestic Product
H&S	- Health and Safety
ICT	- Information and Communication Technology
IER	- Institute for Employment Research
IGC	- Inter-governmental Conference
NTB	- Non Tariff Barriers
PSBR	- Public Sector Borrowing Requirement
QMV	- Qualified Majority Voting
SAD	- Single Administrative Document
SAP	- Social Action Programme
SD	- Social Dimension
SEA	- Single European Act
SEM	- Single European Market
TTWA	- Travel To Work Area

Abbreviations used in Charts and Tables

B	- Belgium	**F**	- France	**LUX**	- Luxembourg
D	- Germany	**G**	- Greece	**NL**	- Netherlands
Den	- Denmark	**I**	- Italy	**P**	- Portugal
E	- Spain	**IRL**	- Ireland	**UK**	- United Kingdom

I. EUROPEAN INTEGRATION AND THE SINGLE EUROPEAN MARKET

INTRODUCTION

The Meaning of 1992

I.1 Despite the familiarity of the terms '1992' and 'The Single European Market'(SEM), it proves difficult to assign either a precise or a concise definition to the wide body of European Community (EC) policy- and rule-making generated under these banners Yet, if an assessment of the SEM's impact on the Gloucestershire economy is to be made, it is necessary to be aware of the various elements which now comprise the movement towards creating a sustainable and workable single internal market. This movement has expanded far beyond the removal of non-tariff barriers (NTBs), as envisaged in the initial plans to create a SEM, to the establishment of a much more economically, socially and politically integrated EC. Only by mapping out the various elements which presently comprise the planned creation of an economically and socially integrated EC - political union is outside the scope of this study - and addressing the way in which theses policies interlock and interact, will it be possible to evaluate their impact on the economy of Gloucestershire. Broadly speaking it is possible to divide the integration process into three parts:

- the completion of the SEM *per se*, that is the removal of the remaining barriers to trade between EC Member States;
- the addition of a social dimension to the above process as embodied in the Social Charter, Social Action Programme and Structural Policy; and
- the movement towards EMU and the workings of the ERM.

In addition, these aspects of EC integration need to be viewed within the wider historical context of the EC's evolution beginning with the Treaty of Rome in 1957.

Evolution of the EC

I.2 The genesis of economic integration is found in the articles of the EC's founding treaty - the Treaty of Rome (1957). However, progress towards this end has been slow with pressures on the domestic economies of each Member State being such that few have been willing to open their domestic markets to more competition. Since 1982 the Commission of the Economic Communities (CEC) has approached the establishment of a single EC market with renewed vigour. In 1985, at the Madrid Summit, the CEC's White Paper on the completion of a single internal market by 1992 - which contained 282 draft proposals designed to remove known NTBs - was endorsed by the Member States. This in turn, gave rise to the Single European Act (SEA), adopted by the Council of Ministers in 1986.

I.3 The SEA embodied the first set of constitutional amendments to the Treaty of Rome. As well as reaffirming the commitment to a more economically integrated EC, it also provided the means to hasten the decision making process at the EC level. More recently the draft Treaty on European Union - adopted at the Maastricht Inter Government Conference (IGC) in December 1991 - attempted to take the process of integration one step further in:

- specifying the economic convergence criteria for monetary union;
- once more reaffirming the EC's commitment to the social dimension (SD); and
- raising the difficult issue of political union.

However, this Treaty has yet to be ratified by each Member State's legislature. The UK's reservations with respect to various provisions contained in the Treaty on European Union resulted in it obtaining an opt-in clause with reference to European Monetary Union (EMU) and an opt-out clause with reference to the SD. This latter move resulted in the Social Protocol - which outlines how the other eleven Member States may proceed with the SD given the UK's opt-out - being attached to the Treaty. However, other Member States have also been somewhat tentative in their embrace of the Treaty on European Union. The monetary union aspect appears to be particularly sensitive to opposition within Member States where there is concern over the possible replacement of national currencies with the ECU.

1.4 The SEA represents a landmark in the history of the EC in several respects, but particularly so given its overt commitment to the greater economic and social cohesion of the EC and the means it provided to speed the legislative process to this end. Of particular importance was Article 100a of the SEA which introduced QMV (Qualified Majority Voting) in Council for any measure deemed essential to the completion of the SEM. QMV requires 54 out of 76 votes in the relevant ministerial council, with each Member State's number of votes determined by its population *(see Table I.1)* This replaced the principle of unanimity stipulated in the Treaty of Rome.

Table I.1 Qualified Majority Voting in Council

France, Germany, Italy and the UK	10 votes each
Spain	8 votes
Belgium, Greece, Netherlands and Portugal	5 votes each
Denmark and Ireland	3 votes each
Luxembourg	2 votes

1.5 The SEA under Article 118A also extended QMV to measures relating to health and safety. Following the Maastricht Summit in 1991 all Member States, with the exception of the UK, agreed to extend QMV to a range of social measures concerned with the consultation of workers, working conditions, and equality between men and women.

The Principle of Subsidiarity

1.6 In formulating the legal rules to bring about the integration of the EC, the CEC has been abiding by the principle of subsidiarity. Although the principle of subsidiarity was legally defined for the first time in the Treaty on European Union (1991), its application has been central to all EC rule making especially in the social sphere for some time. The definition of subsidiarity given in the Treaty on European Union was as follows:

> In areas which do not fall within its exclusive competence the Community shall take action in accordance with the principle of subsidiarity, *only if and insofar as the objectives of the proposed action cannot be sufficiently achieved by member states and can therefore, by reason of the scale of effects of the proposed action, be better achieved by the Community.*
>
> *(Article 3b)*

However, subsidiarity remains a contentious issue insofar as the most efficient level at which to undertake action is clearly open to argument. Now that the principle of subsidiarity has been legally incorporated within the EC's Treaty base, circumspection will be required by the CEC in proposing legislative measures especially in sensitive areas such as social policy. Overall, the emphasis Member States have placed on subsidiarity in the recent past is expected to bring about a contraction in the CEC's scope of activity.

1.7 This brief history of the EC's objectives in the economic, political and social arenas demonstrates the distance which has been travelled since the six founding Member States signed the Treaty of Rome in 1957. At the same time, it highlights the stumbling blocks which are now coming to light and which will potentially hinder key aspects of the integration process. The rest of this section considers the SEM, the SD and EMU in greater detail.

THE SINGLE EUROPEAN MARKET & ECONOMIC INTEGRATION

Introduction

I.8 A key driving force behind the desire to create a single internal market has been the growing recognition of the EC's lack of competitiveness with respect to Japan and the USA. The fragmented European market has been identified as the primary obstacle preventing EC firms taking advantage of a large EC-wide domestic market comparable in size to that of Japan or the USA. For instance, the EC had 323 million inhabitants in 1987 which constituted the

largest market in the industrialised world. The United States had 244 million and Japan only 122 million. However, the GDP of the EC relative to its population, remains low compared to that of the other two areas. The EC GDP was ECU 3,669bn in 1987, whereas the US GDP was ECU 3,869bn and that of Japan ECU 2,058bn.

1.9 A closer examination of the EC's industrial base reveals critical weaknesses compared to either Japan or the USA. In particular, the EC lags behind both Japan and the USA in its market share of the hi-tech sectors in the world economy. Here it is recognised that the EC will only generate R&D funding comparable to American and Japanese multinational companies if co-operation is fostered between EC firms. Moreover, economies of scale are vital in these industries and call for production units which can serve a large unified market.

I.10 The SEM is a partial solution to the problems outlined above. Through eliminating the remaining barriers to free and open trade within the EC, the necessary economies of scale and trans-EC co-operation will emerge thus remedying the global uncompetitiveness of EC producers. Tariff barriers were successfully removed early in the history of the EC, however, the so called NTBs have endured and have accordingly formed the focus the 1992 programme. NTB's are generally categorised as follows:

- Physical Frontiers - primarily customs controls and associated paperwork.
- Technical Frontiers - for example meeting divergent national standards, technical regulations and conflicting business laws or the rules governing public procurement.
- Fiscal Frontiers - differing rates of VAT and excise duties.

Physical Frontiers

I.11 Customs procedures involving frontier stops are at present maintained within the EC for several reasons, as outlined below:

- Differences in VAT rates and excise duties which necessitate border tax adjustments.
- Differences in national health standards with respect to veterinary and plant checks.
- Statistical formalities.
- For monitoring bilateral trade quota regimes which member states maintain with third countries.
- Checks to control road transport licenses and the compliance of vehicles with national regulations.

- For monitoring trade in certain agricultural products in accordance with the common agricultural policy.

All these procedures will need to be eliminated or reformed in ways that do not require frontier formalities.

I.12 The costs associated with these existing formalities and controls apply to the traders of each EC member state. These costs can be split into direct costs and indirect ones. The direct costs consist of internal administrative costs borne by exporting and importing firms, the additional transport costs associated with frontier delays and the external costs of services associated with customs clearance such as customs agents or advice and support services at the frontier point. The indirect costs are those arising from the protection of domestic markets from foreign competition and the extent to which this impedes domestic competitiveness.

Technical Frontiers

I.13 These can be split into technical regulations and the barriers posed by national public procurement policies.

Technical regulations

I.14 National product regulations and standards have had an adverse impact on industry seeking to fully exploit the EC market. In an increasing number of sectors firms need to sell in quantities which are much larger than those likely to be absorbed in their home market. National variation in technical standards and regulations, however, forces exporting companies to increase the variation in their product mix and produce much smaller batches than would otherwise be the case if a homogeneous market existed in terms of technical standards. In other words economies of scale are lost. Amongst the industries most affected by the lack of technical uniformity in the EC are the hi-tech sectors where most of the growth in manufacturing is expected to be concentrated in the medium term.

1.15 The costs to traders of the varying technical regulations across the EC arise in the following ways:

- through the duplication of R&D costs;
- in losses of efficiency as production runs are adapted to different national needs (although flexible manufacturing systems (FMS) may alleviate this problem);
- increased inventory and distribution costs; and
- in competitive weakness in world markets as a result of small domestic markets.

Public Procurement Policies

I.16 The public sector within the EC has been criticised as having a 'Buy National' policy, irrespective of cost or quality. This is clearly inconsistent with the aims of the SEA. The public sector, both central and local government and nationalised industries and utilities, is a major consumer in all the Western economies. In 1986, public purchasing amounted to ECU 530 billion, amounting to 15 per cent of the EC's GDP. However, only a fraction of this expenditure finds its way out of the respective national economy.

I.17 In theory, once those public procurement policies which uncompetitively favour domestic producers are abolished, cost savings will accrue as public bodies buy from the cheapest suppliers subject to a quality constraint, leading to a downward pressure on prices as industry reorganises under new competitive conditions. To date, however, formidable barriers remain to the abolition of nationally protective public procurement policies. This issue is dealt within in greater detail in *Section II*.

Fiscal Frontiers

I.18 These barriers take the form of differences in the rate and structure of indirect taxes (VAT and excise). It is primarily because of these current rate differences, and thus the practice of de-taxing goods for intra-community export and re-taxing them on import that the administrative barriers and frontier controls exist. At present VAT disparities are wide. However, the CEC has drawn up proposals on the approximation VAT rates and the harmonisation VAT and excise duty structures.

I.19 The CEC has proposed that a two-tier VAT system which provides for a *standard* level for general goods, and a reduced level for *merit* and *necessity* goods. It has been proposed that the standard rate of VAT should be between 14-20 per cent and the reduced rate between 4-9 per cent. These figures are calculated as the closest compromise for all Member States, so that the aggregate change in budget revenue from VAT for the all twelve Member States will be minimised, taking account of the fact that VAT will be paid in the country where goods are sold. The Commission also proposes to harmonise excise duties, which at the present time vary greatly between countries. It would not be sensible to harmonise VAT for a given set of products without similarly harmonising the respective excise duties.

Likely outcomes of SEM

I.20 Although considerable progress has been made in pushing through the various legislative measures which provide the framework for the operation of the SEM, there remains substantial speculation as to the operation of the SEM as it is currently drafted. It is widely believed that

creation of the SEM through the removal of NTBs is likely to result in two rather contrasting outcomes.

I.21 From a positive standpoint, the creation of a single trading zone will stimulate both co-operation and competition between trans-national Member State companies. This will result in a reduction in both costs and prices, provide a stimulus to domestic demand and global competitiveness and in turn raise GDP in real terms. This is the view of the CEC funded research programme on the likely outcomes of removing NTBs throughout the EC - *The Cost of Non-Europe* headed by Paulo Cecchini.

I.22 An alternative view suggests a much less favourable outcome from the operation of the SEM. Here the benefits accruing from the SEM are not expected to impact evenly across the EC. There are expected to be both winners and losers emerging from the process at the regional, sectoral, company and individual level. Cecchini dismissed this outcome by predicting a 'trickle down' effect with prosperity moving down from the wealthier regions to the poorer ones with the whole community ultimately benefiting. However, the evidence for the 'trickle down' effect remains inconclusive. A constant and enduring concern of the CEC has been with the implications of the SEM for the poorer regions and social groups within the Community. The CEC's response to this is now considered in a little more detail.

THE SOCIAL DIMENSION

The Social Charter and the Social Action Programme

I.23 Social integration like economic integration has its roots in the Treaty of Rome (1957). However, its importance has only been recognised recently. The Charter for the Fundamental Rights of Workers - The Social Charter - has provided the basis for action in this area and has given rise to the Social Action Programme.

I.24 At the Strasbourg summit in 1989 the Social Charter was given the status of a *Solemn Declaration*, and was signed by all Member States with the exception of the UK. As a Solemn Declaration the contents of the Social Charter are legally non-binding on its signatories. In contrast, the Social Action Programme (SAP), which the Social Charter gave rise to, has spawned a series of measures which if adopted by Council will be legally binding on the UK as well as the other Member States. However, the forty seven proposals contained in the SAP have been slow to pass through the EC legislative process, with the UK government voicing concern as to the costs to be borne by industry if such legislation is passed.

I.25 The Social Action Programme has been presented as a series of Directives and non-binding legal instruments. At present, a good deal of uncertainty is attached to the final outcome of the SAP. The *Social Protocol* attached to the Treaty on European Union allows the eleven signatory Member States - after 1st January 1993 - to proceed with measures arising out of the SAP with QMV applying to council, if the UK decides that it can not go along with a proposed measure. However, it would be misleading to single out the UK as the only member state with misgivings about the economic impact of the SAP in practice. In addition, there remains some question as to the legal standing of the *Social Protocol* as it presently stands. At another level, the issue of compliance has become a key issue with questions raised as to the willingness and ability of certain Member States to put SAP adopted measures into practice. This concerns the UK government to the extent that it plans to raise the issue of compliance during its Presidency of Council in the latter half of 1992.

I.26 The SD embodies a wide range of measures designed to raise and level the floor of social protection for workers across the EC. The measures broadly fall under the following headings:

- The Labour Market
- Employment and Remuneration
- Improvement of Living and Working Conditions
- Free Movement of Workers
- Information, Consultation and Participation of Workers
- Equal Treatment for Men and Women
- Vocational Training
- Health and Safety in the Workplace
- The Elderly

1.27 Certain legislative changes will be required to take full account of new health and safety Directives, resulting in the scope of health and safety regulation widening in certain countries. Member States are expected to uncontentiously consent to these new Directives, although compliance may be a more difficult area.

I.28 The measures outlined above only provide a flavour of the proposals which are being pursued under the SD. Several features are notable:

- many of the proposals involve a cost to employers;
- the floor of social protection being put in place is often at a higher level than that already practiced in many northern EC states;
- there appears to be considerable uncertainty as to the progress of many of the measures contained in the SD, primarily as a result of the UK Government's opposition to a variety of measures.

Progress with the SD may be hastened after 1 January 1993 when the UK effectively loses its power of veto with respect to the SD, although the provisions of the SD then passed into law by the other eleven Member States will no longer apply to the UK.

STRUCTURAL POLICY

The Structural Funds

I.29 Structural policy represents a second tier in the CEC's attempts to bring about economic and social cohesion in the EC. Whereas the SD is concerned with a levelling-up of social protection in the labour market, the CEC's structural policies are concerned much more directly with the economic and social cohesion of the EC. The structural funds provide the means to redress the balance, first, between the poorer and richer areas of the EC, and second, between disadvantaged and advantaged social groups. In meeting these ends, structural policy has utilised two types of instrument:

- the provision of grants; and
- the giving of loans.

I.30 The most important of the instruments which give grants are the three Structural Funds which are outlined below.

- *The European Social Fund* (ESF) created in 1970 and provided for in the Treaty of Rome, grants aids for the training, recruitment and retraining of workers.

- *The European Regional Development Fund* (ERDF) created in 1985, seeks to correct regional imbalances by encouraging productive investments and by improving those infrastructures which facilitate economic development.

- *The European Agricultural Guidance and Guarantee Fund* (EAGGF) created in 1964, is responsible for assisting the modernisation of agricultural structures.

Amongst the instruments which grant loans are the following.

- *The European Investment Bank* grants loans for public and private investments to facilitate regional and industrial development.

- *The New Community Instrument* is a financial facility whereby the Commission is empowered to borrow funds on behalf of the European Community and to redistribute them as investment loans.

I.31 Under the SEA the Structural Funds were reformed with the new regulations coming into effect on 1st January 1989. The Brussels Summit in early 1988 agreed to a doubling of the Structural Funds to 14bn ECU a year by 1993, and to concentrate the funds on a limited number of objectives with most resources going to those parts of the Community which are least developed.

The Objectives of EC Structural Policy

I.32 The six objectives are prioritised from 1 to 5b with their allocation of funds outlined in *Table I.2*

Table I.2 Structural funds - instruments and allocation 1989-93

Per cent of total funds	Objective		Instrument	ECUbn
63	1	lagging regions	all funds	38.3
12	2	declining regions	ERDF,ESF	7.2
12	3	long-term unemployment	ESF	7.5
	4	youth unemployment	ESF	
6	5a	agricultural adjustment	EAGGF	3.4
5	5b	rural development	all funds	2.8
2		other		1.1
Total				60.3

Source: European Commission

I.33 The six objectives of structural policy were decided upon by the governments of the Member State's at the Brussels Summit of 1988 as follows.

- *Objective 1.* The Community has decided to promote the economic development of those regions lagging behind, as measured by GDP per head, through all the structural funds. These regions have been defined as areas where GDP per head is at least 25% below the Community average. All regions falling into the Objective 1 category occupy peripheral positions. They comprise the whole of Greece, Portugal and Ireland, Northern Ireland, most of Spain except Madrid and the north-east of the country, Southern Italy, Sardinia, Corsica and the French overseas territories. The average rate of unemployment in those regions is double that of the other areas (14.25% against 7%).

- *Objective 2* - The community has designated ERDF and ESF under its second objective, to the so called 'rust belt' or older industrial areas in the northern countries. These are usually city areas which have suffered as a consequence of de-industrialisation. In 1990, the unemployment rate in Objective 2 areas was 1.5 percentage points above the community average (9.5% against 8.0%).

- *Objective 3* - The Community has designated ESF funding to combat long-term unemployment. Funding is available to programmes which assist those aged 25 or over and who have been out of work for at least 12 months. These criteria are relaxed for schemes which offer assistance to the disabled and women returners.

- *Objective 4* - Here the Community has designated ESF funding to schemes which assist young people, aged under 25, who have reached the minimum school leaving age and who are searching for employment.

- *Objective 5a* - The Community has provided EAGGF funds to any measure which improves the competitiveness of enterprises engaged in the production, processing or marketing of agricultural products.

- *Objective 5b* - The community is designating a proportion of all three structural funds to Objective 5b regions. These are rural areas which have low population densities and limited access and which are disadvantaged in the development of modern agricultural systems and the development of other new economic activities.

I.34 Objectives 1,2 and 5b are spatially specific and so qualification for funding under these objectives is dependent on a region satisfying the necessary criteria. Objectives 3, 4, and 5a are not spatially selective and are referred to as horizontal measures with the criteria for qualification applying to individuals independent of their geographic location. Community support is granted in response to a regional or national initiative, and generally supplements national aid. The national or regional authority must draw up development plans for each of the objectives and send these plans to the Commission. In light of these plans the Commission decides upon a Community Support Framework (CSF). Authorities appointed by the Member States can then submit an application for financial assistance which needs to take into account the qualifying criteria specified in the CSF.

European Regional Development Fund

I.35 Actions under ERDF are concerned with Objectives 1,2 and 5b and may not act outside these regions. Three groups of region can be distinguished. First, the weakest member states Greece, Portugal and Ireland are entirely eligible under Objective 1. Second, in four Member States - Spain, France, Italy and the UK - specific regions can apply for funding under Objectives 1,2 and 5b. Third, the remaining Member States may apply for regional funds under Objectives 2 and 5b.

I.36 The Objective 1 areas receive the majority of the ERDF's funds (approximately 80 per cent) with the remainder being distributed between Objective 2 and 5b regions. Around sixty per cent of the total ERDF funding dedicated to Objective 1 areas is devoted to the improvement of the economic infrastructure of those regions where it is seriously deficient. Another thirty per cent of the Objective 1 expenditure is given to Portugal and Italy to improve the production sector. The remaining 10% will be devoted to local development actions under a range of measures.

I.37 ERDF funding, which in the past has been focused upon basic economic infrastructure improvements, is now much more concerned with direct investment in the production sector and other local development actions.

I.38 ERDF funding will co-finance investments of very different natures, ranging from large communication infrastructures to investment in enterprises themselves. ERDF investments have included those in:

- basic infrastructure (water and energy supply);
- supporting structures for enterprise development (including sites, commercial infrastructure, telecommunications service and so on); and
- investment in services to enterprise (consultancy and R&D).

I.39 The ERDF has also provided funds for a number of Community Initiatives which have a regional bias. These frequently involve the creation of transnational networks between national and local authorities and organisations. Some of the largest Community Initiatives funded by the ERDF are outlined below *(see Table I.3)*.

I.40 A recent development in the ERDF is the introduction of the Cohesion Fund which was written into the Treaty on European Union at the Maastricht Summit. This will be available to Portugal, Spain, Greece and Ireland and will be used for projects in the environmental field and in the development of trans-European transport networks.

Table I.3 Community Spatial Initiatives

Name	Purpose
STAR	To improve the access of Objective 1 regions to advanced telecommunications systems.
Resider	To contribute to the development of regions affected by the restructuring of the steel industry.
Renaval	To assist the conversion of regions affected by restructuring of the shipbuilding industry.
Rechar	To accelerate economic adaptation in the coal-mining areas most affected by past and probable future job losses.
Envireg	Specific to Objective 1 coastal areas - aims to demonstrate better methods of dealing with waste water.
Regis	For ultra-peripheral regions to accelerate the diversification of their economies.
Regen	Mainly in Objective 1 areas, aims at accelerating the installation of gas transmission networks and their interconnection with community wide networks.
Stride	Concerned mainly with Objective 1 areas but some Objective 2 areas included. Aims to raise the capabilities of the regions in the field of research and technical development, through research bodies and industry.
Prisma	Helps enterprises in Objective 1 areas meet community wide quality standards and to gain access to public procurement outside the local area as markets are opened up.
Telematique	Follows on from the STAR programme to take up the challenge of the Objective 1 regions developing advanced telecommunication services for businesses.
Leader	Rural areas are eligible under Objectives 1 and 5 for funding through Leader; which is a programme to promote rural development through the diversification of rural economies and the maintenance of an adequate social and economic fabric.

European Social Fund (ESF)

I.41 Action under ESF is concerned with Objectives 1,2,3,4 and 5b, however the priority objectives of the ESF are those of Objectives 3 and 4. The horizontal nature of ESF support results in it being applicable to schemes in any EC region, although in practice a large part of ESF funding is dedicated to schemes in Objective 1 regions, reflecting the high level of need in these regions. ESF consists of almost 400 types of assistance, with ECU 20bn being placed at its disposal over the 1989 - 1992 period.

I.42 The Community Support Framework (CSF) outlines the qualification criteria for ESF funding. The priority of the ESF under Objectives 3 and 4 is the support of training and employment measures in Member States. Although Objectives 3 and 4 are horizontal in nature, a distinction must be made between ESF assistance which goes to Objective 1 areas and those which go to the remainder of the EC.

- ESF funding directed at Objective 1 areas lasts for five years and will finance approximately sixty-five per cent of any approved scheme.
- ESF funding directed at the remainder of the community is only available for a 3 year period and will finance approximately forty-five per cent of any approved scheme.

I.43 Community grants may be used to help with the cost of studies and technical assistance, ESF finance may include payments to teaching staff, travel expenses and the cost of supplies. However, it may not be used to cover financial costs such as bank charges or interest on loans.

I.44 The ESF also funds a range of Community Initiatives, the largest of which are listed below *(see Table I.4)*.

Table I.4 Community Human Resource Initiatives

Name	Purpose
Eurotecnet	Community network of pilot projects providing training in new technologies.
Force	Community action programme for the development of continuous vocational training.
Comett	University-industry cooperation programme for training in the new technologies.
Misep	Information system on employment policies.
LEDA	Local development and employment research-action programme. Networking of pilot local development schemes to improve understanding of the workings of local employment markets and local development know-how.
ILES	Local job creation initiatives for women.
ERGO	Community action programme for the long term unemployed.
IRIS	Survey of and dissemination of information on Community training programmes for women.
Helios	Community action programme for the disabled.
Handynet	Community computer data system on the problems of the disabled.
Poverty III	Network of pilot schemes to combat the marginalisation and facilitate the integration of the most underprivileged.
Euroform	Consists of European training programmes to meet the new needs that will result from the completion of the single market.
Horizon	Promotion of social and professional integration of the handicapped especially in less developed regions.
NOW	Promotion of vocational training and employment of women.

European Agricultural Guarantee and Guidance Fund (EAGGF)

I.45 Actions under EAGGF are concerned with Objectives 1,5a and 5b. For the Objective 1 regions, under the EAGGF, a list of measures have been laid down in the CSF to maintain the countryside, reorganise and strengthen agricultural structures and help to develop rural areas. EAGGF Measures which apply to only Objective 1 and 5b areas are as follows.

- To encourage retirement from farming in order to restructure agriculture and encourage the installation of young farmers.
- To improve rural infrastructure which is necessary for the development of agriculture and forestry.
- To achieve agricultural diversification.
- The improvement of irrigation networks.
- Encouragement for tourist or craft investment.
- Protection of the environment or countryside.
- Restoration of agricultural production after natural disasters.

- Development of agricultural and forestry advising services and improvement of facilities for agricultural vocational training.

1.46 EAGGF has been the only structural fund available for Objective 5a. The specific measures which are eligible under the CSF for finance under Objective 5a are as follows.

- Improving the efficiency of production structures.
- Helping to improve the situation on agricultural markets.
- Protection of environmentally sensitive areas.
- Improvements of structures for the processing and marketing of agricultural products; and
- Protection and development of woodland.

Since 1989 all the horizontal structural funds were amended so as to meet Objective 5a. Specifically, the horizontal funds will now support schemes with the following aims.

- Branching out of non-agricultural activities on farms.
- Greater consideration for environmental protection and animal welfare.
- Strengthening of aid for the installation of young farmers.
- Concentration of community assistance in mountainous and less favoured areas.

I.47 The Structural Funds as described above are the main instruments of Structural Policy. They are expected to have doubled again by 1997 highlighting the CEC's interventionist approach to the bringing about of structural re-adjustment in the wake of the SEM.

EUROPEAN MONETARY UNION

Introduction

I.48 As currently drafted, full European Monetary Union (EMU) will culminate in the acceptance of a common currency by all member states in place of their existing currency. This outcome is by no means inevitable but represents the ultimate goal. The path to EMU is a gradual one, requiring at first the convergence of the EC Member States' economies in nominal terms.

Convergence Criteria

I.49 At Maastricht in December 1991 a timetable for accomplishing full EMU (Stage 3) was agreed. Stage 3 was to commence no later than 1999 with the possibility of its commencement

as early as 1996 if it was agreed that the majority of States have satisfied the convergence criteria by this date. In the meantime it was agreed that there should be a transitional stage (Stage 2) which will facilitate convergence.

I.50 Stage 1 of EMU specified closer monetary cooperation within the existing institutional framework. Stage 2 involves technical preparation for Stage 3 and aims to strengthen co-ordination of Member States monetary policies whilst leaving ultimate responsibility for policy with national authorities. Commencement of Stage 2 was agreed at the Maastricht Summit for 1st January 1994.

I.51 The UK and Denmark have agreed to the principles of EMU up to and including Stage 2 but have requested a opt-out clause for Stage 3.

I.52 Stage 2 is a means of reinforcing convergence by all member states towards sustainable low inflation, thus creating an environment which will support Monetary Union under Stage 3. An institution will be developed during Stage 2, known as the European Monetary Institution (EMI), to coordinate this process. However, responsibility for individual policies will remain with national authorities. The EMI will act as a consultative and administrative body and will administer the European Monetary Co-operation Fund, monitor the running of the EMS, and report annually to the Council on economic convergence and on the preparation of technical procedures for Stage 3. If Stage 3 is to be attained, Member States must converge on a number of economic indicators. The convergence criteria specified in the Treaty on European Union is as follows.

- A high degree of price stability will be apparent from a rate of inflation not exceeding that of the best three performing Member States by 1.5 per cent.
- Sustainability of the Government's financial position, that is not working up an excess deficit.
- Observance of the normal fluctuation margins provided by the exchange rate mechanism (ERM) for two years without devaluing against the currency of any other Member State.
- The achievements of convergence and participation in the ERM to be reflected in the long term interest rate levels over one year. It must not exceed that of the three best performers by more than 2 per cent.

I.53 If a member state satisfies all four convergence criteria, then the EMI will advise the Commission that the Member State in question is eligible to enter Stage 3, and hence participate in the process of complete monetary union. The key judgements as to whether a majority of

Member States meet the conditions for Stage 3 will be made by the heads of State or Government through QMV in 1996 acting on reports provided by the Commission and the EMI. If the majority of Member States do not meet the demands of convergence by 1996, then Stage 3 will commence in 1999 with only those Member States participating who have met the convergence criteria. In theory, as few as two Member States could enter into EMU in 1999.

I.54 Under EMU, exchange rates between participating currencies will be irrevocably locked. A European System of Central Banks (ESCB) will be established embracing the existing National Central Banks and headed by a new monetary institution, the European Central Bank (ECB). The ESCB will be responsible for issuing and managing the single currency - the ECU. When and if the ECU replaces existing currencies the ECB will authorize issue. Monetary policy in the EC will be in the hands of the ECB, although it has been proposed that national central bank governors from participating Member States will be members of the ECB's Governing Council, ensuring national representation in the design of European Monetary Policy. However, the ECB will not be responsible to each participating Member State's government, but will report to a central body, the ECOFIN council.

CONCLUSION

I.55 The purpose of this section has been to outline the main strands of EC policy making in the drive to create a more economically, socially and politically integrated EC. Whereas EC rule making at a technical level, designed to create a single internal market has been virtually completed, the EC Member States have been much more hesitant in their adoption of rule making in other spheres. This has been most acutely observed in relation to social policy. The next section attempts to place the UK within the context of the EC in an effort to gauge the distance to be travelled by the UK in meeting the objectives of EC policy, as outlined in this section. It is only through measuring this distance that potential disequilibrating forces will be identified and the adjustment policies necessary at the local level to meet the demands of a more integrated Europe readily understood.

I.56 Implicit in the idea of integration, either in economic, social or political terms, is the convergence of EC Member States. Whilst a more integrated EC will no doubt contain a great deal of variety, without convergence around key issues, a single European Market even in its most limited sense will fail to function according to the objectives specified in its constitution. To date there has been disagreement between Member States as to the nature and degree of any necessary convergence. The next section in outlining the UK's position within the EC, sheds some light on the UK governments rationale in voicing reservations to the direction of a more integrated Europe, most notably in relation to the SD and EMU.

II. THE UNITED KINGDOM AND THE EUROPEAN COMMUNITY

INTRODUCTION

Convergence within the EC

II.1 The idea of convergence is central to the broad definition of the Single European Market (SEM) outlined in *Section I*. Conceptually, convergence may be seen at three levels:

- in economic and monetary terms, for instance as outlined in the Treaty on European Union (1991);
- in social terms, in the co-determination of social policy between the social partners according to common practice in continental Europe; and
- in political terms insofar as there is some convergence towards acceptance of those elements considered central to the constitution of a more united Europe.

At each level there is some critical threshold to be passed before a functioning Single European Market will satisfy the objectives and goals outlined in *Section I*. The UK Government has consistently voiced caution at each level to the extent that it has secured an opt-in clause with respect to Stage 3 of the transition towards EMU and an opt-out clause from the SD after 1 January 1993. At the same time it has been able to have the word *federalism* removed from the Treaty on European Union.

II.2 In order to assess the impact of the SEM upon the Gloucestershire economy there is a need first of all to address the positioning of the UK economy within the EC. Despite the existence of the EC in one form or another since 1957, the impact of economic agreements at the EC-level are still largely filtered through economic policy at the national level rather than having direct effect. Moreover, the ability and willingness of any national government to reach an agreement with its EC partners on economic policy will be determined, in part, by the past performance of that national economy, the economic priorities of national government and their perception of the most appropriate means to meet those priorities. Whilst there is undoubtedly a degree of interaction between the formulation of economic goals at the national and EC-level, largely as result of ERM membership, national economic sovereignty is far from being usurped. Nevertheless, the cautious approach of the UK Government to European integration does mark it out from its EC partners. This was very much in evidence at the Maastricht IGC (1991) where negotiations surrounding the Treaty on European Union demonstrated the distance between the UK Government and the rest of the EC Member States not just in relation to the establishment of EMU, but at a much broader social and political level. At a technical level the UK Government harbours reservations relating to the attainment of EMU and holds deep reservations concerning the economic impact of the SD, but there are ideological differences too. The idea of the nation-state runs deep in the British political system, resulting in a robust opposition to any perceived

threat to national sovereignty. Moreover, outside of the tight confines placed on national monetary policy by membership of the ERM, the UK Government questions the willingness of its EC partners to put into practice EC legislation, so much so that it intends to make compliance a key issue of its Presidency of Council in the second half of 1992. In effect, compliance has become the issue around which the UK has defended its own position in the EC. Perhaps more than in any other EC Member State, the UK government stands as a buffer between EC policy making and its incorporation into national policies.

II.3 The first part of the commentary in Section II describes the economic position of the UK within the EC with reference to convergence and the relative strengths and weakness of the UK economy. The commentary goes on to address the UK Government's attitude towards the social dimension of the SEM with respect to those measures arising from the EC's Social Action Programme 1991 - 1994 and addresses the economic arguments which arise from it. Finally, an overall assessment of the UK's position within the EC is provided. In summary, this section provides the context against which an assessment of the Gloucestershire economy within a more integrated EC may be gauged.

THE UK ECONOMY AND THE EC

Introduction

II.4 During 1991 the UK economy went into recession in advance of the rest of Europe. During much of 1991, forecasts of economic recovery in the latter half of that year proved to be overly optimistic with output continuing to fall into 1992. Key economic indicators now suggest that the 1991/1992 economic recession will prove to be as severe as that endured during 1980/81. Real growth in output is now expected in 1992 but the rise in unemployment is set to continue into 1993. Economic growth has slowed in the other EC Member States too with a consequent deceleration in both the nominal and real rates of convergence between EC Member States.

II.5 In many respects the question becomes one of identifying how different is the UK economy from that of the rest of the EC. This can be looked at in terms of key macro-economic indicators, but it is also necessary to look at key structural differences too, in particular the sectoral composition of the UK economy and the functioning of the labour market.

Overall Macro-Economic Performance: A Snapshot

II.6 If a series of brief snapshots are taken of economic performance in each member state, a broad picture emerges of the UK's relative position *(see Table II.1)*. On balance, a rather mixed

Table II.1 Main Economic Indicators

		Annual Percentage Change; unless otherwise stated		
		1980	1985	1990
Gross Domestic Product[1]	EUR12	1.3	2.5	2.8
	UK	**-2.2**	**3.6**	**0.8**
	F	1.4	1.8	2.8
	D	1.4	2.0	4.7
	I	4.2	2.6	2.0
Gross Fixed Capital Formation[2]	EUR12	22.1	19.1	20.8
	UK	**18.0**	**17.0**	**18.6**
	F	23.0	19.3	20.8
	D	22.7	19.7	21.4
	I	24.3	20.7	20.2
Inflation[3]	EUR12	13.6	6.0	5.2
	UK	**16.3**	**5.4**	**8.4**
	F	13.5	6.0	2.9
	D	5.8	2.1	2.6
	I	20.4	9.0	6.2
Compensation per Employee[4]	EUR12	1.2	1.0	2.3
	UK	**3.0**	**1.8**	**2.7**
	F	1.6	0.6	1.9
	D	0.7	0.9	1.5
	I	0.8	1.1	2.7
Productivity[5]	EUR12	-	1.9	1.4
	UK	-	**2.3**	**0.4**
	F	-	2.1	1.6
	D	-	1.2	1.9
	I	-	1.7	1.0
Unemployment[6]	EUR12	6.0	10.8	8.4
	UK	**5.6**	**11.4**	**6.4**
	F	6.2	10.2	9.0
	D	2.7	7.1	5.1
	I	7.1	9.4	10.8
Current Balance[2]	EUR12	-1.2	0.7	-0.3
	UK	**1.5**	**0.5**	**-3.5**
	F	-0.6	0.1	-1.0
	D	0.5	2.6	3.2
	I	-2.2	-0.9	-1.4
Net lending (+) or net borrowing(-) of government[2]	EUR12	-	-5.2	-4.1
	UK	-3.4	-2.8	-0.7
	F	0.0	-2.9	-1.7
	D	-2.8	-0.9	-1.9
	I	-8.6	-12.5	-10.7
Long term interest Rates[7]	EUR12	13.0	10.9	11.1
	UK	13.9	10.6	11.1
	F	16.1	10.9	9.9
	D	8.5	6.9	8.9
	I	16.1	14.3	13.4

Source: Eurostat

Notes
1 Annual percentage growth in constant prices
2 As a percentage of GDP
3 Price Deflator of Private Consumption
4 In constant prices
5 GDP at constant market prices per person employed
6 Labour Force Survey Definition - % of civilian population
7 Actual level

picture of the UK economy develops. In comparison to the three largest economies in Europe - Italy, Germany and France - the UK inflation rate tends to be higher, growth in GDP appears to be more cyclical and a smaller share of GDP is accounted for by gross fixed capital formation. In comparison to the EC-12 average, the same weaknesses emerge although they tend to be less marked.

II.7 Of course the data above provides only three snapshots. The following sections investigate the relative macro-economic performance of the UK economy in greater detail.

Gross Domestic Production 1980 - 1990

II.8 The proportion of the EC's GDP accounted for by the UK has remained more or less stable over the 1980 - 1990 period, varying between 16 per cent and 19 per cent *(see Table II.2)*. In nominal terms, the annual average growth in GDP over the 1980 - 1990 period has been 7.30 per cent, more or less on a par with the EC-12 average of 7.34 per cent and in advance of either France or Germany. In absolute terms, the UK economy ranks fourth in the EC - behind Germany, France and Italy - measuring approximately half the size of Germany's in terms of GDP in 1990. In real terms, the annual average growth in gross domestic product at constant market prices, has also been in advance of the EC-12 average and that of France, Germany and Italy.

Table II.2 Gross Domestic Product of EC Member States

Current Market Prices (Ecu bn)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	AAGR 1980-1990
B	85.0	86.6	87.1	90.7	97.5	105.5	113.8	121.2	127.8	139.0	151.7	5.96
DK	47.7	51.5	57.0	63.0	69.4	76.7	84.0	88.8	92.5	96.4	103.2	8.02
D	589.9	612.9	672.3	737.7	784.6	822.2	907.5	967.3	1017.5	1080.0	1179.7	7.17
GR	28.9	33.3	39.4	39.4	43.1	44.1	40.0	39.9	44.8	49.2	51.5	5.94
E	154.4	167.3	184.2	176.5	200.7	218.6	235.1	254.0	291.8	345.3	387.0	9.62
F	478.5	524.0	546.6	592.1	634.8	691.7	745.8	767.9	809.1	870.4	934.0	6.91
IRL	13.8	16.4	19.4	20.7	22.6	24.7	25.6	25.8	27.7	30.8	33.5	9.27
I	326.1	367.5	411.9	469.4	526.5	561.8	613.7	655.0	704.4	786.4	855.3	10.12
L	3.3	3.4	3.6	3.8	4.3	4.6	5.1	5.4	5.7	6.4	6.8	7.49
NL	122.0	127.1	141.1	150.2	158.6	166.5	178.5	184.3	192.5	203.2	219.3	6.03
P	18.1	21.9	23.8	23.5	24.3	27.1	30.1	31.8	35.3	41.2	47.2	10.00
UK	**387.0**	**460.5**	**496.3**	**517.0**	**548.9**	**602.9**	**570.0**	**596.0**	**705.6**	**760.7**	**783.6**	**7.30**
EUR-12	2250.7	2472.5	2700.7	2884.0	3115.2	3346.5	3549.1	3737.4	4054.6	4408.8	4752.8	7.34
USA	1932.1	2697.4	3181.7	3762.6	4719.7	5217.2	4250.4	3860.4	4065.8	4658.4	4240.5	8.17
Japan	764.6	1049.2	1107.3	1326.5	1593.5	1753.2	2000.2	2062.0	2410.1	2561.2	2278.8	11.53

Source: Eurostat; OECD; National Statistics; IER.

Private Consumption

II.9 Private consumption is the largest determinant of domestic demand in a national economy. In the UK, this has risen at a much faster rate of growth than the average of the EC - 12 or the three largest economies in the EC (*see Chart II.1*). Private consumption in the UK rose at an annual average rate of 3.4 per cent in real terms during the 1980s, peaking at an annual average rate of growth of 7.2 per cent in 1988 before dropping rapidly to just one per cent in 1990.

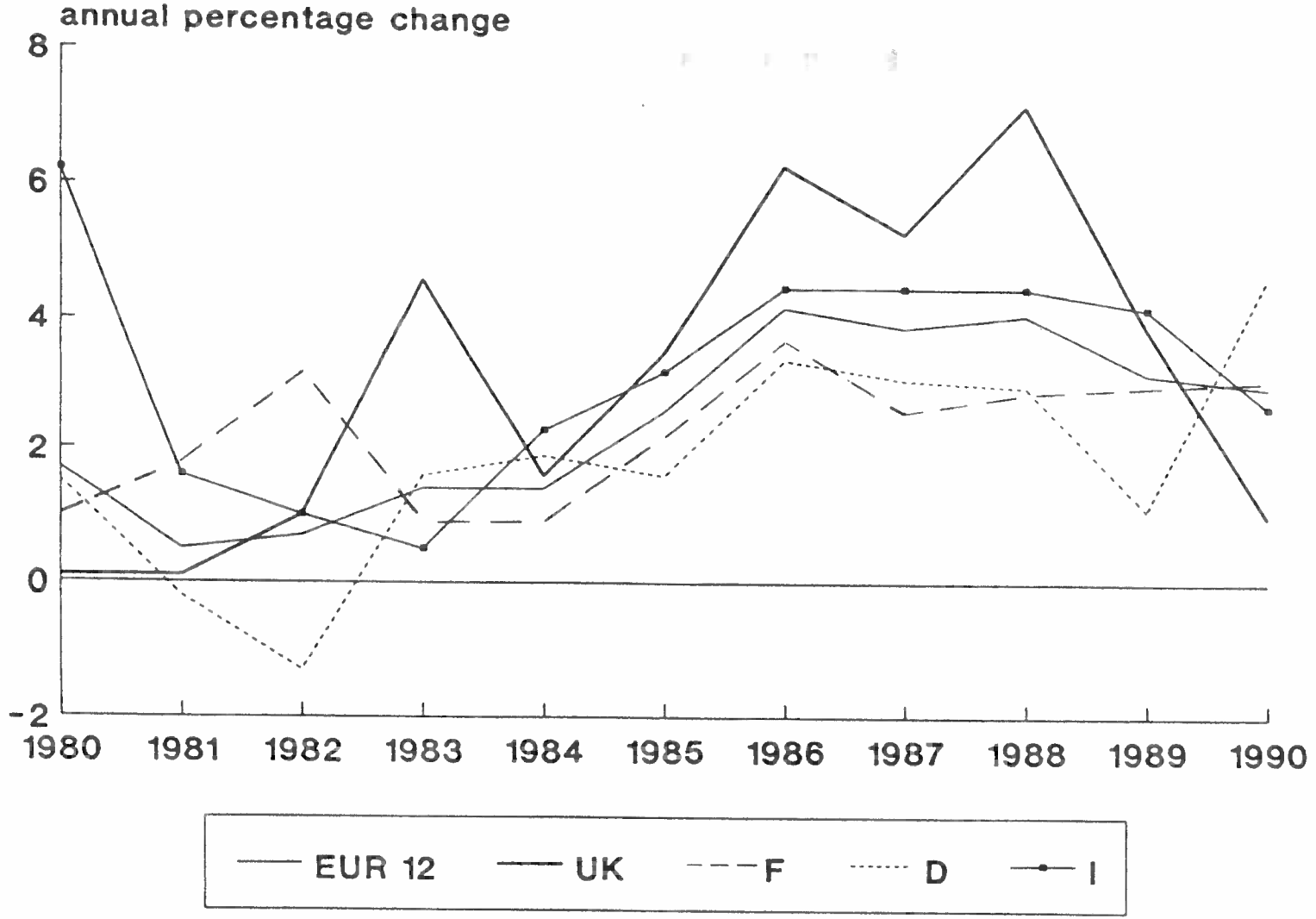
Government Borrowings and Lendings

II.10 Analysis of the net lendings and borrowings of government in the largest EC economies demonstrates that the UK net deficit has been consistently the lowest in the post-1987 period, indeed a net surplus was recorded in 1988 and 1989, reflecting increased revenue from taxes due to growth in the economy as well as the revenue gained from the privatisation of nationalised industries and public utilities (*see Chart II.2*).

The Balance of Trade

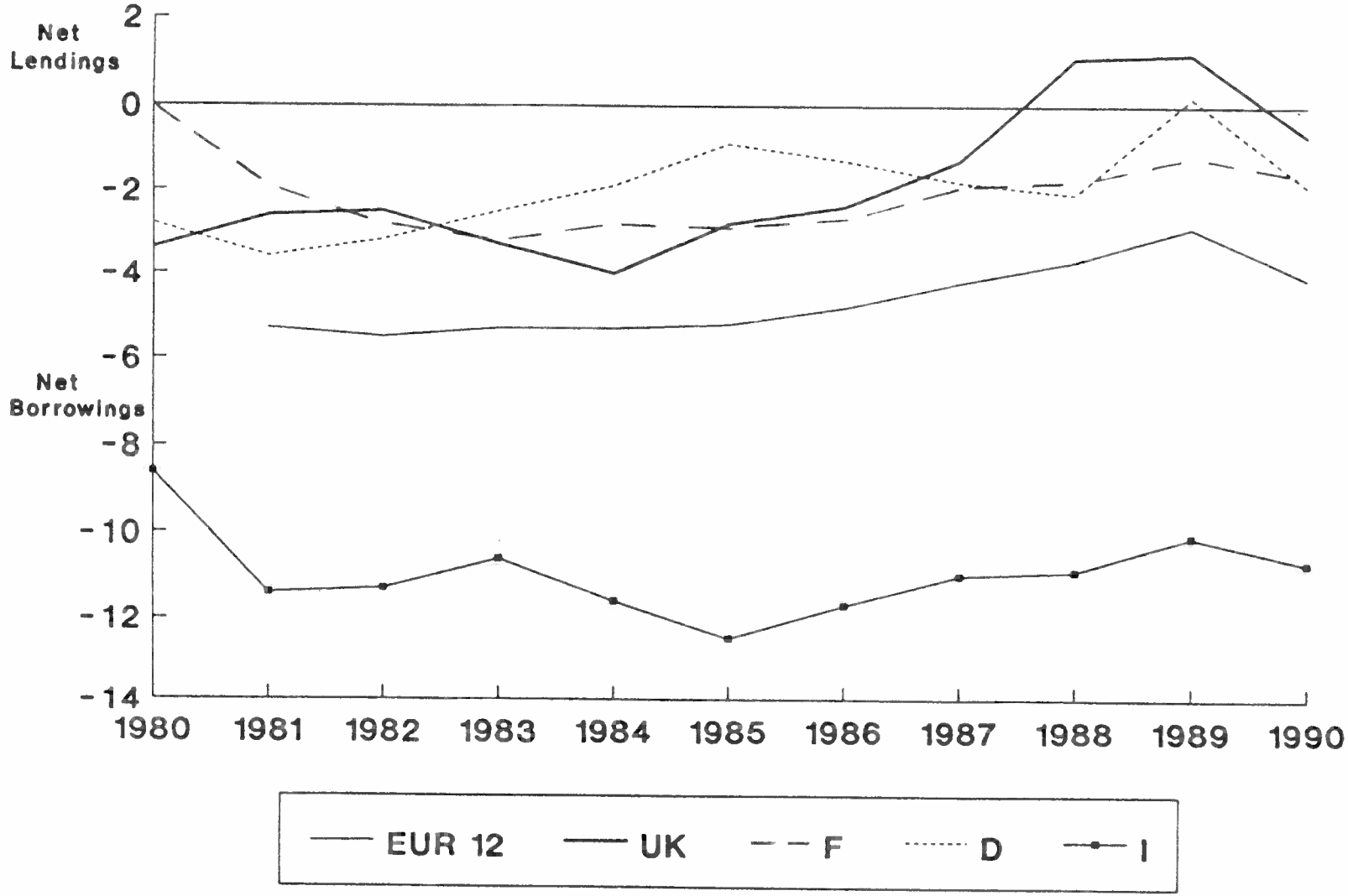
II.11 The rapid growth in private consumption was met in part by a growth in imports, resulting in a substantial trade deficit. In 1990, the UK trade deficit stood at ECU 4.08bn, by far the largest of the Northern EC-Member States in either absolute terms or as a proportion of GDP (*see Table II.3*). Perhaps alarmingly from an integrated EC perspective, the trade deficit is greatest with respect to trade with non-EC countries. The UK Government has firmly indicated that the trade deficit has been the result of the rapid growth in domestic demand which outstripped productive capacity rather than unsound fiscal policy. Moreover, the high net stocks of foreign currencies held by Treasury has provided the Government with an opportunity to assign inflation a higher priority than the trade deficit in its economic management of the UK economy. From reaching a peak in the mid-1980s, the underlying trend in the trade deficit is now one of decline, although it remains substantial. In order to avoid any decumulation of national wealth, the policy of cutting the trade deficit must be one of necessity in the medium to long term. The trade deficit has also signalled that the UK may be returning to the *stop-go* policies of the 1950s and 1960s which were stimulated by balance of trade and balance of payments problems.

Chart II.1 **Private Consumption in EC Member States 1980 - 1990**



Source : Eurostat

Chart II.2 Net Lendings and Borrowings of Government in EC Member States 1980 - 1990



Source : Eurostat

Table II.3 EC Trade Balance 1990 (ECU bn)

	Extra-EC Trade	Intra-EC Trade	Total	Trade Balance % of GDP
B/Lux	-6.3	0.1	-6.2	-3.91
DK	1.6	0.8	2.4	2.32
D	23.0	24.0	47.0	3.98
GR	-3.3	-5.9	-9.2	-17.86
E	-11.5	-9.2	-20.7	-5.34
F	-2.0	-14.9	-16.9	-1.80
IRL	-0.1	2.4	2.3	6.86
I	-5.0	-4.3	-9.3	-1.08
NL	-18.5	18.0	-0.5	-0.22
P	-2.8	-4.1	-6.9	-14.61
UK	-18.0	-14.0	-32.0	-4.08
EUR-12	-42.9	-6.9	-	-

Source: Eurostat; IER.

Balance of Payments

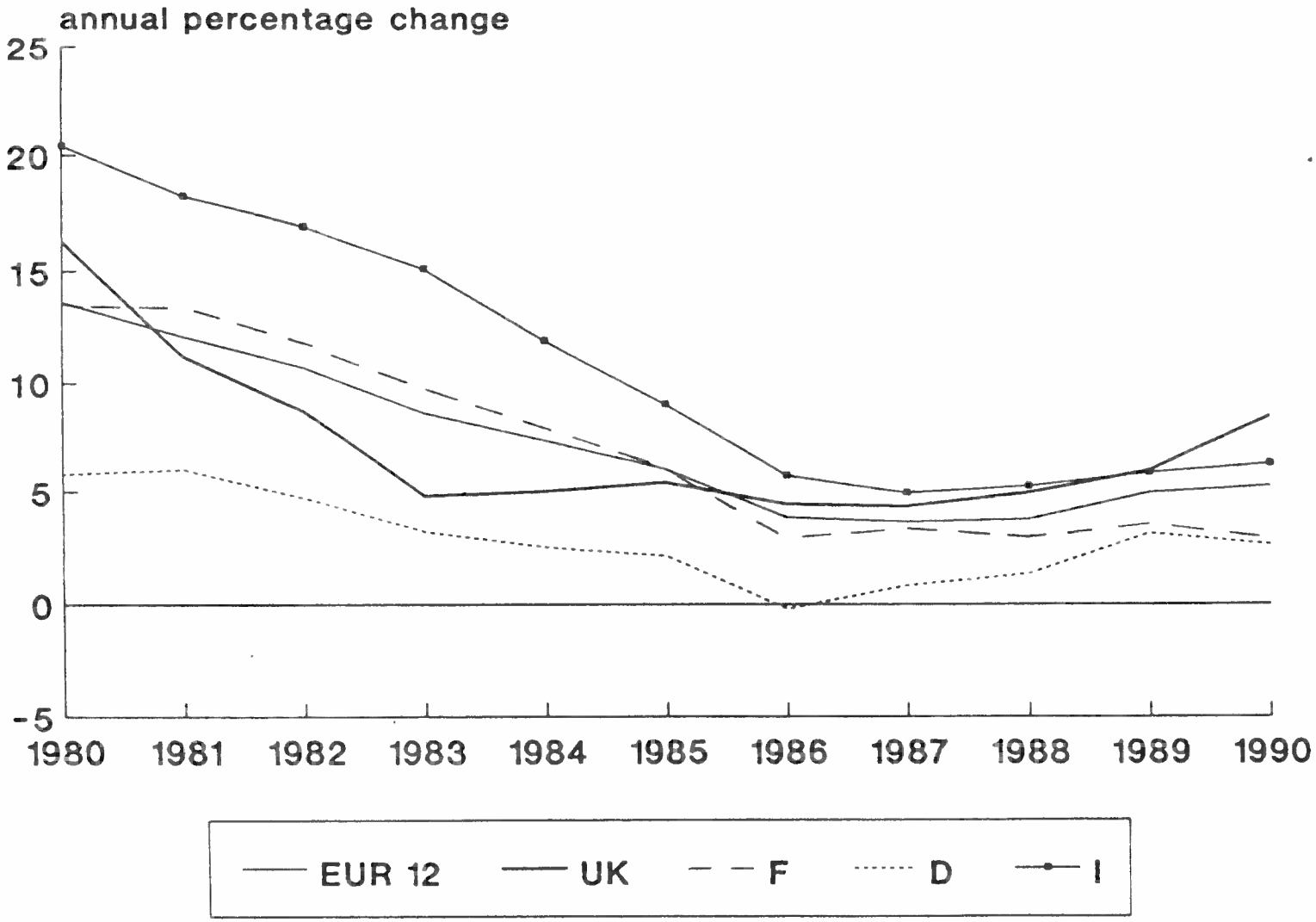
II.12 A qualification needs to be added to the foregoing commentary of the UK's trade position. First of all, the data masks the relative trade strengths and weaknesses of certain sectors in the UK economy. This is especially true of earnings from invisibles and the relative strength of the business and financial services industries. With respect to the financial and business services industries the importance of their export strength should not be underestimated given medium term forecasts of their growth in the UK and EC economy.

II.13 However, in terms of the overall balance of payments there has been a deficit despite the elimination of the public deficit in 1988 and 1989, with domestic demand continuing to outstrip domestic supply coupled to a low rate of private saving and strong investment during the latter half of the 1980s.

Inflation Trends, Interest Rates and Exchange Rates

II.14 Associated with Britain's relatively strong growth in gross domestic product has been upward pressure on inflation *(see Chart II.3)*. During the whole of the 1980s this has been somewhat in advance of the EC-12 average, particularly with reference to Germany and France. The anti-inflationary policy pursued by the Government under the Chancellorship of Mr. Lawson was to peg sterling against the D-Mark and increase interest rates. Pegging sterling to the D-Mark reinforced the Government's intention to avoid devaluation of sterling lest it had detrimental impact on productivity levels. Interest rates, both long- and short-term rates, like the inflation rate have remained above the EC average *(see Chart II.4)*. Successive hikes in the interest rate led to a contraction in private consumption, as evidenced in both the real rate of growth in high street sales and industrial production.

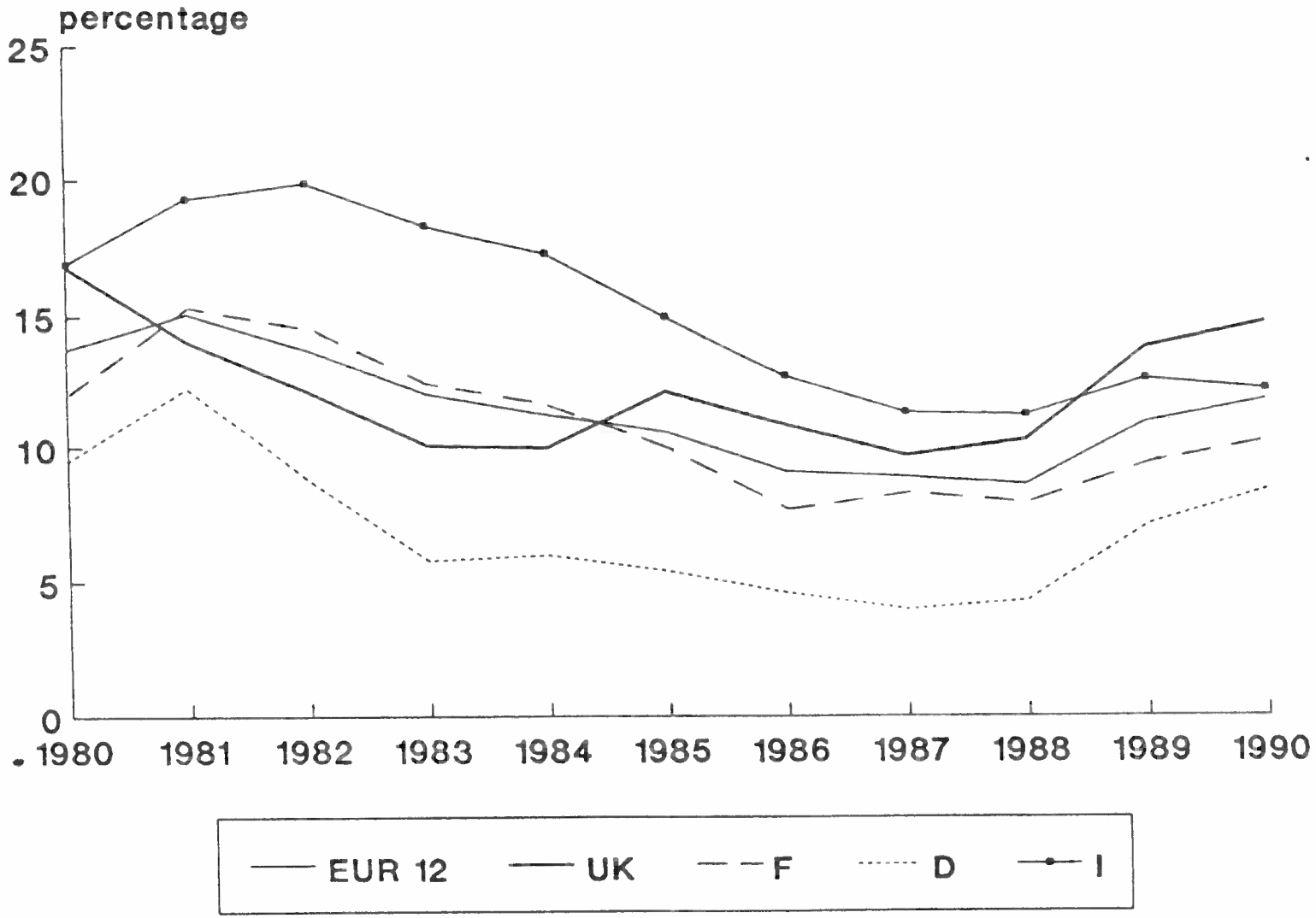
Chart II.3 Inflation in EC Member States 1980 - 1990



Source : Eurostat

Chart II.4A Interest Rates in EC Member States 1980 - 1990

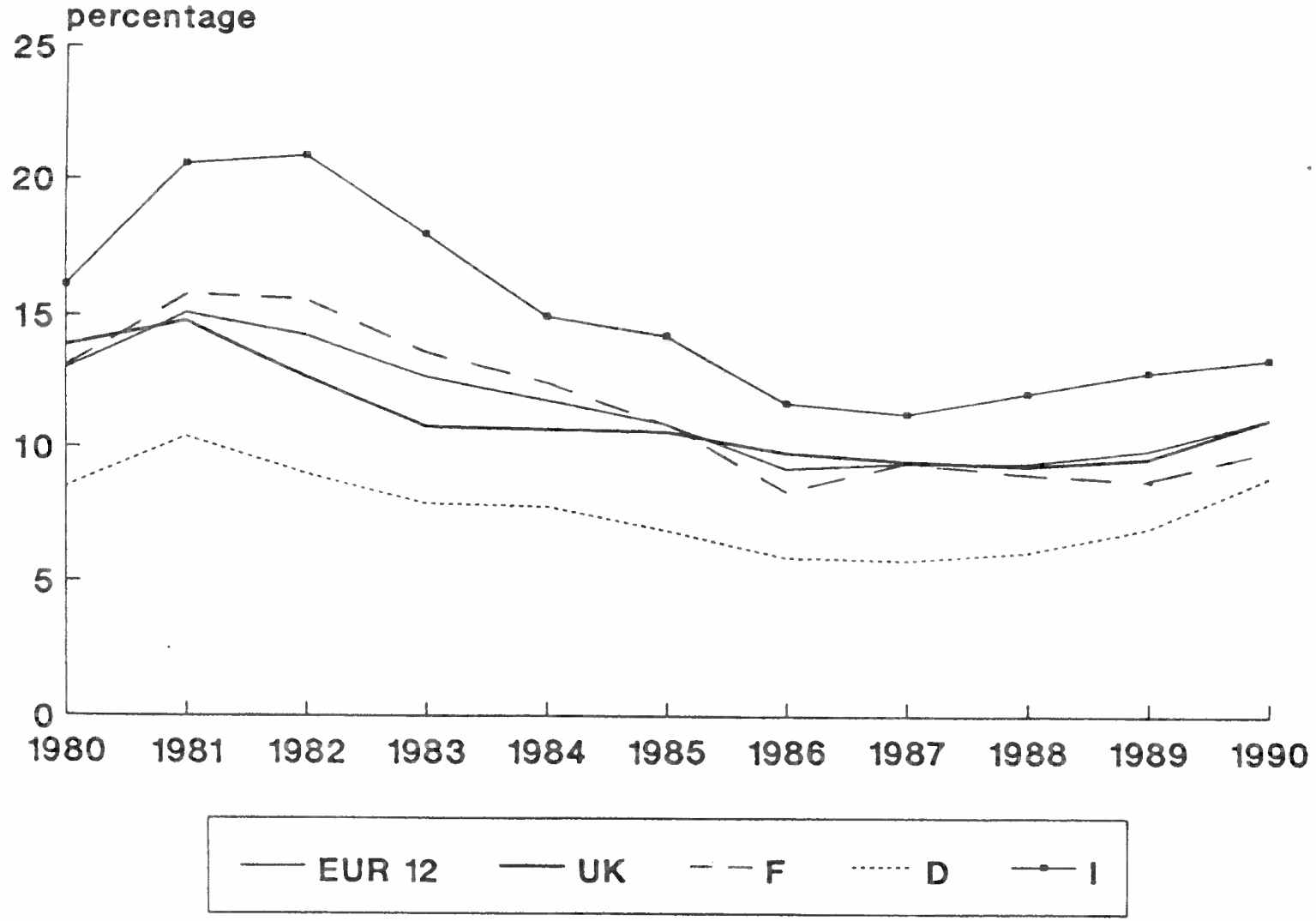
Short Term Rates



Source : Eurostat

Chart II.4*B* **Interest Rates in EC Member States 1980 - 1990**

Long Term Rates



Source : Eurostat

II.15 Britain joined the broad-band of the ERM in 1990, which allows it to vary its exchange rate within 6 per cent of the other ERM currencies. The sterling to D-Mark exchange rate at the point of the UK's introduction into the ERM was D-Mark 2.82 to £1. It is a moot point whether or not the UK joined at too high an exchange rate, although Britain does appear to have struggled to maintain price competitiveness since joining the ERM. Initial UK Government criticisms of the ERM centred around the tension between domestic monetary policy and the effect of partially fixed exchange rates. Raising interest rates in the domestic economy inevitably leads to a raised demand for that currency in the international market thus placing an upward pressure on the exchange rate. By definition this leads to strains within the ERM potentially threatening exchange rate stability. However, the size of the UK's trade deficit has resulted in several runs on sterling in the late 1980s effectively depreciating the currency and stimulating the need for interest rate increases.

Unemployment and Unit Wage Costs

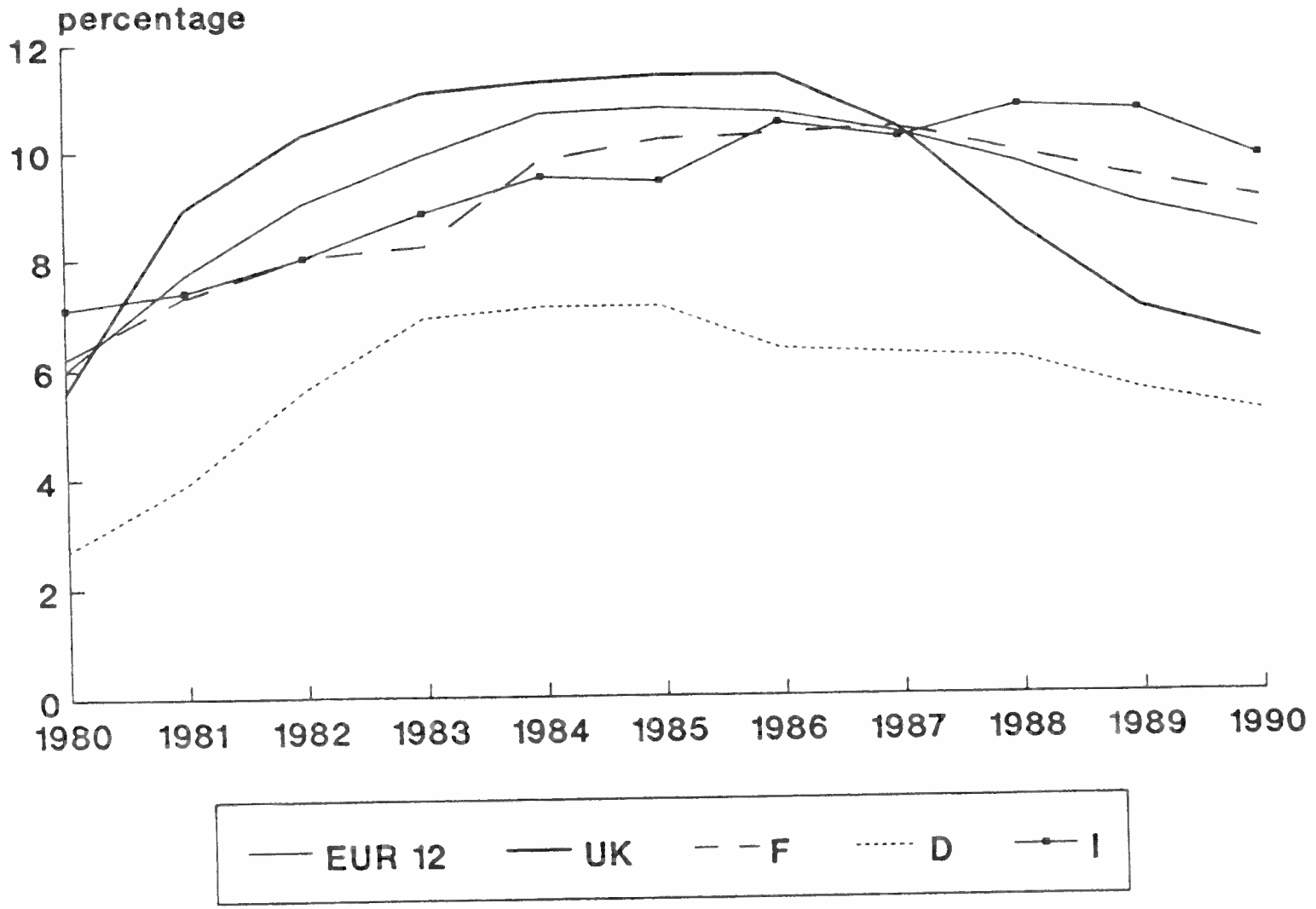
II.16 Unemployment in the UK dropped significantly in the post-1986 period, and has remained lower than the average of the EC-12, and lower than in either France or Italy *(see Chart II.5)*. At the same time unit labour costs have been held in check through much of the 1980s, increasing the competitiveness of UK industry, although in relative terms there has been some acceleration of unit labour costs in the post-1988 period, in part as a result of wage push inflation as unemployment decreased in the post-1986 period (*see Chart II.6*).

II.17 If the relationship between output and unemployment is examined a little further, it is clear that the UK's membership of the ERM removes the exchange rate as an option for compensating, in the short-term, for any rise in unit labour costs, thus placing the onus fully on employment. Moreover, if a Single European Market increases the responsiveness of consumers to prices - greater product price elasticity - there is a need for wage setters to become more responsive to price considerations or further unemployment will occur. To this extent the structure of wage bargaining may need to be addressed, especially the extent to which there exists wage rigidities in the labour market.

Evidence of Economic Convergence

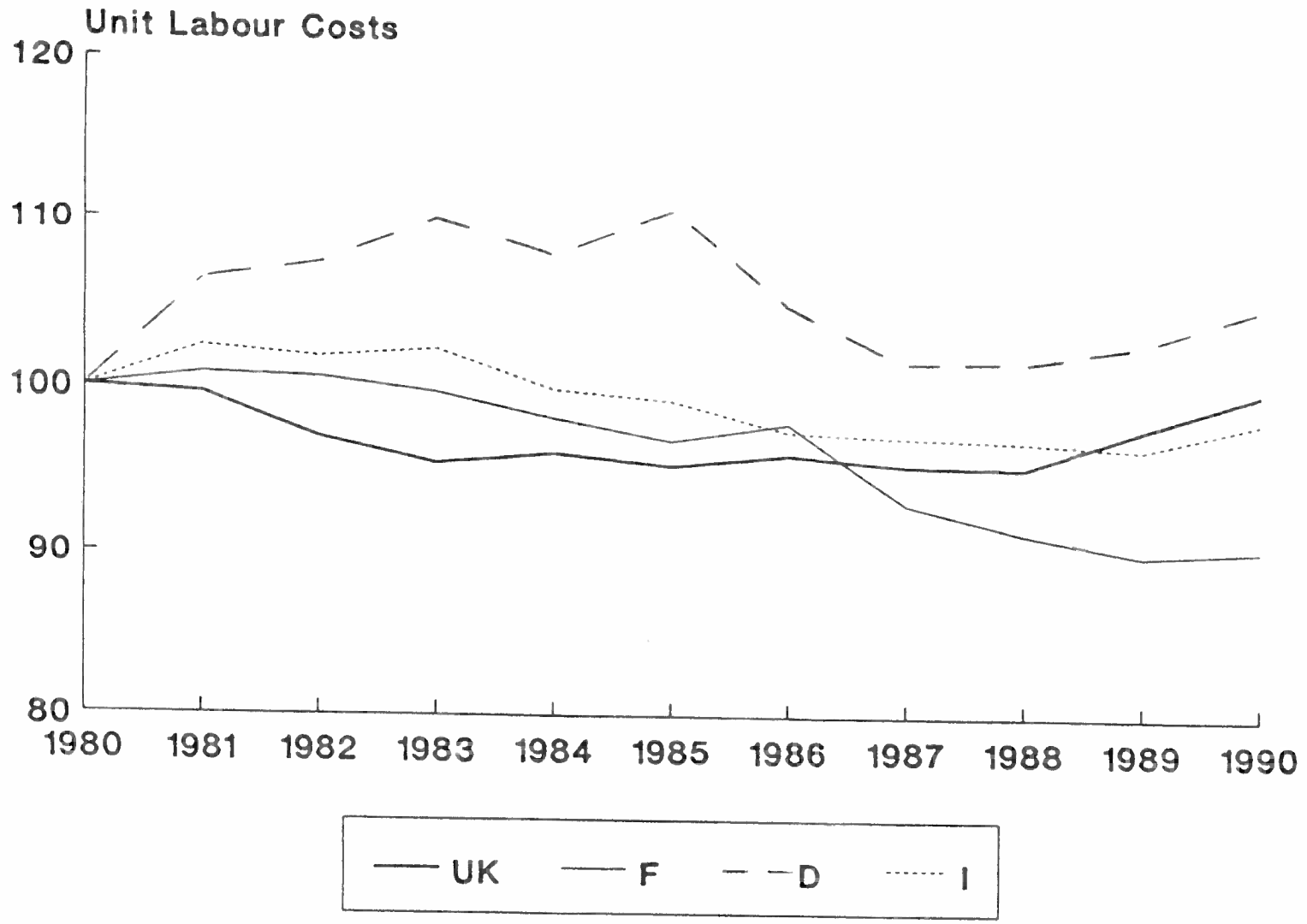
II.18 Economic convergence in terms of Europe, generally means convergence towards nominal rates in Germany. In the past the German economy has provided low and stable price inflation. Therefore, the ERM may be seen as facilitating a convergence towards German economic performance and hence German monetary policy lies at the heart of the ERM leaving the German Bundesbank as the *de facto* Bank of Europe. Available evidence indicates that in the post-1983 period there has been macro-economic convergence, primarily in terms of inflation, of the national economies within the EC. Although the process for many EC Member States,

Chart II.5 Unemployment Levels in EC Member States 1980 - 1990



Source : Eurostat

Chart II.6 Unit Labour Costs in EC Member States 1980 - 1990



involving deflationary packages, has been difficult, resulting in high unemployment (eg. France, Belgium, Denmark and Ireland) or a loss to international competitiveness (eg. UK, Spain and Italy). It has also been noted that the convergence of the UK economy to that of Germany, has been largely the result of worsening German economic performance. A weakening of German monetary policy may make convergence easier, but it also weakens the competitive position of ERM countries with respect to the rest of the World. In these terms the success or failure of German re-unification is central to the future of EMU.

II.19 The ERM may well provide a source of structural adjustment in EC economies, especially in terms of wage bargaining. Evidence has indicated, with reference to France, that the discipline imposed on monetary policy by the ERM has lent the French Government credibility in the labour market with respect to its management of inflation - thus making wage setters forward looking as well as lowering their wage expectations - and this has been instrumental in the convergence of the French inflation rates to those of Germany. The extent to which a further tightening of the ERM in the transitional stages towards EMU would further facilitate control of domestic inflation has also been subject to a lively debate. Certainly the idea of an independent Central Bank, as envisaged in Stage 3 of the transition to EMU, potentially liberates an economy from the inflationary or disequiliberating forces which emerge when political demands are made of monetary policy. However, achievement of Stage 3 in the transition to EMU necessarily requires the significant convergence of inflation rates across the EC in the first instance. In the longer term, if EMU is to provide a successful framework for the management of national economies, where EMU is taken to mean a central bank with irrevocably fixed exchange rates, there may well need to be wider structural convergence of national economies than that implied by a convergence of interest rates or structural adjustments to wage bargaining. It is notable that the macro-economic convergence of EC Member States has been achieved during a period when no external shock has been imposed on an EC economy. However, the diverse economic structures of the EC indicate that any reaction to an endogenous shock will be variable across member states. For instance, the response of an oil producing nation such as the UK to a large rise in oil prices would be different from the rest of the non-oil producing EC. Similarly, the strong cultural and economic links of the UK with the USA will result in it responding differently to a shock induced by a sharp rise in US Government expenditure. If the relative autonomy of economic actors in the UK is constrained, then the UK potentially loses any gain it would otherwise have secured. The extent to which any UK Government would be willing to forego these gains remains open to speculation and is no doubt dependent upon the size of those gains. At the present time the process of German reunification has imposed a shock on the European economy, and this has placed great strains on the ERM and led many to doubt the feasibility of EMU taking place in the medium-term.

THE INDUSTRIAL STRUCTURE OF THE UK

Industrial Specialisation

II.20 Over the past two decades there has been substantial restructuring of European industry. In broad terms there has been a shift towards the service sector and hi-tech manufacturing industries - in terms of the proportion of GDP which they account for - and a shift away from the primary sector and the traditional manufacturing sectors. Clearly this shift is variable across the EC with the less well developed EC Member States retaining a dependence on agriculture whereas the service sector shift is much more marked in the northern member states *(see Table II.4)*. An index of specialisation measures the difference in the proportion of value added accounted for by industry ***x*** in the GDP of country ***y*** against the value added accounted for by industry ***x*** in the GDP of the EC. Using this measure, the relative importance to the UK of the food and drinks industry, agriculture and industrial machinery industry and the paper and printing industry are made apparent. It is also noticeable that in the fastest growing export sectors in the EC, computer and office machinery and electrical equipment, the UK is poorly represented compared to the EC average. Against this trend, Japanese investment in the automobile industry will increasingly add to the performance of this sector in the near future as well as stimulating exports. There are also potential multiplier effects here with respect to hi-tech sectors of the economy given the amount of micro-electronics now incorporated within transport equipment. However, these multiplier effects may be localised given the *Just-In-Time* requirements of many Japanese manufacturers based in the UK. The most remarkable feature of the specialisation measure is the relative showing of the financial services sector, demonstrating a specialisation measure of 11.6 per cent, clearly reflecting the dominance of London in the international finance markets.

The Sectoral Impact of Removing Non-Tariff Barriers

II.21 In removing non-tariff barriers to trade within the EC, net gains are available to industry from the potential economies of scale which an EC-wide market provides and from the abolition of the transaction costs involved in intra-EC trade. However, there are likely to be *losers* as well as *winners* in the formation of the SEM, most notably in those industries which are not competitive in terms of price or innovative activity. Analysis at a detailed sectoral level has identified those manufacturing industries which were likely to be sensitive to the creation of a SEM (Buigues, Ilkovitz and Lebrun, 1990) *(see Table II.5)*. Four groups of indicators were used to identify sensitive industries:

Table II.4 Specialisation Indicators for EC industry, 1987[1]

Sector	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK
Agricultural, forestry and fishery products	**-1.1**	**1.3**	**-1.5**	**11.0**	**2.4**	**0.5**	**4.9**	**1.1**	**-0.6**	**1.0**	**4.2**	**-1.9**
Fuel and power products	**-0.8**	**-3.9**	**-1.0**	**-1.8**	**2.6**	**-0.7**	**N/A**	**-0.7**	**-3.5**	**3.7**	**-2.1**	**2.1**
Manufacturing	**-3.1**	**-6.7**	**5.8**	**-7.3**	**0.2**	**-3.5**	**N/A**	**0.3**	**4.7**	**-5.3**	**3.6**	**-0.8**
Ferrous and non-ferrous ores and metals	0.7	-0.8	0.1	N/A	0.3	-0.1	N/A	0.1	11.2	-0.2	-0.2	-0.2
Non-metallic minerals and mineral products	-0.2	-0.3	0.0	N/A	0.5	-0.3	N/A	0.4	0.9	N/A	0.8	-0.2
Chemical products	0.3	-0.8	0.7	-1.2	-0.1	-0.4	N/A	-0.4	-1.6	N/A	-0.2	0.0
Metal products, except machinery and transport equipment	-0.7	-0.6	0.8	N/A	-0.2	-0.3	N/A	0.3	-0.3	N/A	-0.5	-0.9
Agricultural and industrial machinery	-0.8	-0.1	1.2	N/A	-1.4	-0.9	N/A	-0.2	-0.2	N/A	N/A	0.2
Office and data-processing machines, precision and optical instruments	-0.6	-0.3	0.2	N/A	-0.2	0.1	N/A	0.0	N/A	N/A	N/A	-0.1
Electrical goods	-1.0	-1.4	1.2	N/A	-0.9	-0.5	N/A	-0.9	N/A	-0.1	-1.4	-0.3
Transport equipment	-0.6	-1.7	1.3	-1.4	0.4	-0.2	N/A	-0.7	-2.3	-1.5	-0.8	-0.2
Food, beverages and tobacco	0.4	0.2	-0.1	-0.1	1.3	-0.5	N/A	-0.9	-0.7	-0.2	2.0	1.3
Textiles and clothing, leather and footwear	-0.3	-1.0	-0.6	N/A	0.5	-0.3	N/A	1.9	-1.5	-1.4	6.0	-0.6
Paper and printing products	-0.6	0.0	0.3	-0.7	-0.4	-0.2	N/A	-0.3	-0.8	0.3	0.2	0.3
Rubber and plastic products	-0.1	-0.4	0.4	-0.5	0.0	-0.2	N/A	-0.1	3.1	N/A	-0.4	-0.2
Other manufacturing products	0.2	0.1	0.0	N/A	0.1	0.0	N/A	0.3	-0.9	N/A	0.4	-0.3
Building and construction	**-0.4**	**-0.1**	**-0.2**	**0.3**	**1.5**	**-0.2**	**0.0**	**0.2**	**0.3**	**-0.1**	**0.0**	**0.0**
Market services	**4.0**	**-5.8**	**-2.3**	**-10.9**	**3.3**	**-0.3**	**-11.4**	**3.0**	**14.7**	**1.7**	**-2.8**	**0.2**
Recovery and repair services, wholesale and retail trade services	2.5	0.1	-2.6	-0.5	1.4	-0.1	-4.0	3.4	1.0	-0.5	7.1	-0.6
Lodging and catering services	0.5	-1.3	-1.0	N/A	4.1	-0.1	-0.3	0.9	-0.1	-0.8	0.5	-0.7
Transport services[2]	1.7	1.3	-0.7	1.0	0.0	-0.1	-0.9	0.6	-0.3	0.5	0.7	-0.2
Communication services	-0.2	-0.4	0.2	0.0	-0.3	0.3	0.2	-0.5	0.2	-1.9	0.2	0.5
Services of credit and insurance institutions	-1.5	-4.0	-2.3	-5.2	-1.3	-2.5	-1.9	-2.2	16.2	-2.3	-1.6	11.9
Other market services	1.0	-1.4	4.0	N/A	-0.6	2.1	-4.5	0.9	-2.3	4.6	-9.6	-10.6
Non-market services	**0.0**	**4.4**	**-0.9**	**-0.5**	**-3.1**	**2.6**	**2.1**	**-1.6**	**-1.1**	**-2.1**	**-2.0**	**1.1**
General government services	4.3	9.2	2.4	N/A	-8.8	-8.8	N/A	2.8	3.8	3.0	2.5	4.9
Other non-market services	0.0	-0.5	1.0	N/A	-1.0	-1.0	N/A	-0.1	-0.5	-0.8	-0.2	0.6

1 The specialization indicators are defined as the difference between the share of the value-added in the GDP of a particular sector for a particular country from the total Community share for the sector.

2 Netherlands estimated.

Source: Eurostat; Panorama of EC Industry.

(i) the level of non-tariff barriers (standards, frontier formalities, limited access to public procurement, differences in VAT and excise duties etc), which measures the level of protection afforded each sector by national governments;

(ii) the level of penetration of intra-Community imports which gives a measure of each sector's internationalization;

(iii) the extent of price dispersal for identical products between members states which provides a measure of market fragmentation within the Community; and

(iv) measures of the potential economies of scale designed to identify those sectors where the enlarged market could bring a reduction in costs to European firms.

Forty industries were identified which broadly fell into four groups according to their level of intra-European trade and their level of price dispersion:

Group 1: High Tech Public Procurement Markets - characterised by multi-nationals dominating the industry which explains the low level of price dispersion.

Group 2: Traditional Public Procurement and Regulated Markets (I) - where there is a low level of intra-Community trade and a high level of intra-Community price dispersion as a result of each member state favouring a national organisation.

Group 3: Traditional Public Procurement and Regulated Markets (II) - as (ii) but lower levels of price dispersion due to the existence of extra-Community imports.

Group 4: Sectors with moderate non-tariff barriers - sectors affected by technical, administrative and fiscal barriers which limits intra-Community trade and results in high price dispersion.

Table II.5 The SEM and Sensitive Sectors

NACE No.	Industry	Non-Tariff Barriers in EC	Competitive Position of UK Industry[2]	Industry Presence in Gloucestershire[3]
Group 1: High-Technology Public Procurement sectors				
330	Office Machines	high	1	Medium
344	Telecommunications Equip.	high	1	High
372	Medical-Surgical Equipment	high	1	Medium
Group 2: Traditional Public Procurement or regulated markets (I)				
257	Pharmaceutical Products	high	1	Medium
315	Boilermaking	high	3	High
362	Railway Equipment	high	1	Low
425	Wine and Wine Based Products	high	-	Nil
427	Brewing and Malting	high	3	Low
428	Soft drinks	high	3	Medium
Group 3: Traditional Public Procurement or regulated markets (II)				
341	Electrical Wires and cables	high	2	Low
342	Electrical Equipment	high	2	High
361	Shipbuilding	high	1	Nil
417	Spaghetti	high	-	Nil
421	Confectionery	high	2	High
Group 4: Sectors with moderate non-tariff barriers				
	Consumer goods			
345	Electronic Equipment	moderate	1	Medium
346	Domestic electrical equipment	moderate	3	Nil
351	Motor vehicles	moderate	3	Medium
438	Carpets	moderate	3	Nil
451	Footwear	moderate	3	Nil
453	Clothing	moderate	3	Medium
455	Household textiles	moderate	3	Low
491	Jewellery	moderate	2	Low
493	Photographic equipment	moderate	1	Low
495	Games, toys etc.	moderate	3	Low
	Capital goods			
321	Agricultural machinery	moderate	2	Low
322	Machine tools	moderate	3	High
323	Textile machinery	moderate	3	Low
324	Food industry equipment	moderate	3	Low
325	Plant for mines etc.	moderate	1	High
326	Transmission equipment	moderate	1	Medium
327	Other mechanical machinery	moderate	3	Medium
347	Lamps and lighting	moderate	3	Nil
364	Aerospace[1]	moderate	*	High
	Intermediary goods			
247	Glassware	moderate	3	Low
248	Ceramics	moderate	2	Low
251	Basic industrial chemicals	moderate	2	Medium
256	Other chemicals	moderate	1	Low
431	Wool industry	moderate	2	Medium
432	Cotton industry	moderate	3	Low
481	Rubber industry	moderate	3	Medium

Notes : 1. DTI assessment indicates that industry within the UK has already adapted to a *de facto* single European market.
2. 1 = Above average 2 = Average 3 = Below average.
3. High = 1000 or more; Medium = 250-999; Low = less than 250 persons employed.

Source: Buigues, Ilkovitz and Lebrun(1990); CEC, Panorama of EC Industry, DTI, IER.

II.22 That particular industries are more sensitive to the creation of the SEM than others in some respects identifies the former group as vulnerable to the creation of the SEM. Clearly, in a more competitive Europe, other things being equal, there will need to be organisational adaptiveness in the sensitive sectors if they are to avoid the threats of the SEM and take advantage of its opportunities. It is notable that many of the *hi-tech* sectors are ranked amongst those most sensitive to the creation of the SEM. Given that these are the high growth industries in the World economy, the relative position of the UK and the EC in these areas needs to be addressed.

The Importance of the Information and Communication Technology (ICT) Industries

II.23 One of the enduring concerns of policy makers at the national and pan-EC level has been to ensure the optimum diffusion of new technologies. Whilst the UK has demonstrated diffusion patterns not too dissimilar to the those of France or Germany, the lead of US and Japanese corporations in both market share and patenting activity has raised serious questions as to the EC's ability to compete in this area of the World economy. For example, indigenous EC companies have a relatively small market share of the ICT market, in terms of sales, compared to their East Asian and USA counterparts *(see Chart II.7)*. Moreover, in terms of patentable inventions, only Siemens AG (Germany), Thompson SA (France), and Philips (Netherlands) are well represented amongst the many large Japanese and American corporations.

II.24 In addressing the problem of the EC's future in the ICT sector, the debate has focused upon four issues:

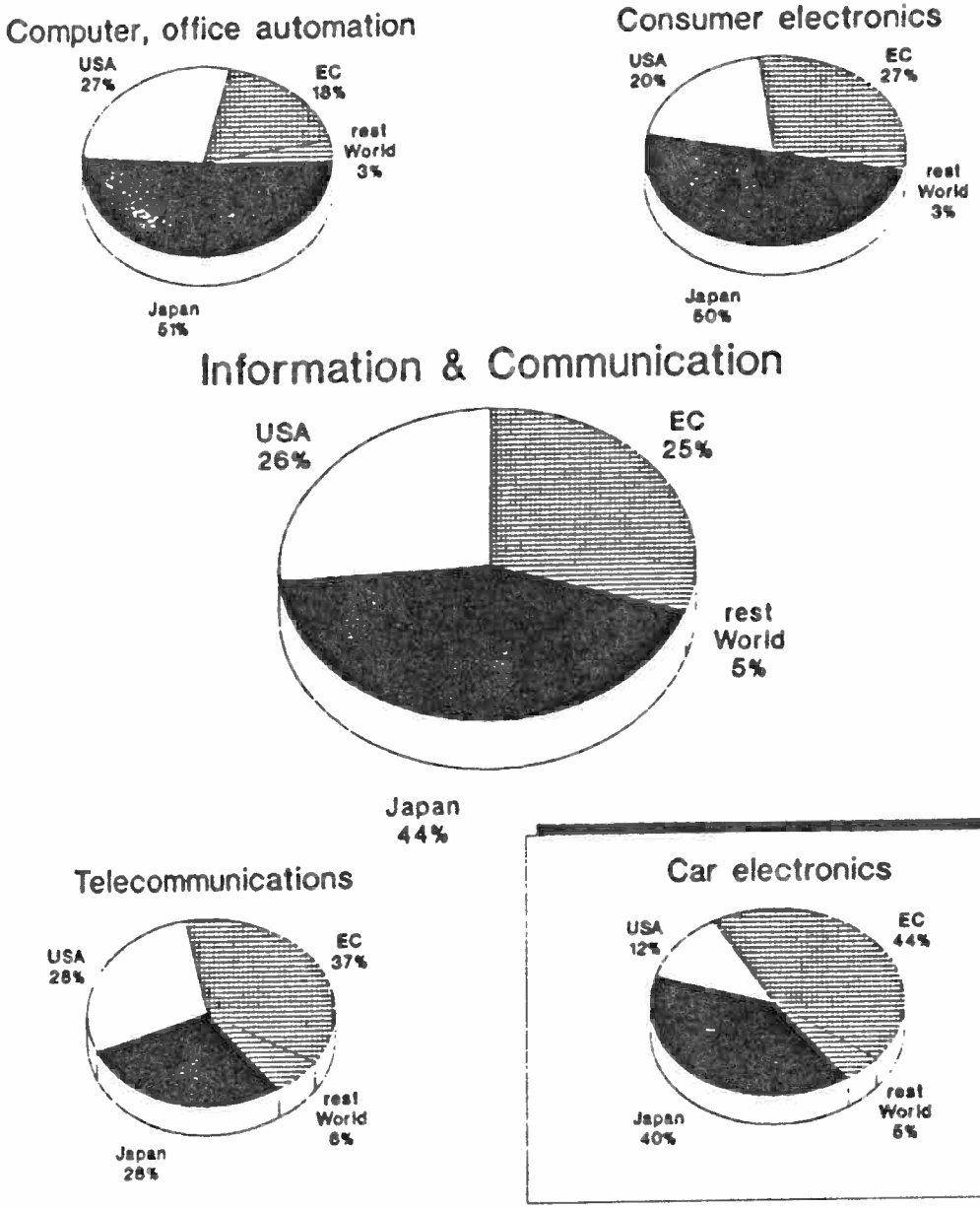
- the role of public procurement;
- the fragmented EC market;
- foreign direct investment; and
- the role of defence expenditure.

Public Procurement

II.25 Within each of the large EC Member States it is possible to identify companies which may be termed *national champions*. Some are wholly private companies such as GEC (UK), others retain the status of a private company but with a major government shareholding, such as Thompson SA (France). Typically, these companies are heavily involved in the defence industry of each country, where arguably for reasons of national security such work is not available to foreign competitors. However, the influence of the *national champions* has extended beyond the defence industry into other areas where the State has the power to award contracts, primarily in the area of public utilities. Effectively safeguarded from the powers of competition, it has been argued that these companies have become laggards in key ICT fields competing as they do in protected domestic markets. Often these companies have been impeded in their innovative activities because the expenditure policies of the State act to restrain technological

Chart II.7

Applications of Microelectronics Inventions[a] by Country of Origin 1985 to 1988



a) patents applied in 1985 to 1988 for at least 2 countries.

Source: INPADOC (6.7.1990); IFO-Patent-statistics.

advancement. For instance, in the UK until the mid-1970s the cartel of telephone equipment manufacturers established by the Post Office were committed to the manufacture of out-dated telephone and network apparatus with little export value because of the investment and borrowing restraints imposed upon the Post Office by the UK Treasury which effectively inhibited major infrastructural investment. The CEC for its part has attempted to open up public procurement in various sectors, such as Directive 88/301/EEC relating to the supply of equipment to telecommunications administrations. Related to this, the CEC has attempted to circumscribe the activities of State monopolies where ICTs potentially open up new market areas. For instance, in the case of *CEC v. The Italian Government* (case 41/83) before the European Court of Justice, the monopoly position of national telecommunication administrations was limited to managing the network (and providing a basic service) and not extended to the myriad of other services potentially available on that network.

II.26 The UK Government has taken the issue one step further in relation to public utilities through privatisation and the encouragement of competition - liberalisation of the market - where feasible. In theory, rather than favour a national champion, these privatised industries will favour suppliers who are most competitive in terms of price and quality. Competition should also encourage the diffusion of the latest technologies, subject to the appropriate investment criteria being satisfied. Most importantly, capital for investment can be raised freely on the financial markets, rather than being subject to the stringent borrowing restrictions of the UK Treasury. In the telecommunication sector, where ICTs have opened up new markets, for instance cellular and satellite communications, the role of competition has been recognised by most EC Member States, although the process of liberalisation in these markets is as yet embryonic. The CEC, as outlined in its Green Paper on telecommunication services (COM/87/290) is committed to acting as a driving force in liberalising these markets, using as a legal instrument those articles in the Treaty of Rome which favour competition, subject to the public service provision being safeguarded.

Fragmented Markets

II.27 The example of the UK Post Office in the previous section demonstrated the way in which a basic product - the telephone exchange - in use all over Europe indeed world-wide, was being developed specifically for the UK market with the result that export opportunities were lost. In addition, R&D costs were being duplicated as many EC Member States favoured their own national champions, to the exclusion of others, in designing the same basic product.

II.28 In the wake of the SEA, the CEC has committed itself to eradicating this inefficiency through two interlinked processes:

- the establishment of common standards for products and services to provide an EC-wide market for accredited commodities; and
- the removal of other non-tariff barriers to trade between EC Member States.

II.29 Public procurement and the sensitivity of industry to the SEM has already been outlined above *(see Table II.5)* The competitive or free market ethos which underpins the single market idea necessarily implies that those formerly cosseted national champions unable to adapt to a more competitive market, other things being equal, will face difficulties. To date there has been considerable merger and acquisition activity within Europe as companies adapt to new market conditions. This process has been especially marked in markets previously more or less closed to foreign competition, such as insurance where the German company Allianz AG has been particularly acquisitive in Europe and in the USA. The recent past has also seen Japanese and American companies re-affirm their policies of maintaining a local presence in the European markets they serve in order to avoid the EC's tariff barriers with the rest of the world.

Foreign Direct Investment

II.30 Traditionally Britain has strong economic and cultural links with the USA and this is reflected in the flow of investment between the two countries. The UK has also had an open door policy with respect to the Japanese investment, such that the Japanese have now established many large manufacturing plants and financial services companies in the UK. Indeed, an analysis of the flows of foreign direct investment demonstrates that the UK has been the principal recipient of such investment *(see Table II.6)*.

II.31 Much of the foreign direct investment has been in industries which produce ICT goods or are major consumers of such goods. An assessment of foreign direct investment suggests costs as well as benefits. On the one hand, the presence of Japanese multi-nationals in the European market potentially acts as a competitive force - in terms of innovation and marketing - on indigenous producers who may have grown sluggish in protected markets. Additionally, the UK government has been able to direct a good deal of foreign direct investment to areas of high unemployment - notably the North East and South Wales - often bringing a much needed hi-tech component to those local economies. On the other hand, foreign direct investment may merely replace indigenous production and employment bringing with it a leeching effect on the local and national economy if there is a significant repatriation of profits. This has been a major problem facing the Republic of Ireland which has been heavily dependent upon US and Japanese investment. Moreover, there has been some concern about the nature of such investment,

especially with respect to expenditure on R&D. If foreign direct investment results in the building of assembly plants, requiring little more of their employees than repetitive unskilled assembly tasks, there is a consequent fear about the future supply and demand of the highly skilled and qualified.

Table II.6 Foreign Direct Investment (FDI) in the EC, 1989

Total inward investment into the EC

	Million ECU	%
EC-12	65162	100.0
B/Lux	6146	9.4
Denmark	984	1.5
Germany	5389	8.3
France	8670	13.3
Greece	N/A	-
Spain	5154	7.9
Ireland	N/A	-
Italy	1980	3.0
Netherlands	5620	8.6
Portugal	2046	3.1
United Kingdom	29173	44.8

US Flows of FDI into EC			Japanese Flows of FDI into EC		
EC-12	14503	100.0	EC-12	13844	100.0
UK	9828	67.8	UK	5178	37.4
D	134	0.9	D	1070	7.7
F	635	4.4	F	1123	8.1
I	660	4.6	I	310	2.2
Other EC	3246	22.3	Other EC	6163	44.6

Source: Panorama of EC Industry; National Statistics.

II.32 Whilst the issue of Japanese foreign direct investment in the EC is a pressing one for most Member States, in the UK the policy decision was made sometime ago. Moreover, the presence of so many Japanese companies in the UK imposes a restraint on the CEC in terms of its policy options with respect to trade with third countries.

The Defence Industry

II.33 The development of information and communication technologies throughout the EC has been heavily dependent upon the defence industry. Expenditure on defence contracts was calculated at approximately ECU 7.3bn in 1990. Not only has this produced a large volume of work, it has also provided a stable source of funding for R&D. The EC's largest multi-nationals, often in concert with many smaller companies, have been involved in development of major hi-tech defence systems - such as *Force de la Frappe* and *Trident* - which have many

potential spin-offs for the commercial sector. Because defence contracts may in some instances cover a proportion of the R&D costs in commercial developments, cuts in national defence expenditure potentially yield a negative multiplier effect on commercial product development.

II.34 In the UK and France, which have the highest number of people employed in defence related jobs, the regional concentration of the industry in these two countries will result in there being a marked regional profile in the aftermath of the economic fall-out from defence cuts. Although the effect will not simply be limited to the defence dependent regions: the South-West and South-East of England; Brittany, the South-West, South-East, and Paris regions of France *(see Chart II.8)*.

THE STRUCTURE OF EMPLOYMENT

The Overall Employment Situation in the EC

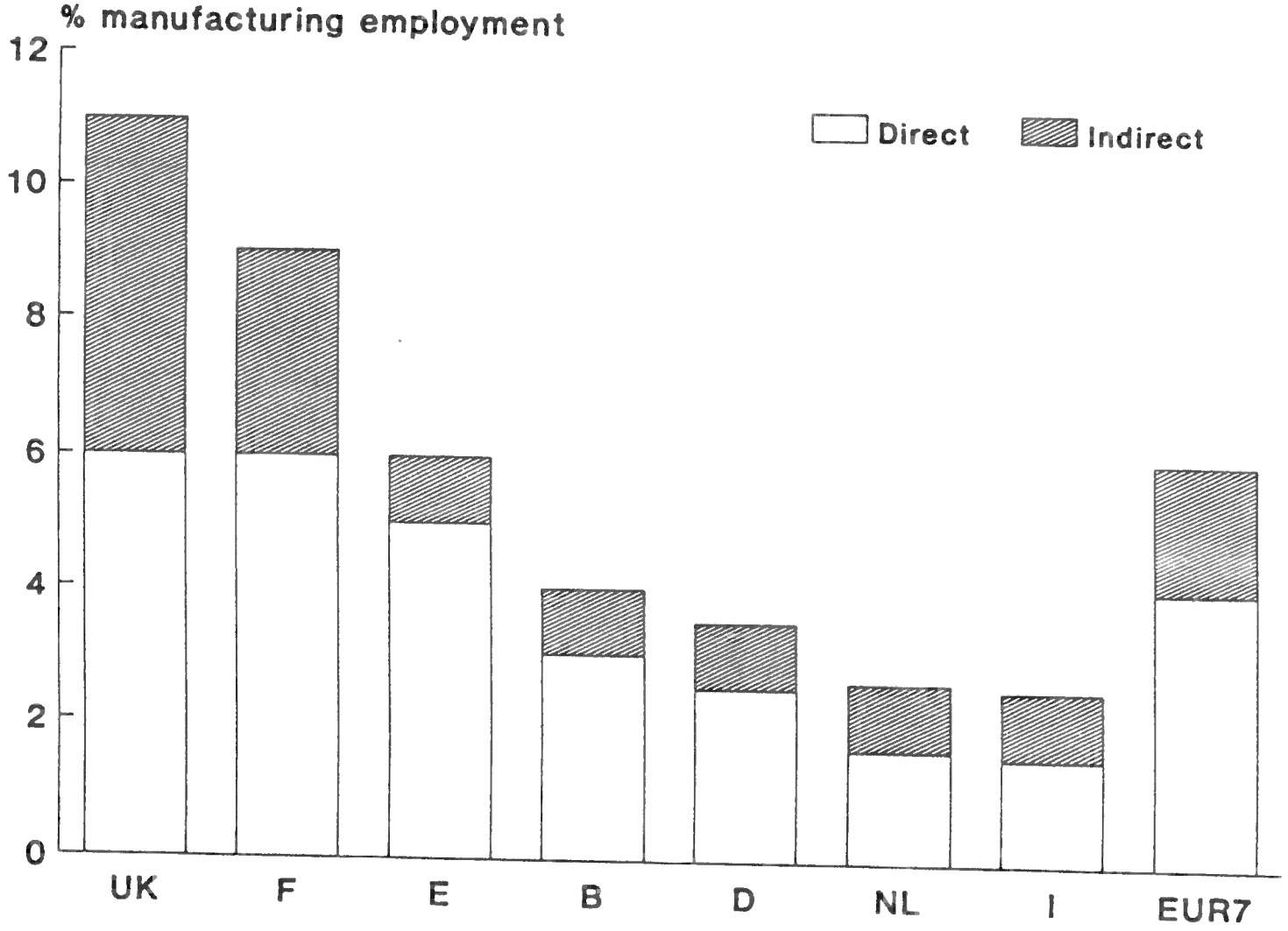
II.35 A snapshot of the employment situation between EC member states demonstrates the relative standing of the UK *(see Table II.7)*. With respect to the northern EC Member States, the overall employment picture is favourable, with activity rates, unemployment levels and female employment being, at worst, on a par with the northern EC Member States.

Table II.7 Principal Labour Market Characteristics of the EC (1989) (%)

	EUR-12	UK	D	F	I
Males & Females					
Activity rate	54.2	62.0	55.5	55.2	49.0
Unemployment rate	9.1	7.4	5.7	9.6	11.1
Employment/population	49.3	57.4	52.3	49.9	43.6
Population under 14 yrs	17.2	17.9	13.8	19.2	15.6
Males					
Activity rate	67.9	73.3	70.3	65.4	64.7
Unemployment rate	7.3	7.6	4.5	7.3	7.4
Employment/population	62.9	67.7	67.1	60.6	59.6
Population under 14 yrs	18.1	18.8	14.8	20.4	16.4
Females					
Activity rates	41.7	51.4	42.1	46.0	34.6
Unemployment rate	12.0	7.1	7.5	12.6	17.4
Employment/population	36.7	47.7	38.9	40.2	28.6
Population under 14 yrs	16.3	17.0	12.9	18.1	14.9

Source: Eurostat.

Chart II.8 Defence Related Employment in EC Member States 1988/89



Direct refers to defence manufacturers, indirect to all subcontractors, maintenance work etc.

II.36 Available evidence also demonstrates the sectoral shift in employment which has seen a shift in employment from agriculture to manufacturing to services. This transformation has been marked in the UK which has a proportionately smaller part of its labour force employed in agriculture than any other EC Member State and proportionately more employed in services *(see Chart II.9)*. This shift towards service industry employment has been largely focused on the financial and business services sectors, where the impact of the *Big Bang* in the City of London coupled to the Financial Services Act (1986) - which liberalised trade in financial services - have played a catalytic role in stimulating growth in service sector employment.

II.37 As already noted the growth in the UK's GDP in the 1980s was relatively large compared to the other northern EC Member States. Given the sectoral redistribution of employment, away from traditional manufacturing and towards hi-tech manufacturing and services, the disequilibrium between skills supply and skills demand was exacerbated. Comparison with the rest of the EC demonstrates that skill shortages in the UK were exceptional by EC standards, although most of the northern EC Member States endured skill shortages during the mid-1980s *(see Chart II.10)*. Comparisons with France and Germany indicate that the UK produces fewer highly skilled and qualified employees. This may potentially inhibit growth in the economy as well as strengthening the labour market position of those who are highly skilled or qualified. The extent to which this has fed through into wage-push inflation is considered next.

Earnings and Productivity

II.38 The stability of unit labour costs during the 1980s has already been commented upon *(see Chart II.6)*. Here earnings - defined as compensation per employee, both wage and non-wage elements - are looked at in a little more detail. If this is looked at in terms of rank, the UK is the lowest of all the northern EC Member States (*see Table II.7*).

II.39 Over the past ten years the UK has seen a shift from centralised pay bargaining to establishment level negotiations. This stands in contrast to the EC where centralised bargaining is much nearer the norm than in the UK. Although the empirical evidence to prove that decentralised bargaining yields a lesser degree of wage push inflation is far from conclusive, there is a significant structural difference here in the institutional arrangements for handling wage increases compared to the EC as a whole.

II.40 A relative measure of labour performance can be gained from the rate of growth in productivity (*see Chart II.11*). UK labour productivity has risen in advance of the other three largest economies in Europe. During the 1980s there was an abrupt shift in the law with respect

Chart II.9 Sectoral Distribution of Employment in the EC1989

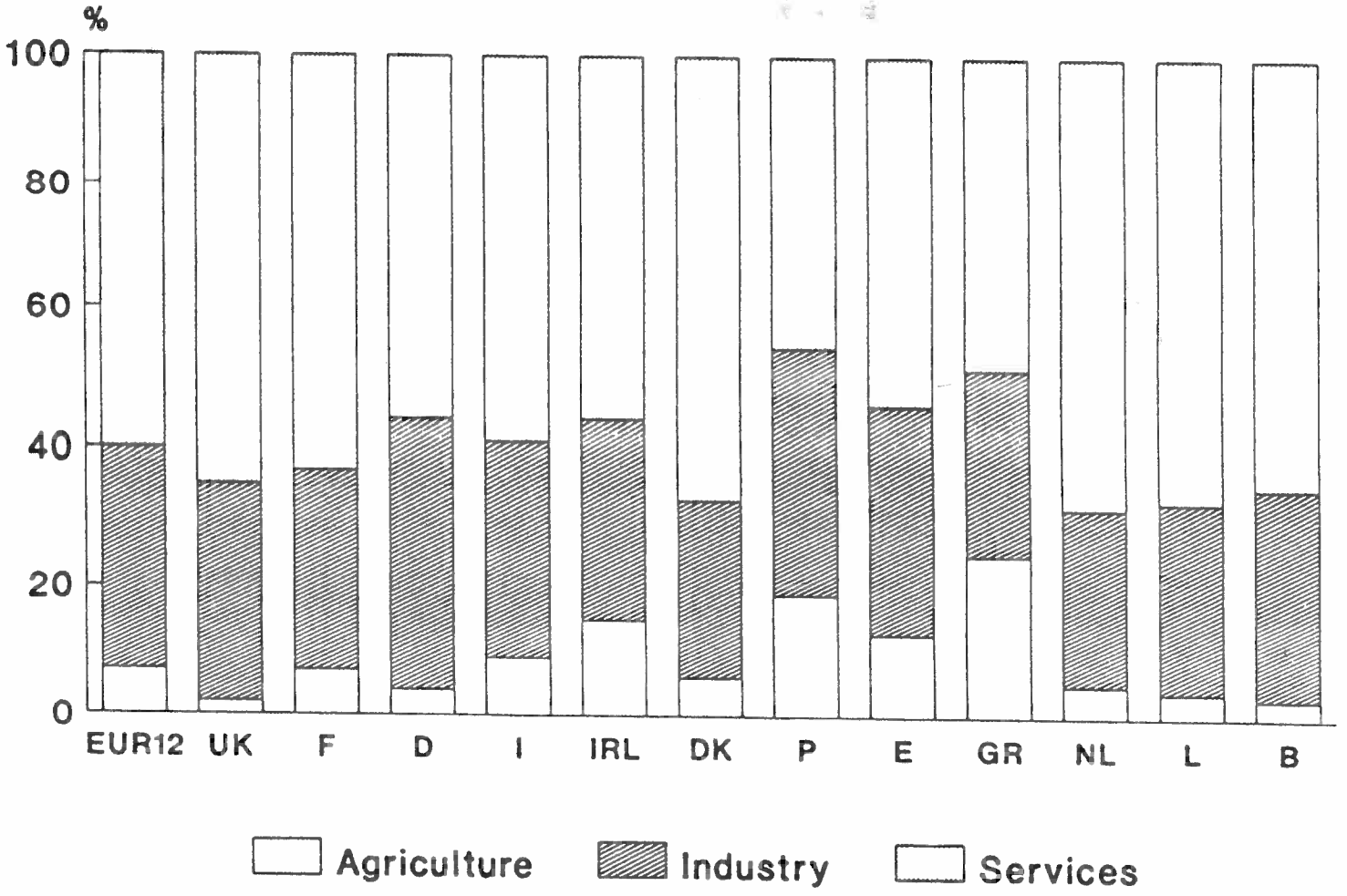
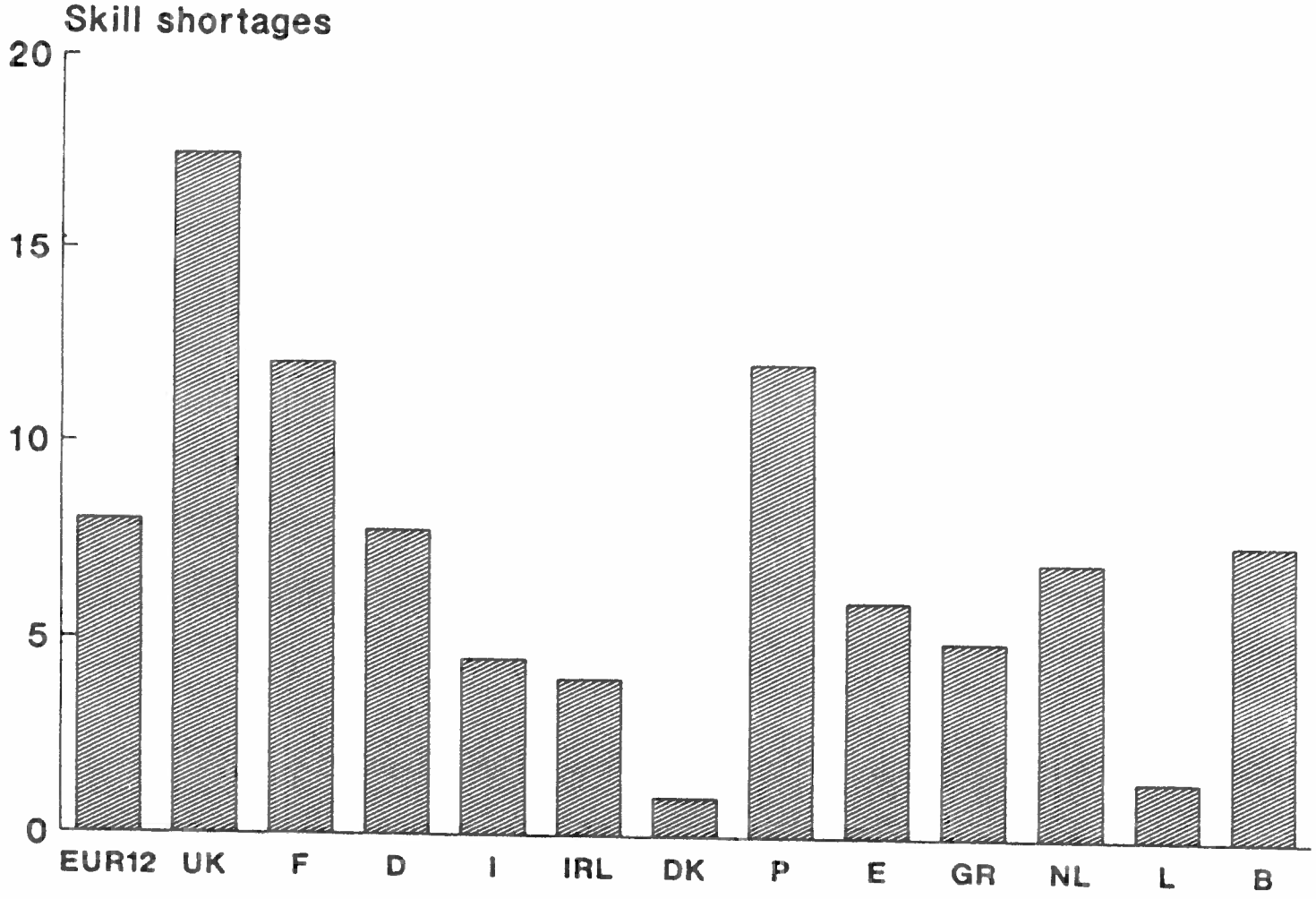


Chart II.10 Skill Shortages in EC Member States 1990 - 1990



Source:Eurostat/Quarterly Business Surveys

The skill shortage measure is the proportion of employers reporting skill shortages minus those who do not.

Chart II.11 Productivity in EC Member States 1980 - 1990

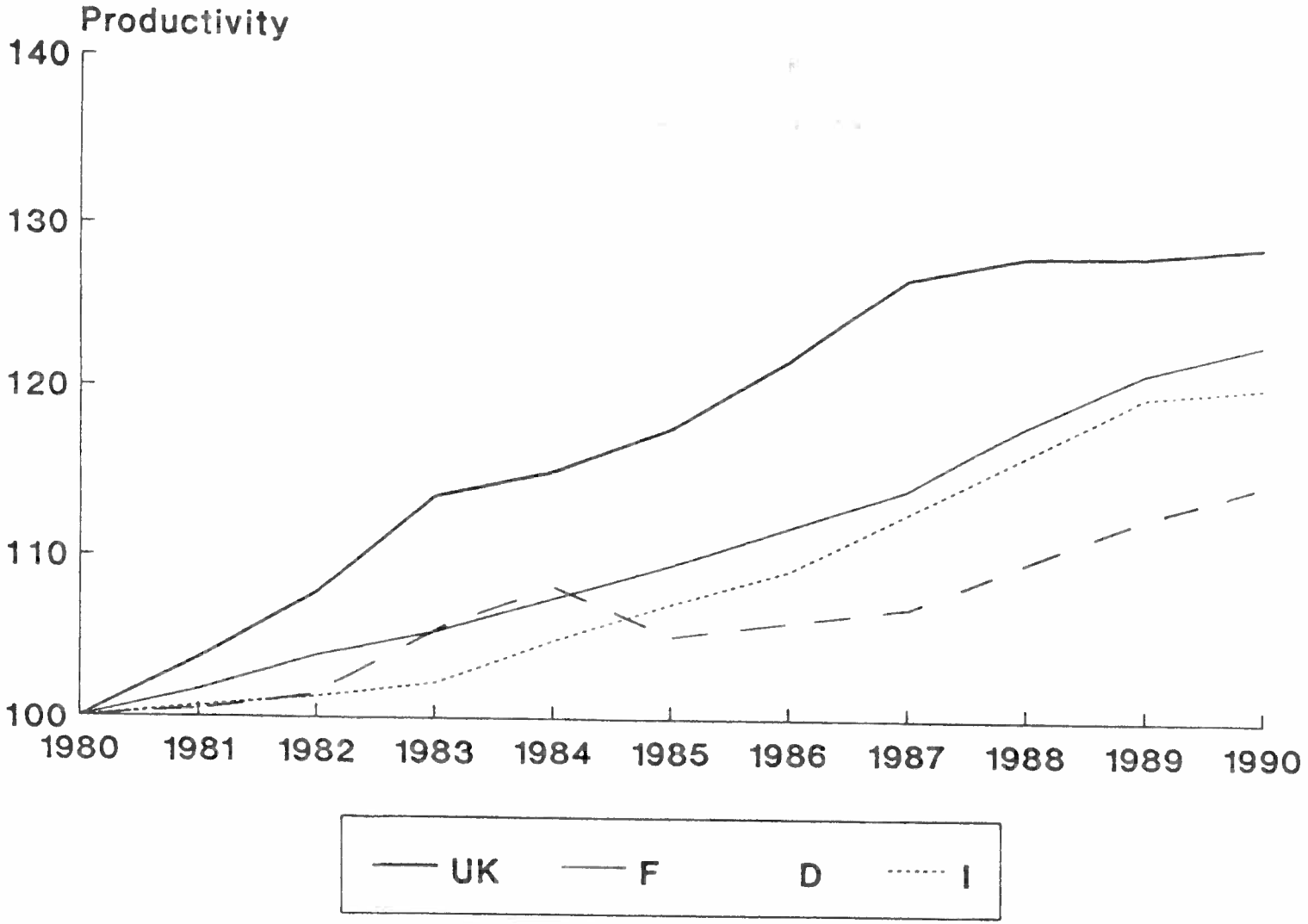


Table II.8 Hourly Earnings in the EC, 1988 (Manufacturing Industry Only)

Rank	Country	Approximate Level (ECU)
1	Denmark	11
2	Germany	9
3	Luxembourg	8
4	Netherlands	7.5
5	Belgium	7.25
6	UK	7
7	Ireland	6.5
8	France	6
9	Italy	6
10	Spain	5
11	Greece	3
12	Portugal	2.75
Rank	**Country**	**Approximate Purchasing Power Parities**
1	Luxembourg	11
2	Denmark	10.75
3	Germany	9.5
4	UK	9.0
5	Netherlands	8.5
6	Belgium	8
7	Ireland	7.5
8	Italy	7.25
9	Spain	7
10	France	6.5
11	Greece	5.5
12	Portugal	4.0

to the activities of trade unions which took place alongside a good deal of organisational and technological change in all sectors of the UK economy. It is difficult to prove a causal relationship between the two factors, nonetheless there is evidence during the 1980s that change within the workplace, relating to skill demarcations, the use of new technologies and so on, were much more readily accommodated into the workplace than had previously been the case. That this should have resulted in productivity gains cannot be doubted. However, in relation to the other northern EC Member States in the manufacturing sector, the UK was starting from a relatively low base, so the rapid growth trend in productivity was as much about catching-up as gaining a lead.

Employment and Enterprise Size

II.41 In relation to France, Italy and Germany, more people are employed in large enterprises in the UK with the difference between the UK and each of the other EC-Member States being particularly marked in each size band *(see Table II.9)*. In fact the data here rather under-represents the true picture. If the EC is looked at as a whole, the UK has by far the largest number of people employed in enterprises employing 20,000 or more.

Table II.9 Enterprise Size and Employment (%)

	Size of Enterprise (No. of employers)				
	0-99	100-499	500-999	1000+	TOTAL
France					
No. of enterprises	99.71	0.18	0.09	0.02	100
No. of employees	-	-	-	-	100
Germany					
No. of enterprises	98.67	1.15	0.12	0.06	100
No. of employees	65.13	24.74	8.62	1.51	100
Italy					
No. of enterprises	99.67	0.29	0.03	0.02	100
No. of employees	69.27	12.03	4.08	14.61	100
United Kingdom					
No. of enterprises	93.93	5.24	0.56	0.26	100
No. of employees	34.07	35.68	12.62	17.62	100

Source: Sisson, Waddington and Whitston (1992).

II.42 The impact of this situation on the economic position of the UK is difficult to gauge. Economic theory relating to innovation has posited the idea that risk averse large multi-national organisations effectively stifle innovation. From another perspective and following the maxim *that you should not put all your eggs in one basket*, an economic dependence on a few very large employers potentially leaves an economy at the mercy of corporate decision making. Clearly, if the integration of the EC increases the mobility of capital then those economies with a dependence upon large multi-nationals will be sensitive to those corporations' movements of capital. Although large employers may provide a base for competing in a larger European market in a way that smaller employers will be unable to.

THE SOCIAL DIMENSION AND THE UK

The Basis of the Social Dimension

II.43 The genesis of the Social Dimension (SD) is to be found in the Community Charter of the Fundamental Social Rights of Workers - the Social Charter - adopted as a *Solemn Declaration* at the Strasbourg Summit in 1989 by eleven of the twelve member states. The UK being the one member state not to adopt the Social Charter. *Section I* has outlined the measures contained in the SD, here the UK Government's opposition to the SD is examined a little further, with particular reference to the economic cost rationale of its opposition. It is interesting that to date there has been no *official* impact study of the likely impact of the SD on the EC economy, such as that commissioned by the CEC under the banner the *The Costs of Non-Europe* which dealt with the issue of non-tariff barriers in some detail. Though this may reflect the social justice perspective of the SD with its emphasis on the provision of basic rights, the veracity of which may be said to be independent of any economic cost-benefit analysis, there is a simple economic rationale underpinning the SD. This economic rationale is addressed below.

The Need for a Social Dimension

II.44 Put crudely, the aim of the SD is to level-up social and working conditions in the EC to a level, as yet undefined, equivalent to the average practice of northern EC states. This will not only force southern EC Member States to improve their working conditions, but also those of Northern EC Member States too. Between the northern Member States there is considerable variation in working practices, therefore the application of a common standard as drafted in the SD, will necessitate adjustment in these Member States.

II.45 The advent of the SEM with integrated capital and labour markets could limit a member state's freedom of action with respect to social policy. All EC-Member States operate a payroll tax such as employers' National Insurance contributions, to fund a range of social policies, such as pensions and social security schemes. Likewise, employment regulation may be seen as an indirect or implicit tax on the use of labour, as it introduces a cost on the employment of each worker. The question becomes one of identifying the impact of an implicit tax increase resulting from the SD on employment and investment. A tax on labour may lead to the substitution of labour by capital, however the need for labour in the production process potentially results in a tax on labour raising the costs of production and the product, thereby dampening demand - if there is a high price elasticity of demand - and in turn discouraging further capital investment. If there are areas within an integrated market which offer tax advantages with respect to social regulation, these areas will potentially act as a magnet for capital investment with employment growth predominantly taking place there. The response of the CEC to this type of scenario - the

social dumping scenario - has been to level-up social protection across the EC in attempt to protect those benefits where they currently exist.

II.46 After 1992, the Social Charter will force the poorer countries to raise their levels of social protection. The result of this, *ceteris paribus*, will lead to either lower wages or higher unemployment or both in these countries. If labour migration is induced, as a result of unemployment or the wage differentials between richer and poorer countries, then the impact on the labour importing country could be one of reduced wages or higher unemployment - subject to the laws of the supply and demand of labour. As a corrective to this the EC intends to use its structural funds - primarily the ERDF and ESF. However, the extent to which these funds are able to level-up the economies of Spain, Greece, Portugal, southern Italy and Ireland must be questioned. The history of regional development indicates both the long-term horizons in which these policies take effect and their limited powers in overcoming the structural weaknesses inherent to specific regional economies. It is notable that several of the southern Member States share reservations about the impact of the SD on their respective economies despite the lure of structural funds assistance.

The Response of the UK Government

II.47 The response of the UK Government needs to be seen in economic as well as political terms. At an economic level the position of the UK Government hinges on two inter-related objectives:

- retaining local autonomy; and
- maintaining a competitive ethos in industry.

The position maintained above indicates that employment regulation imposed at the pan-EC level will have an impact on earnings, unemployment and investment. The UK Government feels that decisions relating to social protection, above the statutorily imposed floor already in place in the UK, should be made at the most appropriate local level - the workplace or enterprise in most instances - because it is at this level that the necessary calculations as to the affordability of such measures can be most accurately forecast.

II.48 The SD also needs to be seen in relation to employment legislation introduced in the UK during the 1980s, especially the Employment Acts 1981, 1982, 1984. Central to the thrust of this legislation has been a perception that improvements in the UK's competitive position should be pursued through weakening the trade union role in the workplace. In contrast, the determination of the SD is very much seen as *social partnership writ large*. The emphasis given by DGV in the CEC to co-determination between unions, employers and government in the production of the SD is perceived as alien to objectives embodied in successive rounds of UK

employment legislation and the industrial relations culture this has given rise to during the 1980s. The draft Directive on European Works Councils (COM(90)581) has become the symbol of contention in many respects, embodying as it does an explicit commitment to worker and union participation in the running of the workplace.

CONCLUSION

II.49 At present there is a great deal of uncertainty attached to what the SEM or the SD will mean in practice. The CEC sees the operation of the SEM and the SD as inextricably intertwined, whereas the UK Government clearly sees them as separate entities, the first of which is to be welcomed the second of which is to be resisted. The outcome of negotiations at the Maastricht Inter-Governmental Conference 1991, as described in *Section I*, whilst clarifying several aspects of the convergence criteria required for the greater economic, political and social convergence of Europe, has raised doubts as to their possible attainment. The UK Government's opt-in clause for EMU and its opt-out clause for the SD has undoubtedly clouded the whole issue of European convergence.

II.50 Even before the Maastricht Conference in 1991, the SD was struggling to find its way through the EC's cumbersome legislative process, primarily with respect to Britain's veto where a unanimous vote in Council was required. Much more progress has been made in relation to the SEM *per se*, but even here there is some concern about the compliance of EC Member States once such legislation reaches the various national statute books. Additionally, there is evidence that the economic performance of the UK economy - and that of several other ERM economies - has converged towards that of Germany indicating progress in relation to the goals of EMU. However, the UK economy is currently experiencing an economic recession which is much deeper than that affecting other parts of the EC - indeed some Member States have avoided entering recession and, to a significant degree, the UK economy's speed of recovery will be determined by the operation of the ERM and the economic policies of its EC partners.

II.51 In *Section IV* three scenarios are outlined with respect to the impact of the wider meaning of the SEM on the UK and Gloucestershire economy. Before that exercise can be completed with respect to Gloucestershire, there is a need to reflect on the foregoing description of the process towards the creation of a single European market with reference to Gloucestershire's place in the UK economy.

III. THE GLOUCESTERSHIRE LOCAL ECONOMY

INTRODUCTION

The South West in a national context

III.1 Gloucestershire is one of seven counties - the other six being Cornwall, Devon, Somerset, Avon, Wiltshire and Dorset - in the South West: one of the most prosperous regions in the UK. On many indicators of regional performance including population growth, labour force growth, employment growth and the incidence of unemployment - the South West is ranked in the 'top three', often behind the South East and East Anglia. With a population of 4.7 million the South West accounts for 8.1 per cent of the UK total, in 9.8 per cent of the total land area.

Gloucestershire in a regional context

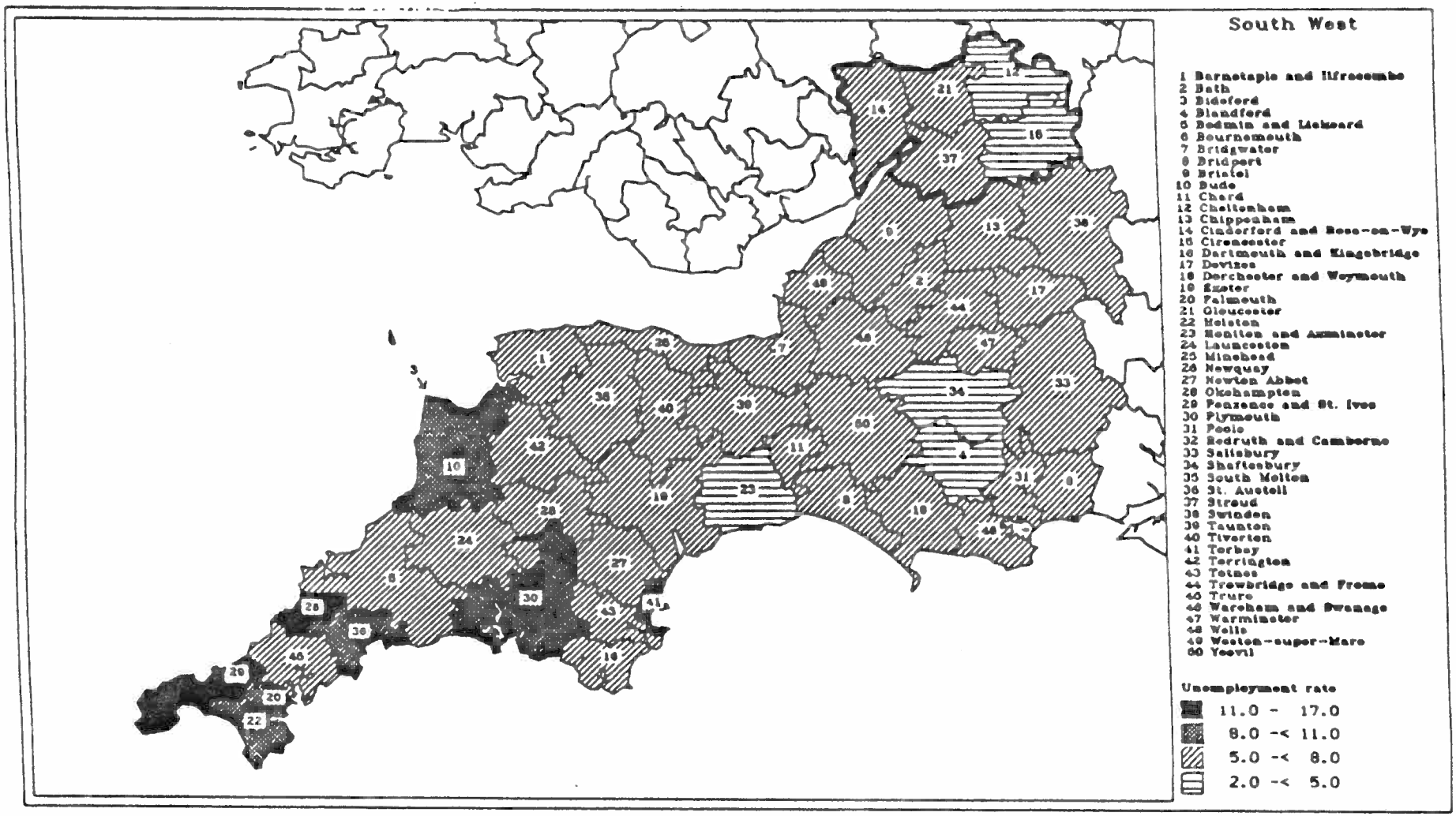
III.2 Gloucestershire is located in the most prosperous north-eastern part of the South West, along with Wiltshire and Avon (*see Chart III.1*). Of the seven counties in the South West, Gloucestershire boasted the lowest unemployment rate in 1991, and the second highest economic activity rates in 1991, and recorded scores higher than the regional average on GDP, income and earnings indicators. The county boasts relatively good communications, and has stronger links with the West Midlands, Oxfordshire and Avon than with parts of the Far South West. Indeed, economic developments in both the Midlands and the South East have an important influence on trends in Gloucestershire. Moreover, Gloucestershire boasts a positive environmental image, including attractive cities and towns such as Cheltenham, Gloucester and Tewkesbury, and rural areas like the Cotswolds and the Forest of Dean.

III.3 Just as there are pronounced intra-regional variations in the South West, so there are variations in economic, social and demographic conditions within Gloucestershire. An insight into these variations is provided by unemployment statistics at the Travel-To-Work Area (TTWA) scale in *paragraph III.11* and in the employment change data in *paragraph II.23*. The Gloucester-Cheltenham area is the main centre of economic activity within the county, while the Forest of Dean area is the most peripheral - 'cut off' in physical terms from much of the rest of the county by the River Severn, and recording a poorer performance than most other parts of the county on many economic indicators.

Gloucestershire and the South West in a European context

III.4 Gloucestershire has gained from two of the most important socio-economic shifts in the space economy in recent years - the movement from North to South and decentralisation from

Chart III.1 Gloucestershire in a Regional Context: Unemployment Rates May 1991



large urban areas to smaller free-standing towns and cities and rural areas. Despite these gains, and the existence of strong links with other areas, from a European perspective there may be some psychological significance in the fact that Gloucestershire is in a region - the South West - that lies outside the core EC "banana" axis from Manchester to Milan. There are fears in some quarters that the combined effect of SEM and liberalisation of Eastern Europe may pull economic activity towards the core of the EC, and away from peripheral regions - like the South West.

DEMOGRAPHIC STRUCTURE AND CHANGE

Regional population growth

III.5 The population of the South West has increased by more than 540 thousand in the period since 1971. The rate of population growth - at around 1 per cent per annum - was well in excess of the national rate, and second only to that recorded for East Anglia. Virtually all of this increase was accounted for by net in-migration. Population growth is projected to continue during the 1990s; an expected increase of over 400 thousand will result in a regional population in excess of 5 million by 2000.

Population change at the county scale

III.6 Like the South West region as a whole, Gloucestershire has had a steadily growing population over the last twenty years. However, the rate of population growth has been below the regional average, with only Avon scoring lower on a population growth indicator. Nevertheless, in a context of population growth, scope exists for an increase in population-related services - an important sphere for job generation in the future.

III.7 It is estimated that the population of Gloucestershire was approximately 530 thousand in mid 1990, accounting for just over 1 per cent of the population of England and Wales. As in the South West region as a whole, the older age groups are over-represented in Gloucestershire relative to the national average, with 39 per cent of the county population aged over 45 years, compared to 37 per cent in England and Wales.

Labour force growth and participation

III.8 Over the period 1981 to 1989 the South West recorded the greatest relative increase (nearly 17 per cent) in the civilian labour force of any region in the UK, at over twice the national average. However, labour force participation rates have historically been lower than the national average. In 1980 only Wales and the North recorded lower rates. Such low activity rates were generally explained in terms of early retirement, lack of job opportunities, attitudes to

work and the 'black economy'. Despite a considerable increase in participation rates over the next ten years, rates in the South West remained lower than those in the South East and East Anglia. In Gloucestershire economic activity rates for both men and women are in excess of the regional average: Wiltshire and Gloucestershire boast the highest male economic activity rates in the South West, while Avon and Gloucestershire exhibit the highest rates for women.

UNEMPLOYMENT

The regional unemployment picture

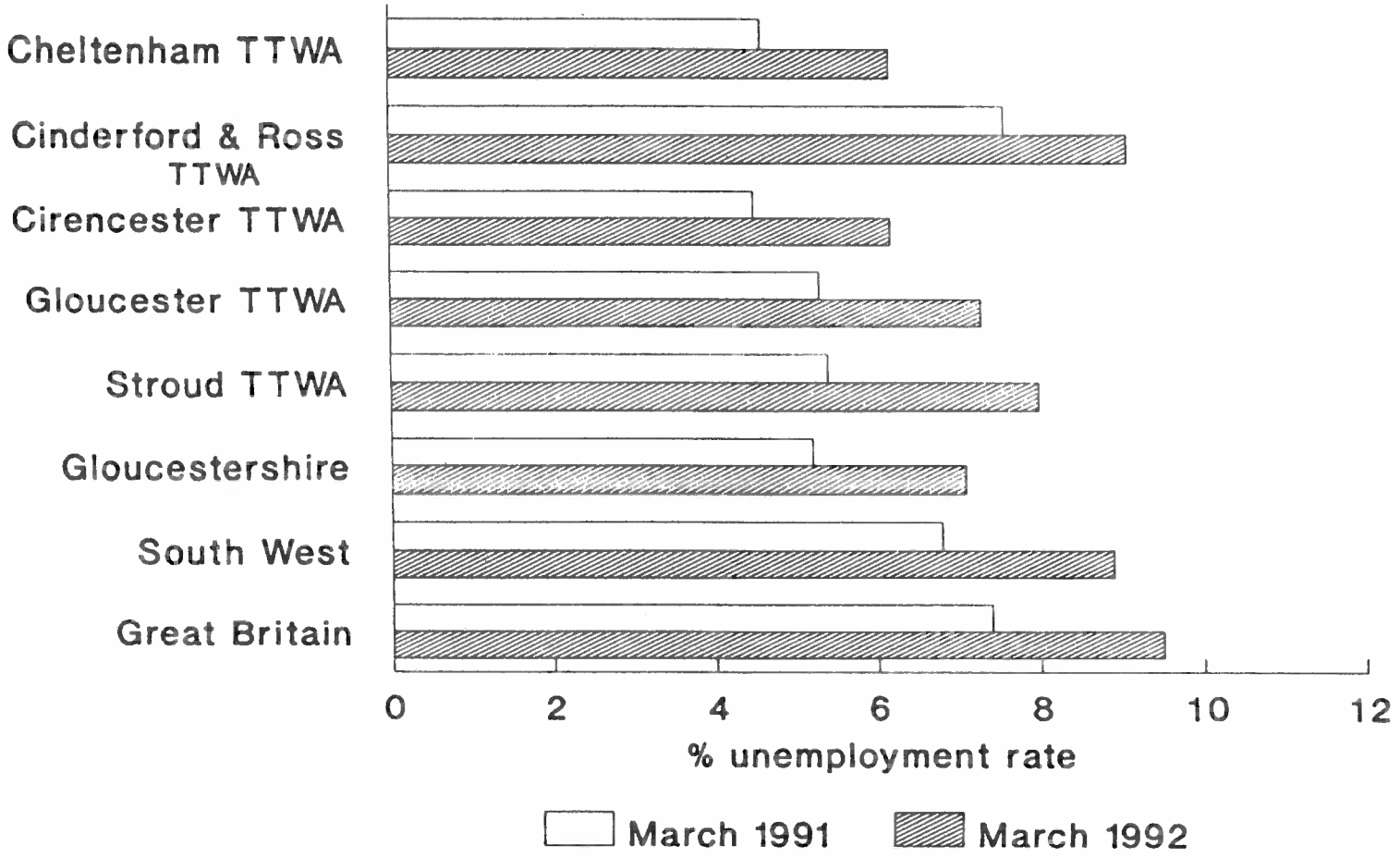
III.9 The incidence of unemployment in the South West has been consistently below the national average in recent years - usually by 2-3 percentage points. The unemployment rate doubled to nearly 9 per cent in the first three years of the 1980s, and peaked at nearly 200 thousand in 1986. The regional unemployment rate fell to a new low (4.1 per cent) in mid 1990, before doubling over the next year. Unemployment is expected to continue to rise over the short-term, before a slow reduction commences in 1993. However, the decrease is likely to be fairly modest. It is forecast that there will be about 140 thousand unemployed in the South West - representing an unemployment rate of around 6 per cent - in the year 2000.

Unemployment in Gloucestershire

III.10 Gloucestershire boasts a relatively low unemployment rate, below the national and regional averages. At 7.1 per cent in March 1992 the rate was the lowest of any county in the South West region, and eighth lowest of the fifty-three counties in England and Wales. However, the increase in unemployment over the last year has been very rapid, from 13.8 thousand in March 1991 to 19.4 thousand in March 1992. Over the first three months of 1992 there was a 1 in 73 chance of becoming unemployed in Gloucestershire, compared with a 1 in 77 chance in Great Britain.

III.11 There are variations in the incidence of unemployment within the county (*see Chart III.2).* In March 1992 unemployment rates were lowest in the Cirencester and Cheltenham TTWAs, at 6.2 per cent these rates were the lowest recorded in any of the fifty TTWAs in the South West region. Cinderford & Ross TTWA recorded the highest unemployment rate in Gloucestershire (9.1 per cent), but was ranked only 31st out of the TTWAs in the South West, and 185th out of the 322 TTWAs in Great Britain. Thus, the highest unemployment rate of any TTWA in Gloucestershire remained lower than the Great Britain rate of 9.5 per cent in March 1992.

Chart III.2 Local Variations in the Incidence of Unemployment, March 1991 and March 1992



OUTPUT, WAGES, INCOMES AND EXPENDITURE

Output growth

III.12 The relatively buoyant nature of much of the South West economy over the 1980s is reflected in above average growth rates of regional gross domestic product (GDP), outstripped only by those recorded for the South East and East Anglia. In the latter part of the 1980s regional GDP expanded at well over 5 per cent per annum. In 1990 the South West is estimated to have contributed 7.7 per cent of total UK GDP. On an index of GDP per head (UK=100) the South West rose from 92.8 in 1980 (rank 8th out of 11 regions in the UK) to 94.9 (rank 4th - overtaking Yorkshire & Humberside, the West Midlands, the North West and Scotland) in 1990. The rate of regional GDP increase is forecast to slow considerably over the short-term, but to resume its earlier rapid increase later in the 1990s.

III.13 In 1989 the contribution of Gloucestershire to regional GDP was 13 per cent, compared with 12.8 per cent in 1979. GDP per head in Gloucestershire has been consistently above the national and regional average, and has increased at a faster rate than average: on an index with UK=100 GDP per head in the county increased from 101.4 in 1979 to 107.3 in 1989. Gloucestershire is the only county in the South West to fall within the top quintile of counties in England, Wales and Scotland on a measure of GDP per head.

Income Levels and Earnings

III.14 Just as the southern regions of England recorded the greatest relative gains in output over the 1980s, so these same regions displayed the largest percentage increases in personal income over the same period. The South West is expected to out-perform all other regions in terms of income growth over most of the 1990s. On a 'snapshot' measure of household disposable income per head in 1989, the South West is second only to the South East. In terms of sources of household income, self-employment, investment and occupational and state pensions, these are relatively more important than average in the South West, and employment is relatively less important - accounting for 54 per cent of the total in 1989, compared with 60 per cent for England.

III.15 At £7,168 per head in 1988, household income in Gloucestershire was the highest in the South West, and greater than in any other county outside the South East. Gloucestershire scores less well in relative terms on household disposable income per head, but nevertheless fares better than the national average and is ranked second in the South West behind Dorset. A rapid rise in consumer spending in the latter 1990s, allied to an explosion in the housing market, was an important factor fuelling the very rapid increase in jobs in banking & finance and distribution over the period from 1987 to 1989 (see Section 5): in 1989 on average each person in

Gloucestershire spent £125 more (in real terms) in shops than they did in 1987 - pumping £66 million into local economy.

III.16 Average weekly earnings in the South West are below the national average. However, this is more a reflection of the higher earnings in the South East, than the fact that the South West fares badly in comparison with other regions. Indeed, male and female earnings in the South West in April 1989 were the third highest of any region in the UK. Moreover, earnings in Gloucestershire are above the regional average. Data from the New Earnings Survey indicates that in April 1991 the average weekly earnings of males working full-time was £311, compared with a South West average of £297. One-fifth earned under £200 per week, compared with one-quarter across the region as a whole - indicating that 'low pay' is a less important issue in Gloucestershire than in the Far South West. Similarly for females in Gloucestershire, average weekly earnings are above the regional average, and the proportion of 'low paid' is below the regional average.

INDUSTRIAL STRUCTURE AND CHANGE

Regional industrial output

III.17 In terms of contribution to GDP, the most important industry groups in the South West are manufacturing, financial and business services, and distribution hotels & catering, accounting for just over 20 per cent, 17 per cent and 16 per cent of the total in 1990, respectively. This compares with contributions of over 22 per cent, 18 per cent and less than 15 per cent for the UK. This same under-representation of manufacturing and over-representation of services is evident in terms of employment at the regional scale.

Employment change in the South West

III.18 In recent years the industrial structure of the South West has been favourable to employment growth, in that manufacturing accounts for a lower than average share of total employment. In 1971 the proportion of employment accounted for by manufacturing was lower in the South West than in any other region, leaving the region less vulnerable to the sharp decline in manufacturing employment. Nearly fifty thousand manufacturing jobs were lost in the South West between 1971 and 1981, but this represented a rate of decline only half the national average. After the shake-out in manufacturing jobs between 1980 and 1983, there was a recovery in employment in the sector in the latter part of the 1980s. The relatively good performance of manufacturing overall reflects the fact that the South West contained some of the elements which were most buoyant over this period, notably, aerospace, electronics and defence-related industries. In 1990 the engineering industry in the South West employed about 200

thousand people - only marginally fewer than ten years earlier. In other manufacturing industries rates of employment loss in the South West were below the UK average. There have been marked job losses in manufacturing in the current recession, and between 1990 and 2000 it is expected that 60 thousand jobs in this sector will be lost.

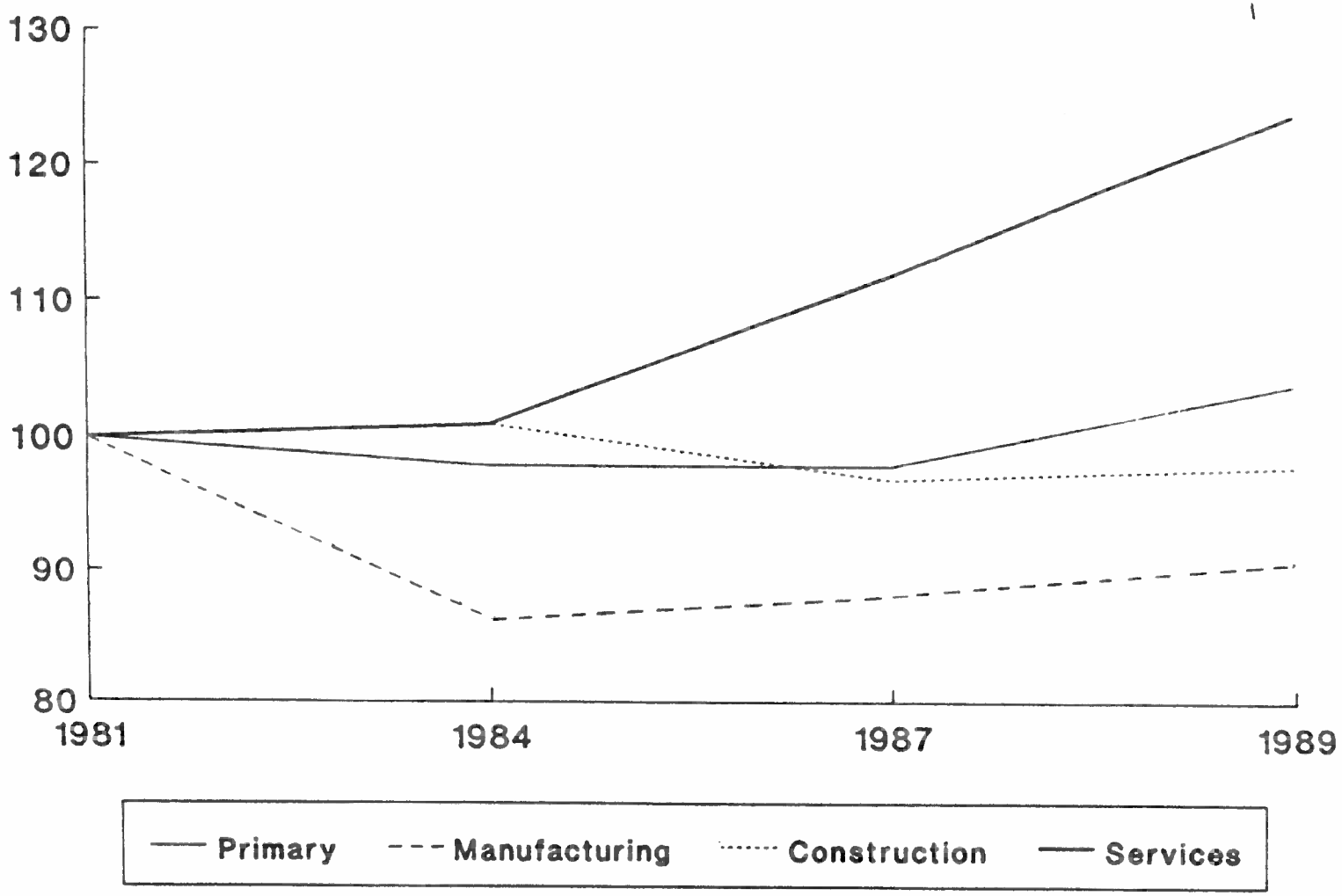
III.19 Regionally, as nationally, the main source of employment growth over the last decade has been the service sector. In relative terms, other private services - including banking and associated financial services, was the most important contributor to the increase in service employment. The South West experienced the second fastest absolute and relative growth in employment in these industries in the UK between 1981 and 1990.

Gloucestershire industrial structure in a national context

III.20 Relative to Britain, Gloucestershire has a slightly larger share of employment in manufacturing (county: 27 per cent, national: 23 per cent) and a slightly smaller proportion in services (county: 65 per cent; national: 69 per cent). Within the manufacturing sector the key feature is over-representation in the engineering sector - notably in aerospace and electronics industries, with a strong orientation towards defence markets. Within the context of a 10 per cent increase in employment in Gloucestershire in the period from 1981 to 1989, manufacturing employment declined by 10 per cent (*see Chart III.3*). However, this represented a less severe rate of job loss than the national average: indicating that conditions were favourable for the manufacturing industries represented in Gloucestershire, most notably those oriented to defence markets.

III.21 In this regard, it is notable that the South West is the most defence-dependent region in the UK with defence expenditure per capita for 1990 (at £720) considerably more than twice the national average, and this is translated into a greater dependency on defence-related employment than any other region in the UK. From a manufacturing perspective, Gloucestershire has a greater concentration of defence equipment manufacturing than the regional average, reflecting the higher proportion of manufacturing industry generally and the key role of aerospace within it. It has been calculated that Gloucestershire has over thirty thousand out of the two hundred thousand defence dependent jobs in the South West. If forecast regional reductions in defence dependent employment take place, Gloucestershire will be harder hit than the South West as a whole. Tentative estimates suggest that eight thousand defence dependent jobs could be lost in Gloucestershire by turn of century. At a sub-county scale, Cheltenham has been identified as a particular "area of concern" - since it is home to employers such as Smiths, Dowtys and GCHQ. Current uncertainty surrounding future defence policy in UK is creating significant problems in formulating appropriate strategies for coping with change for those in defence-related industries.

Chart III.3 Employment Change in Gloucestershire 1981-89



Source:Gloucestershire County Planning Department

III.22 In contrast to the situation of manufacturing, the share of employment in Gloucestershire accounted for by services is slightly smaller than the Great Britain average (county: 65 per cent; national: 69 per cent). This mainly reflects under-representation of transport and other service industries. Service employment in Gloucestershire expanded by 24 per cent over the period from 1981 to 1989, outstripping the national average rate of increase (*see Chart III.3*). *Producer services* (including banking, finance and related services) were the key motor driving the increase in employment over this period. The explosion in the housing market and the rapid rise in consumer spending in the latter 1980s referred to in *paragraph III.15*, was underpinned by a very rapid increase in jobs in banking and finance, and also distribution. The county has benefited from the expansion of local companies - such as the Cheltenham & Gloucester Building Society, as well as the presence of national and international companies - such as the Eagle Star Insurance Group and Endsleigh Insurance Services (some of which have relocated to the area, attracted by a mix of commercial and environmental factors, since the county has relatively few resources [in terms of eligibility for grant assistance] at its disposal to encourage inward investment). The county's strength in producer services may turn out to be an advantage as European markets are opened up. Another important part of the service sector in Gloucestershire (as throughout the South West region) is *tourism*. Tourist-related industries account for over 14 thousand jobs in Gloucestershire, and there are three thousand self-employed in tourist-related industry. Taking account of indirect effects of tourist spending, there are approximately twenty five thousand jobs in Gloucestershire dependent to some extent on tourism: 1 in 10 of county labour force, and 1 in 6 in the Cotswolds.

Local variations in employment change in Gloucestershire

III.23 In all five TTWAs in Gloucestershire the local rate of employment growth in the period from 1984 to 1989 outstripped the national rate. Overall growth rates varied from 7.7 per cent in Stroud TTWA to 22.5 per cent in Cirencester TTWA, compared with a growth rate for Great Britain of 6.7 per cent (*see Chart III.4*). This more favourable than average change was particularly marked in manufacturing - with only Gloucester recording a slight decline in employment over the period, and in transport, banking & finance where all TTWAs with the exception of Cinderford & Ross-on-Wye displayed employment increases in excess of 30 per cent. Indeed, the contribution of the latter industries to total employment in Cinderford & Ross-on-Wye TTWA in 1989 was less than 10 per cent, compared with 18 per cent in Great Britain (*see Chart III.5*). Manufacturing accounted for over one-third of employment in Cinderford & Ross-on-Wye and Stroud TTWAs in 1989, compared with less than one-quarter in Great Britain. In absolute terms, Gloucester and Cheltenham are the major centres of employment in Gloucestershire, indeed, there is evidence of an increasing concentration of county employment in Severn Vale in recent years - mainly reflecting the growth in office employment in the two main urban areas. It is estimated that an additional 40 thousand jobs will be required in the

Chart III.4 Percentage Employment Changes 1984-89 by Employment Group

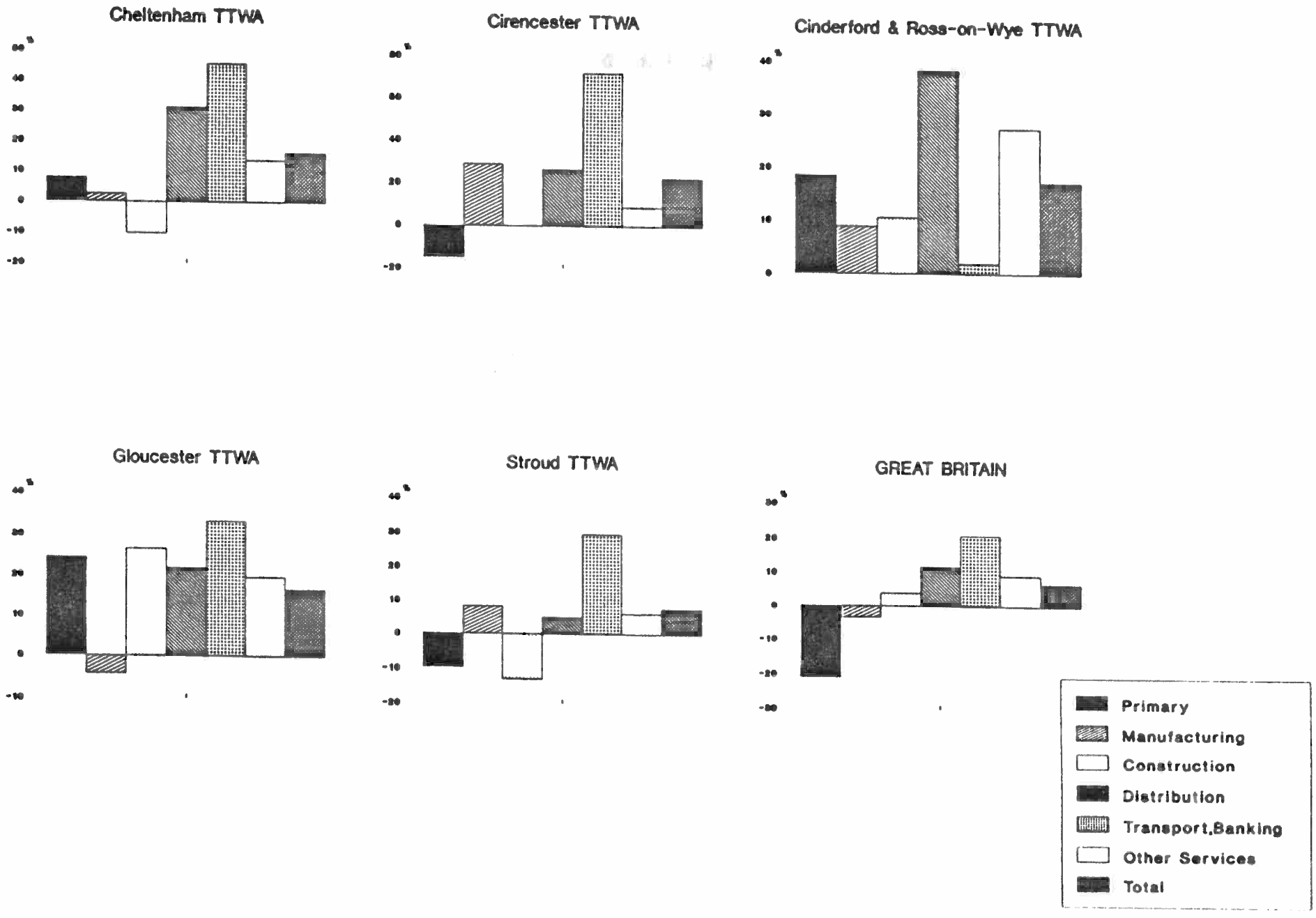
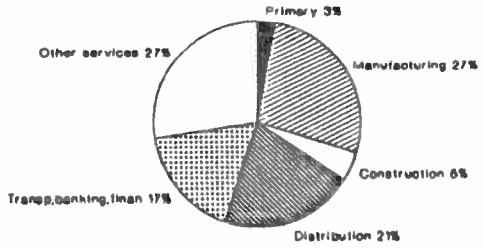
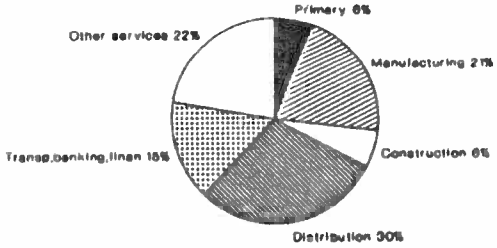


Chart III.5 Local Industrial Structures 1989

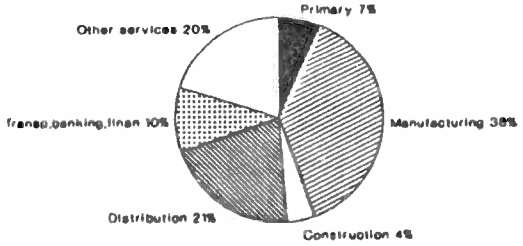
Cheltenham TTWA



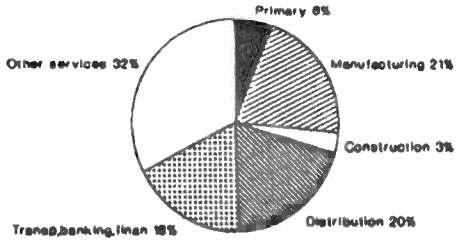
Cirencester TTWA



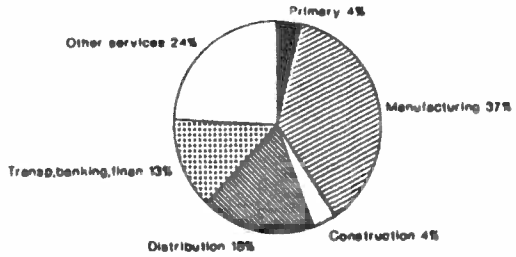
Cinderford & Ross TTWA



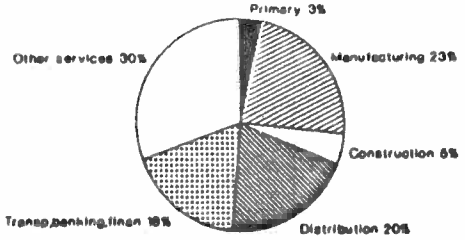
Gloucester TTWA



Stroud TTWA



Great Britain



county by 2001. Land use planning policies have been designed such that the majority of land for employment uses will be located in urban areas and principal settlements, while employment policies reflect a concern for job generation across the county, but with particular emphasis on areas with pressing economic problems (notably the South Forest Policy Area).

Establishment size

III.24 The establishment size profile of Gloucestershire is biassed more towards large establishments than that for the South West region. Indeed, it is more akin to the national than the regional profile. In 1989 there were over 13 thousand employment establishments in Gloucestershire, of which 11.5 thousand had fewer than twenty-five employees. Over 4.3 thousand of these small establishments were in the distribution hotels & catering sector. Around 140 establishments (1 per cent of the total) boasted 200 or more employees. Of the 216 thousand employees in the county in 1989, nearly 70 thousand (one-third) were in establishments with under 25 employees, while a similar proportion were in establishments with over 200 employees (*see Chart III.6*). Very large establishments (with over one thousand employees) were most prevalent in the metal goods & engineering sector - which accounted for nearly one-half of employees in such large establishments. In 1989 approximately one in every three employees in these industries were in establishments with over one thousand employees, although this proportion is likely to have declined since - as redundancies and closures have taken their toll.

Self-employment

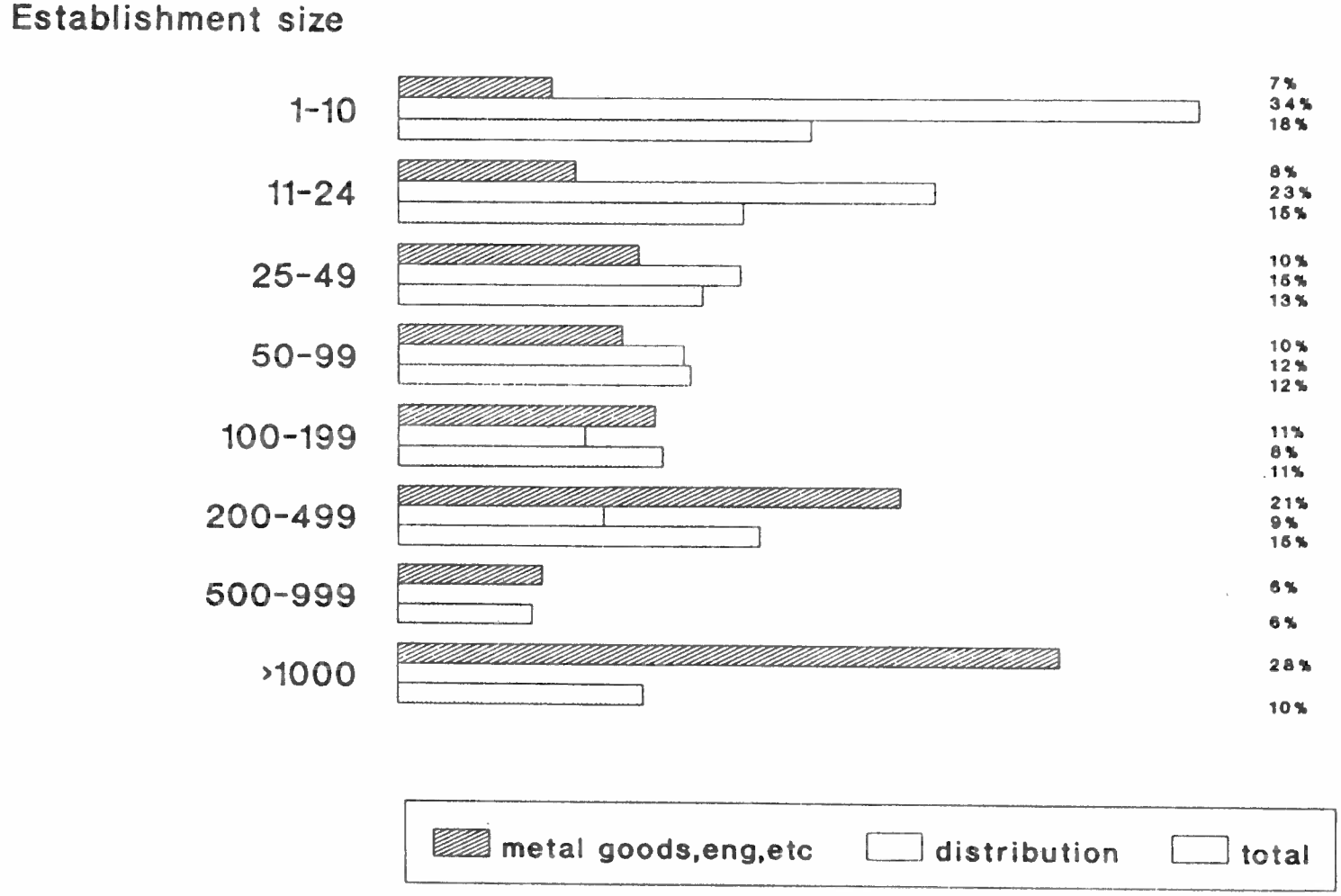
III.25 According to the 1981 Census of Population there were 22,500 self-employed people in Gloucestershire, accounting for ten per cent of the labour force. One of the major changes in employment during the 1980s was the massive increase in self-employment. It is estimated that self-employment in Gloucestershire had increased to 34,000 by 1991.

OCCUPATIONAL STRUCTURE AND CHANGE

Regional and county occupational structures

III.26 The occupational structure of the South West in 1990 was similar to that of the UK. The only comprehensive source of occupational data at the county scale is the decennial Census of Population, with the 1981 data being the latest available at the time of writing. In absolute terms, the most important occupational groups in Gloucestershire in 1981 were clerical & secretarial occupations, plant & machine operatives and craft & related occupations. Relative to the South West plant & machine operatives, professionals, managers & administrators and clerical & secretarial workers were over-represented in Gloucestershire, while personal &

Chart III.6 Proportion of Employees by Establishment Size in Selected Industries - Gloucestershire 1989



Source:Gloucestershire County Planning Department

protective service workers and sales workers are less important in the county than regionally (*see Chart III.7*). On balance, Gloucestershire has an occupational structure oriented towards the higher level non-manual occupations, and the presence of such a pool of skilled labour has served as an attraction to firms seeking to move into the area.

Forecast occupational change

III.27 Over the medium-term clerical & secretarial workers are forecast to account for the greatest absolute increase in employment of any occupational group in the South West. However, in relative terms professional and associate professional & technical workers are at the forefront of the expansion in employment. Job losses are expected for plant & machine operatives and those in other occupations, while the number of craft & related workers is forecast to remain relatively stable.

CONCLUSION

III.28 Outlined below are the principal characteristics of the Gloucestershire economy:

- Gloucestershire emerges as a prosperous county within a prosperous region. Both local and regional economies performed well in the 1980s.

- The county boasts good communications and a favourable environmental image.

- In-migration has played an important role in population growth in Gloucestershire and the South West over the last two decades.

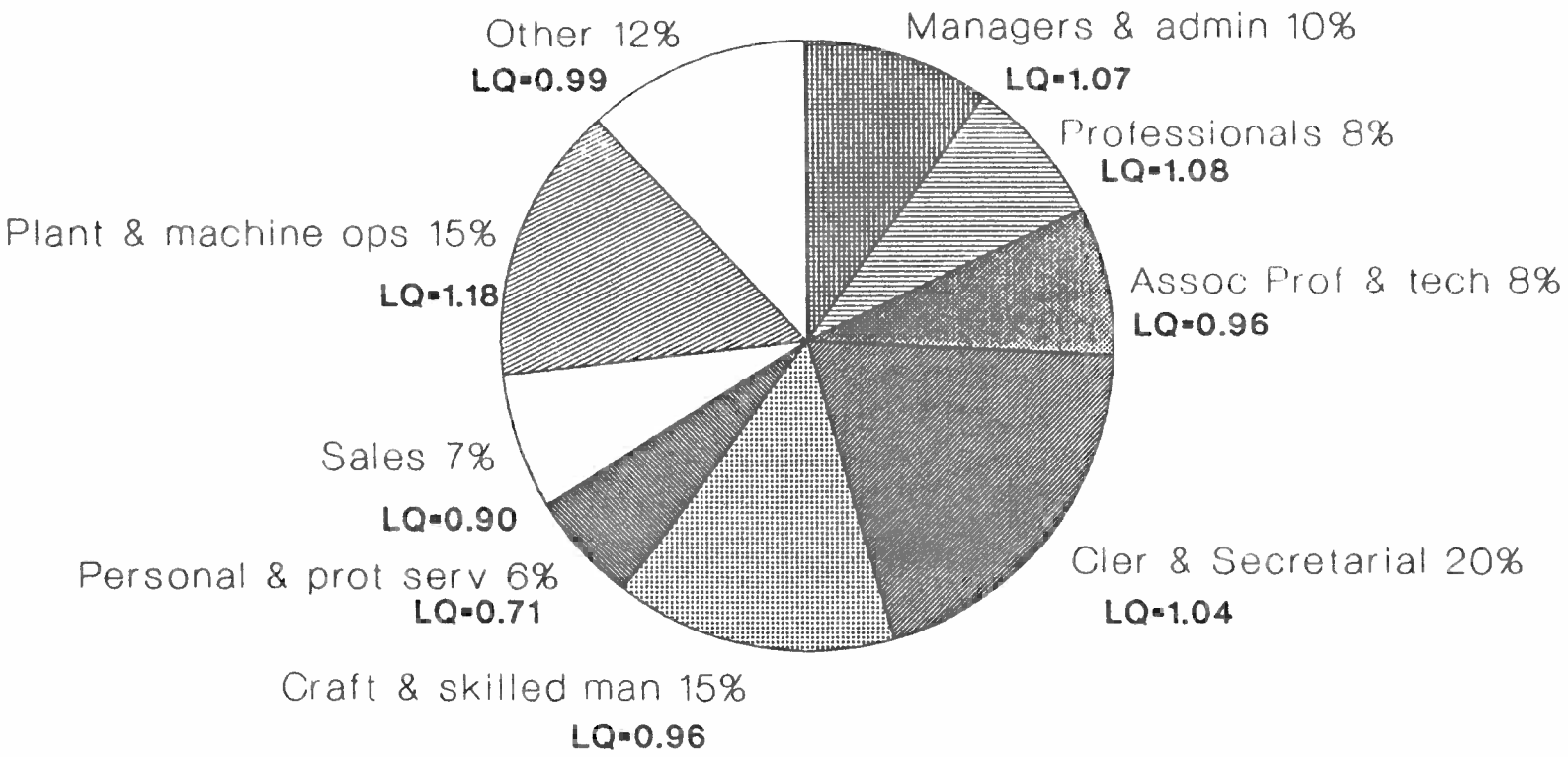
- There was a substantial growth in the labour force in the 1980s, reflecting natural change and participation rate increase.

- There is a lower than average incidence of unemployment within the county and the region, despite increases in unemployment during the current recession.

- Variations in socio-economic structure and change are evident within the county, with the Forest of Dean emerging as one of the most depressed areas.

- Output, income and earnings levels are relatively high, in both regional and national contexts.

Chart III.7 Gloucestershire Occupational Structure 1981



- While the South West has an under-representation of manufacturing and an over-representation of services relative to the national average, the converse applies in Gloucestershire.

- Regional and local industrial structures were favourable to employment growth during the 1980s.

- The service sector has been the main engine of employment growth in recent years, with producer services displaying the greatest relative increase.

- Gloucestershire is located within the most defence-dependent region in the UK, and has a particular concentration of defence-related employment.

- The size profile of employment establishments in Gloucestershire is biassed more towards larger establishments than the regional profile.

- Self-employment in Gloucestershire has increased over the last decade to an estimated 34,000 in 1991.

- The county occupational structure is oriented towards higher level non-manual occupations, and the proportion of the population with degrees and other higher level qualifications exceeds both the national and regional average.

- Despite a number of positive advantages, structural changes and European developments present serious threats (as well as opportunities) to the local economy.

IV. THE SEM AND GLOUCESTERSHIRE

INTRODUCTION

Projecting the Impact of the SEM and Associated Measures

IV.1 The creation of the SEM is a process rather than a once only shift in trade policy. As such it is an evolving concept shaped by the variety of pressures and concerns facing policy makers at an economic, political and social level. In turn, this has resulted in a large measure of uncertainty being attached to the operation of the SEM in practice. However, it is somewhat misleading to view the SEM, as outlined in *Section I*, in 'end' terms. Rather, in looking at the creation of the SEM as a process it is possible to evaluate those policy measures already in the pipeline and which are likely to impact upon the UK economy in the medium term. This can be adequately addressed through the development of scenarios to capture the variation presently exhibited by policy makers as to the most appropriate direction of EC economic and social policy.

IV.2 It is possible to distil these scenarios into a series of endogenous assumptions and exogenous adjustments to a model of the UK economy to gain an indication of the SEM's impact at the national level.* The analysis presented here builds upon existing econometric modelling work completed within IER to capture the effect of the SEM upon the UK. However, such quantitative analysis provides only an indication of where the variety of policy options encapsulated within the scenarios will eventually lead. Moreover, no attempt has been made here to formally model the impact of the SEM upon the Gloucestershire economy. Rather the results of the UK modelling exercise by Lindley and Wilson (1991) provides a context for a more qualitative evaluation of the SEM's impact upon Gloucestershire. This evaluation has been sharpened at the local level through the use of South-West regional labour market forecasts to the year 2000, provided by the IER Regional Assessment, as well as other available data and knowledge relating to Gloucestershire.

IV.3 Summarily, this section provides an indication rather than a definitive analysis of the SEM's impact upon Gloucestershire. Nevertheless, the detailed discussion of the SEM in *Section I and II*, together with the description of the Gloucestershire economy in *Section III*, provides a detailed economic context for the quantitative and qualitative assessment of the SEM and associated measures which forms the focus of this section. Taken together, Section I to IV provide a well rounded view of the SEM and the wider issues of EC integration and their impact on the Gloucestershire economy. First, this section outlines the scenarios devised for the UK

* The Cambridge Econometrics' Multi-sectoral Dynamic Model of the UK economy has been adapted and extended by IER for its annual assessment of labour market trends. This model was used by Lindley and Wilson (1991) in the simulation exercise which estimated the SEM's impact upon the UK economy and as such forms the basis for the analysis provided here.

modelling exercise. Second, the scenarios are applied to the Gloucestershire economy to estimate production and employment levels to the year 2000. Finally, a discussion of the results is presented with references to the relative strengths and weaknesses of the Gloucestershire economy in the light of the SEM's development.

THE SCENARIOS AND THE UK ECONOMY

The Three Scenarios

IV.4 The three scenarios which have been developed within IER to capture the likely outcomes of SEM on the UK economy, are outlined below.

> *The Efficiency Scenario.* This accords with the IER medium-term assessment (IER, 1991). It is a relatively modest adjustment to trends already visible in the European economy. Broadly speaking, this scenario anticipates a sharpening of product market competition in Europe and expects the completion of the SEM to accelerate this process.
>
> *The Cost-Cutting Scenario.* In this scenario it is anticipated that lower cost EC and non-EC producers will attract investment away from the UK which will lower unit wage costs here in the short-term, but the lack of investment this gives rise to will constrain productivity growth in the longer term. The risk here is that fiercer international product market competition will at first drive down wages, then the quality of jobs and perhaps even the quality of the product, effectively trapping the UK in a vicious downward spiral.
>
> *The Quality Scenario.* Here it is anticipated that higher overall investment in human and physical capital along with organisational change will stimulate earnings and productivity growth. In contrast to the cost-cutting scenario, the quality scenario envisages a virtuous circle of higher investment, wages and profits.

The modelling of these scenarios has been dealt with in detail elsewhere (see Lindley, 1991; Lindley & Wilson, 1992; IER, 1991). Provided in summary form below is a brief outline of each scenario for the UK economy with respect to key macro-economic indicators. *(see Table IV.1).*

Table IV.1 Comparison of Macroeconomic Results for the Scenarios

	Efficiency Scenario[a]		Cost Cutting Scenario		Quality Scenario[a]	
			Difference from Efficiency Scenario			
	1989-1995	1995-2000	1995	2000	1995	2000
	% p.a.	% p.a.	%	%	%	%
Gross domestic product at factor cost	2.3	2.1	-2.3	-4.4	2.1	6.0
Consumers' expenditure	1.8	2.0	-1.9	-5.1	1.0	4.9
Government consumption	1.4	1.9	0.0	0.0	0.0	0.0
Gross fixed investment	1.8	2.6	-2.4	-5.1	4.1	9.4
Exports of goods and services	5.4	3.7	-2.2	-4.9	4.3	10.1
Imports of goods and services	3.2	3.6	-4.9	-8.8	6.4	12.8
Average earnings		6.0	-0.68	-0.95	-0.03	1.06
Price of consumer's expenditure		4.1	-0.19	-0.34	-0.34	0.13
Home unit costs		4.3	-0.29	-0.46	-0.29	0.26
Exchange rate (UK effective rate, 1985=100)[b]	79.0	77.6	0.17	0.56	0.58	-0.83
Balance of payments (% of GDP)[b]	-2.1	-0.6	0.90	1.56	-0.66	-0.98
Public sector borrowing requirement (% of GDP)[b]	-1.3	-1.4	0.85	1.74	-0.44	-1.43
Unemployment (millions)[b]	1.9	1.6	0.313	0.631	-0.140	-0.518

Source: Lindley and Wilson (1991)

Notes: (a) For the efficiency scenario, the figures are % p.a. growth rates. For cost-cutting and quality scenarios, figures are percentage differences in levels from the efficiency scenario.
(b) For the efficiency scenario, the figures are average levels in units indicated. For the cost-cutting and equality scenarios, figures are different in levels from efficiency scenario.

IV.5 The impact of each scenario on the UK economy is now discussed in a little more detail before extending the analysis to Gloucestershire.

The Efficiency Scenario

IV.6 Under the efficiency scenario, average growth in GDP is projected at two per cent a year to 2000, with an average rate of consumer price expenditure of around five per cent a year. Earnings are expected to be in advance of this reflecting a growth in productivity, which results in an increase in real incomes which feeds through into growth in consumer expenditure. In addition, the growth in fixed capital investment further stimulates domestic demand. Despite a run-down in North Sea oil production, the balance of payments deficit falls over the 1989 - 2000 period, reflecting strong export performance in both the visible and invisible sectors.

IV.7 Employment growth in the 1989 - 2000 period is expected to take place wholly in the service sector, with primary and manufacturing industry employment projected to fall by approximately one million with around one third of the projected loss accruing in the engineering sector. In terms of occupations, the changing industrial structure will result in a greater demand for professional and managerial workers with the demand for *high fliers* witnessed during the 1980s continuing to grow throughout the 1990s. Clerical and secretarial jobs are expected to decline slightly with computerisation substituting for jobs in this area. Compensating for this decline will be a growth in personal service work. Given the decline of the primary and manufacturing sectors there is likely to be a decline in manual craft jobs, although the greater part of this decline will be confined to unskilled jobs.

The Cost Cutting Scenario

IV.8 The dominant feature of the cost-cutting scenario is the effect upon UK exports. In those sectors of the UK economy which are vulnerable to competition from low-cost European competitors there will be a fall off in demand for UK exports which will be reinforced to some extent by a loss of foreign direct investment or a rise in UK investments overseas. Moreover, the loss of export orders will dampen domestic demand thus further inhibiting investment. In the modelling exercise by Lindley and Wilson (1991), exports under the cost-cutting scenario were five per cent lower than under the efficiency scenario, resulting in a corresponding drop in investment and consumers' expenditure and a lowering of imports by ten per cent relative to the efficiency scenario. At the same time, earnings, the price of consumer expenditure and home unit costs all fall and there is a decrease in real earnings. As monetary policy is tightened in response to the domestic situation there will be a boost to the exchange rate. The PSBR as a percentage of GDP will increase by almost two per cent primarily as a result of lower tax revenues resulting from the lower level of economic activity and the rise in social security payments resulting from the rise in unemployment.

IV.9 Under the cost-cutting scenario it is envisaged that job losses will be highest of all the scenarios, with substantial jobs losses also occurring in parts of the service sector, notably in banking and distribution. Moreover, there is no guarantee that the economy will be able to stave off skill shortages under the cost-cutting scenario. Evidence from the 1980s demonstrated that certain industries, even those in long-run decline, had vacancies co-existing with redundancies either because the supply of skills falls faster than demand or because demand changes in nature.

The Quality Scenario

IV.10 The quality scenario is based on investment led growth. In comparison to the efficiency scenario, investment is ten per cent higher under the quality scenario. It is assumed that the investment in human and physical capital will feed through into productivity gains reinforced through innovatory activity in both design and marketing. Existing economic theory indicates that increased consumer affluence will generate imports - as consumers seek greater variety - whilst the production of high quality products will stimulate export demand. The boost to imports is expected to be of the order of thirteen per cent whilst the boost to exports is only around ten per cent.

IV.11 With reference to employment, the quality scenario raises some interesting questions. First, the stimulus to labour productivity is such that the stimulus to output may be insufficient to offset jobs losses. Second, it is explicitly stated in the quality scenario that there is high investment in human capital. The extent to which labour demand will be satisfied in the business services sector (banking, insurance, etc...), where much of the growth in employment is envisaged under the quality scenario, may be questioned. The experience of the 1980s demonstrated how an acceleration in output growth quickly fed into skill shortages. A question is then raised as to the sustainability of the quality scenario given the existing infrastructure of training provision in the UK.

IV.12 The description above describes the impact of the three scenarios on the UK economy. Clearly, the economic structure of Gloucestershire differs from that of the UK as a whole. *Section III* has demonstrated the relative strengths of the Gloucestershire economy, particularly the relatively strong growth this local economy exhibited during the 1980s. The next section applies the scenarios outlined above to the Gloucestershire economy.

THE IMPACT OF THE SEM ON GLOUCESTERSHIRE

Quantitative Assessment I: Gloucestershire Behaves as United Kingdom

IV.13 In looking at the impact of the three scenarios with respect to Gloucestershire it can be assumed first of all that the impact on Gloucestershire is the same as that for the UK as a whole

(see Tables IV.2 and IV.3). This assumes that the projected rate of growth for each industry is the same as for the UK. Given the industrial structure of the Gloucestershire economy this approach potentially under-estimates the impact on the service sector whilst over-estimating the impact on the production sector. However, without formally modelling the Gloucestershire economy this provides an accurate assessment of the medium term future of the Gloucestershire economy given the available data.

Table IV.2 Growth in the GDP of Gloucestershire 1989-2000

	Annual Average Growth 1989-2000		
	Efficiency	Cost-cutting	Quality
Primary & Utilities	0.99	0.75	1.35
Agriculture	1.38	1.05	1.79
Mining	0.42	0.28	0.73
Utilities	1.51	1.23	1.92
Manufacturing	2.89	2.41	3.48
Metals, minerals etc.	2.70	2.22	3.29
Chemicals	4.14	4.18	5.34
Engineering	3.27	2.64	3.64
Food, drink & tobacco	1.25	0.82	1.70
Textiles & clothing	1.15	0.73	1.38
Other manufacturing	3.25	2.62	3.84
Construction	1.89	1.47	2.52
Distribution	2.84	2.31	3.43
Distribution	2.38	1.86	2.97
Transport & communication	3.69	3.11	4.59
Business & Misc. Services	3.79	3.21	4.69
Banking & insurance	3.99	3.31	4.98
Misc. services	2.95	2.47	3.40
ALL INDUSTRIES ABOVE	2.80	2.27	3.43

Source: IER.

IV.14 In output terms growth is projected in all industrial sectors under all three scenarios. Growth is strongest in business and miscellaneous services and to a lesser extent distribution services. In the manufacturing sector growth is strongest in chemicals - reflecting a relative strength of the UK economy in chemicals and pharmaceuticals - and in the engineering and other manufacturing sectors. A key question remains as to the extent to which these gains in output are sufficient to maintain job levels given changes in organisation and technology which will yield productivity gains. Under the efficiency scenario job losses are recorded in the primary, manufacturing and construction sectors with job gains limited to the service sectors. Overall, a small gain - 0.21 per cent - in the annual average rate of growth in employment is projected to

the year 2000. Under the efficiency scenario there are employment losses in key areas of the Gloucestershire economy. In 1989, approximately one quarter of Gloucestershire's employment was in manufacturing, particularly in the engineering and other manufacturing sectors. Overall manufacturing employment is projected to contract at an annual average rate of 1.27 per cent to the year 2000, with a slightly higher rate of contraction projected for the engineering sector. Though these job losses are compensated for by the service sector employment gains, the structural adjustment necessary in the transference of jobs from the manufacturing sector to the service sector is of a considerable magnitude.

Table IV.3 Growth in Employment in Gloucestershire 1989-2000

	1989 Level	Annual Average Growth 1989-2000 Efficiency	Cost-cutting	Quality
Primary & Utilities	10117	-2.05	-2.40	-1.64
Agriculture	5060	-1.56	-1.94	-1.15
Mining	352	-2.58	-2.79	-2.24
Utilities	4705	-2.58	-2.90	-2.16
Manufacturing	59236	-1.27	-1.74	-1.10
Metals, minerals etc.	3160	-1.32	-1.82	-0.80
Chemicals	3254	-0.22	-0.19	1.07
Engineering	35305	-1.45	-1.94	-1.53
Food, drink & tobacco	4553	-1.96	-2.38	-1.70
Textiles & clothing	1418	-1.94	-2.35	-2.02
Other manufacturing	11546	-0.69	-1.27	-0.31
Construction	8733	-0.18	-0.64	0.45
Distribution	55091	0.38	-0.15	0.82
Distribution	45489	0.42	-0.10	0.88
Transport & communication	9602	0.15	-0.39	0.54
Business & Misc. Services	42239	1.70	1.16	2.25
Banking & insurance	26156	0.56	-0.06	1.32
Misc. services	16083	3.32	2.87	3.60
Non-marketed Services	44890	0.82	0.82	0.82
Health & education	28063	0.92	0.92	0.92
Public administration	16827	0.65	0.65	0.65
WHOLE ECONOMY	220306	0.21	-0.18	0.52

Source: IER.

IV.15 Under the cost-cutting scenario there is an overall contraction in employment. The contraction of the primary and manufacturing sectors is more marked than under the efficiency scenario with gains in the service sector more modest. Indeed, a very small contraction in the banking and insurance sector, which is perhaps more sensibly interpreted as a case of no change,

is projected in the period to 2000. This demonstrates the severe impact of the cost-cutting scenario on the Gloucestershire economy, curtailing as it does employment growth in one of the fastest growing sectors of the local economy during the 1980s.

IV.16 The quality scenario, like that of the efficiency scenario, forecasts a decline in employment in all the primary and manufacturing sectors with the exception of the chemicals industry, and employment growth in the service sector. Compared to the efficiency scenario, the quality scenario projects a less severe contraction in employment in declining sectors and forecasts greater employment gains in expanding sectors. Although under the quality scenario the annual average decline in the engineering sector is greater than under the efficiency scenario.

IV.17 Looked at in terms of the industrial structure of employment, all three scenarios forecast a greater dependency on service sector employment *(see Table IV.4)*. Overall, in terms of industrial structure the difference between the scenarios is almost negligible however. Where the difference between the scenarios is most significant is in the relative size of the Gloucestershire economy in terms of output and employment.

Table IV.4 The Industrial Structure of Employment in Gloucestershire in 2000

	1989	Efficiency	Cost-cutting	Quality
Primary & Utilities	4.6	3.6	3.6	3.6
Manufacturing	26.9	22.8	22.6	22.5
Construction	4.0	3.8	3.8	3.9
Distribution	25.0	25.5	25.1	25.8
Banking & Misc. services	19.2	22.6	22.2	23.1
Non-marketed Services	20.4	21.8	22.7	21.1
WHOLE ECONOMY	100.0	100.0	100.0	100.0

Source: IER.

Quantitative Assessment II: Gloucestershire Behaves as the South-West

IV.18 It is exceptionally difficult to develop a formal macro-economic model at the regional level. The openness of regional economies rules out the possibility of capturing the input-output data required for modelling purposes. However, IER has developed a regional labour market assessment based upon an extrapolation of historical employment trends in the standard regions. These extrapolations are then constrained by the IER projections of employment change in the UK economy to produce a forecast of regional employment trends to the year 2000 (*see* Wilson, Hammersley and Millar, 1991; IER, 1991 *for full details of the IER regional labour market assessment*). The IER labour market assessment for the South-West standard region can be used as a base for estimating the impact of the three scenarios on employment growth in

Gloucestershire. This does not provide a refinement of the projections provided in the previous section, rather it provides an alternative measure of the way in which the Gloucestershire economy is expected to behave in the medium term.

IV.19 In the projections of employment change presented here, the efficiency scenario can be equated with the IER regional employment forecast for the South-West. The proportionate difference in employment growth between the cost-cutting and quality scenarios and the efficiency scenario remains the same as in the projections where the Gloucestershire economy is assumed to behave the same as the UK economy. The results of the employment projections based upon the Gloucestershire economy behaving the same as the South-West standard region in the period to 2000 are presented below *(see Table IV.5)*.

Table IV.5 Growth in Employment in Gloucestershire 1989-2000

	1989 Level	Annual Average Growth 1989-2000 Efficiency	Cost-cutting	Quality
Primary & Utilities	10117	-1.55	-1.83	-1.22
Agriculture	5060	-1.04	-1.37	-0.69
Mining	352	-0.14	-0.30	0.14
Utilities	4705	-2.25	-2.48	-1.94
Manufacturing	59236	-1.28	-1.68	-1.16
Metals, minerals etc.	3160	-1.36	-1.80	-0.91
Chemicals	3254	-2.29	-2.26	-1.05
Engineering	35305	-0.42	-0.84	-0.49
Food, drink & tobacco	4553	-3.82	-4.16	-3.62
Textiles & clothing	1418	-1.60	-1.92	-1.66
Other manufacturing	11546	-2.93	-3.45	-2.58
Construction	8733	0.92	0.47	1.55
Distribution	55091	0.92	0.36	1.38
Business & Misc. Services	42239	2.83	2.16	3.46
Non-marketed Services	44890	1.02	1.02	1.02
WHOLE ECONOMY	220306	0.71	0.29	1.04

Source: IER.

IV.20 If the Gloucestershire economy was to behave more like the regional economy of the South-West then a larger net gain in employment is forecast for Gloucestershire under all three scenarios compared to the UK based projections. The losses to the primary and manufacturing sectors are less severe than is the case where Gloucestershire is expected to behave as the UK. Likewise, growth in the service sector tends to be greater under all three scenarios.

Interestingly, the construction sector is forecast to grow rather than decline under all three scenarios, reversing the trend exhibited in the UK based projection.

IV.21 The relative strength of the South-West economy relative to that of the UK is highlighted with reference to the cost-cutting scenario. Under this scenario a sharp decline in the economic fortunes of the UK has been projected resulting in an annual net loss to employment to the year 2000. However, if it is assumed that Gloucestershire behaves as the South-West a modest growth in employment is forecast to the year 2000.

IV.22 The difference between each scenario results in only a small adjustment in the industrial structure of employment *(see Table IV.6)*. Like the UK based projection presented above there is a negligible difference in the industrial structure of employment between the three scenarios.

Table IV.6 Industrial Structure of Employment in Gloucestershire in 2000 (%)

	1989	Efficiency	Cost-cutting	Quality
Primary & Utilities	4.6	3.6	3.6	3.6
Manufacturing	26.9	21.6	21.6	21.1
Construction	4.0	4.1	4.0	4.2
Distribution	25.0	25.6	25.2	25.9
Business & Misc. Services	19.2	24.1	23.5	24.9
Non-marketed Services	20.4	21.1	22.1	20.3
WHOLE ECONOMY	100.0	100.0	100.0	100.0

Source: IER.

A Note of Caution

IV.23 With respect to Gloucestershire, the two sets of three projections described above are not the result of a formal modelling exercise. In fact, they are extensions of trends in the UK and the South-West weighted by the Gloucestershire employment and industry structure. As such they are indicators of change in Gloucestershire rather than formal forecasts. Their purpose is to provide a context against which a more qualitative assessment of the strengths and weaknesses of the Gloucestershire economy can be addressed, which in turn will feed into the policy debate.

THE GLOUCESTERSHIRE ECONOMY TO 2000

Gloucestershire in the EC

IV.24 The scenarios attempted to capture the range of outcomes resulting from the further integration of the EC. Summarily, the cost-cutting scenario is something of a worst case scenario with the UK experiencing a real decline in economic prosperity. In contrast, the quality

scenario may be seen as a best case scenario where real gains in productivity and earnings accrue as the UK expands its output into the high-quality and high-value added market sectors. The efficiency scenario plots a more neutral path with a projected continuation of trends already witnessed in the UK over the past ten years or so.

IV.25 To a large extent, the impact on the Gloucestershire economy of a more economically and socially integrated EC - which results as a consequence of the SEM, the convergence towards EMU and the implementation of the SD - depends upon the position of the UK within the EC. On the range of indicators outlined in *Section II* the UK compares favourably to the EUR-12 average, although it has consistently lagged behind Germany on a range of key macro-economic variables. Moreover, much of the evidence which suggests that the UK is converging towards German economic performance as a result of ERM membership has arisen from a worsening German economic performance rather than strengthened UK performance. However, the position of the UK within the World and the EC economy has been controlled for in the macro-economic modelling which projected the impact of the three scenarios on the UK economy (*see* Lindley and Wilson, 1991). Overall, whilst the UK economy displays key structural weaknesses in relation to the EUR-12 and especially EUR-4, the economy remains one of the strongest in the EC.

IV.26 Within the UK, the Gloucestershire economy is one of the strongest local economies on a range of key economic indicators - as described in detail in *Section III*. The Gloucestershire economy has been able to capitalise upon the manufacturing to services shift in the UK economy whilst maintaining a substantial hi-tech manufacturing base. In looking at the impact of a more economically integrated EC upon the Gloucestershire economy the question becomes largely one of predicting whether or not Gloucestershire's position of relative strength in terms of the UK and the EC economy can be maintained. The projections outlined above indicate that under the efficiency scenario growth in output and employment may be slowed down somewhat relative to the 1980s, but real growth is still evident as the service sector continues to expand. Even under the cost-cutting scenario - under the Gloucestershire behaves as the UK projection - although growth in production is insufficient to offset job losses, these job losses in terms of annual percentage growth, are small.

The Strengths and Weaknesses of the Gloucestershire Economy within the EC

IV.27 To a large degree the strength of Gloucestershire economy rests on the service sector, especially business and financial services. The proximity of Gloucestershire to the South-East and London should not be under-estimated in explaining the location of so much of this activity in the local economy. Moreover, the liberalisation of financial services market following the introduction of the Financial Services Act (1986) and the resultant *Big Bang* in the City of

London, indicates that many of the necessary structural adjustments in coming to terms with increased market competition took place at this time. Therefore, it is likely that any organisational change in the financial and business services sectors with respect to the SEM will be evolutionary rather than revolutionary in the period to 2000. In short, the Gloucestershire service sector economy, other things being equal, is somewhat insulated from the creation of a SEM.

IV.28 With respect to the production sector, employment contraction under all three scenarios is projected to continue. Of particular importance to the Gloucestershire economy is the role of the defence sector. Clearly, the peace dividend from the break-up of the former USSR will result in defence expenditure cuts, although as events unfold in Eastern Europe a question mark hangs over the magnitude of these defence cuts. The implication of defence expenditure cuts on the Gloucestershire economy is potentially serious. Not only do many of the larger defence manufacturers have supply links to smaller manufacturers in the area but there also links to the service sector notably with respect to business and software services. Although cuts in defence expenditure are not a result of the EC's economic and social integration, EC economic policy does provide a potential antidote to this development. In *Section I and II* much was made of public procurement policies and the relatively weak position of the hi-tech sector in the EC. Arguably, a larger unified domestic market for hi-tech goods in the EC provides EC manufacturers with the opportunity to challenge both the USA and Japan in the production of these goods. There is no evidence at present to suggest that the major hi-tech manufacturers in the Gloucestershire area, or the UK as a whole, exhibit any weaknesses relative to the average of EC manufacturers. Therefore, other things being equal, the Gloucestershire area should be able to share the benefits of any growth in the hi-tech sector. However, under all three scenarios projected output growth in the hi-tech sectors is unlikely to offset a decline in employment in these sectors.

IV.29 An important qualification needs to be added to the foregoing discussion. It has been demonstrated in *Sections II and III* that the South West is proportionately more dependent upon large employers than either France, Germany or Italy, and that within the UK, Gloucestershire is proportionately more dependent upon large employers. This indicates that Gloucestershire is particularly vulnerable to corporate decision making, moreover those decision are likely to be taken at some distance from Gloucestershire. At present it is far from clear what the implications of this are for the Gloucestershire economy. *Section II* (paragraph II.42) discusses the impact of the SEM on capital mobility and the effect on employment.

The Employment Situation

IV.30 Skill Shortages were particularly acute in the UK during the 1980s. Explicit in the definition of the quality scenario was a high investment in human capital and implicit in the cost-cutting scenario was the accumulation of a low skilled and low paid workforce. Clearly the rate of GDP growth anticipated in the period to 2000 is not of the same magnitude as that witnessed during the mid to late 1980s in the UK. As a consequence, skill shortages are unlikely to be as severe unless there is a significant shift in the nature of demand for certain skills.

IV.31 *Section III* has already indicated that growth in employment in both the South-West standard region and the UK will be concentrated in the following occupations:

- clerical and secretarial occupations;
- professional occupations; and
- associate professional and technical occupations.

Supply forecasts for the latter two groups would indicate that they are a potential area of skill shortage, especially if they are concentrated in the scientific and engineering occupations associated with the hi-tech sectors of the economy. Whilst CEC moves to harmonise professional and technical qualifications across the EC and potentially spreads the recruitment net for such workers across most of Europe, it also brings Gloucestershire within the recruitment net of other non-UK based EC companies. However, available evidence relating to migration indicates little growth or new patterns of movement so long as language and cultural traditions act as effective barriers.

CONCLUSION

IV.32 This section has provided a quantitative assessment of the SEM and related measures linked to the further integration of the EC on the Gloucestershire economy. It has been stressed that the projections to 2000 are indicative rather than definitive. In view of this, an attempt has been made to flesh out the outline with available data relating to Gloucestershire and the South-West. Overall, the evidence indicates that Gloucestershire is well placed to take advantage of a more integrated EC. The strength of the service sector and its close proximity to the financial centre of the EC - London - should serve the local economy well in the period to 2000 when a more integrated Europe should take shape. However, there are qualifications to this qualitative forecast. Most notably:

- the extent to which a single internal market can stimulate the competitiveness of the EC economy in the hi-tech sector;

- the extent to which Gloucestershire can secure its share of any growth in the hi-tech sector as cuts in defence expenditure take place;
- the extent to which a ready supply of professional and associate professional workers is available to sustain growth; and
- the vulnerability of the local economy to corporate decision making.

IV.33 The three scenarios have dealt with the uncertainty factor associated with the development of a more integrated Europe. At worst the cost-cutting scenario suggests a contraction in jobs of around 0.2 per cent per annum to the year 2000, at best under the quality scenario employment growth will be around 0.5 per cent per annum.

V. FINDINGS FROM THE ROUND-TABLE DISCUSSIONS

Introduction

V.1 Five round-table discussions were held to explore in more detail the issues arising from the desk-based research. These discussions involved participants from local (mainly public sector) organisations (including the County Council, the District Councils, the TEC, colleges, enterprise agencies, etc), manufacturing industry, tourism, financial services and small firms. The participants were not 'representative' of particular industries/interest groups in that they were not drawn from a scientifically selected sample of particular industries. Nevertheless, it is considered that the views, opinions and perceptions (rather than necessarily factual statements) expressed in the discussions do encompass a valuable and diverse range of perspectives from different industrial and organisational contexts. Participants in the round-table discussions are listed in Appendix 1.

V.2 Each round-table discussion commenced with a short presentation of the findings from the desk-based study. Comments were invited on the results outlined, and then the discussion covered three broad topics:

i. training and education issues;
ii. economic development, industrial policy and planning; and
iii. possible roles for local organisations with respect to SEM developments.

Recent Changes in the Gloucestershire Economy

V.3 There was considerable interest in the fact that the Gloucestershire economy was biassed in favour of higher level occupations. It was felt likely that there had been a further major shift 'upwards' since 1981. Results from the 1991 Census of Population are awaited for provision of a more up-to-date picture at the local level. The decline in manufacturing since 1989 was considered to have been severe, and some participants thought that the current share of total employment in Gloucestershire accounted for by manufacturing was lower than the 1989 proportion.

Assessment of Alternative Scenarios

V.4 The general impression emerging from the majority of participants at all round-tables was that the scenarios painted in the desk-based study were overly optimistic, although it was acknowledged that employers tended to be very poor in forecasting their likely future manpower requirements. Amongst the reasons postulated why a more pessimistic outlook is probable include:

i. *Defence cutbacks* are occurring more quickly, and are more severe than had been expected. Reliance of the Gloucestershire economy on defence industries might cause the local economy to lag behind any national improvement in economic circumstances.

ii. From the *service sector* the view was expressed that the scenarios painted for the service sector in general, and for *banking & finance* in particular, were over-optimistic; sources of growth in these sectors over the next few years, or over the medium-term, were difficult to identify. Moreover, it was pointed out that there was currently considerable uncertainty surrounding the future of *public administration* - with compulsory competitive tendering, reorganisation of local government, etc, likely to result in job losses.

V.5 Some participants felt that the national economy was in a downward spiral and that the *cost-cutting scenario* was already a reality. A counter view was that in the medium- to long-term there would be evolution towards the *quality scenario*; there was "no other option" to ensure survival. There was widespread recognition of the fact that different scenarios might be appropriate for different sectors. The hope was expressed that the pressure of European integration would drive the UK in the direction of *quality*. There was some concern as to whether the *quality scenario* could be sustained, considering the lack of investment in training, and the fact that training and quality servicing had to be the "cornerstones" of the quality scenario. *How* and *could* the training system in Gloucestershire respond to an economic upturn?

The Importance of "Quality" in Training

V.6 The participants from manufacturing industries were particularly concerned about *"quality"* issues. There was general agreement that the introduction of *total quality systems* was expensive, and, moreover, that the concern about *quality* was longer established in the rest of Europe than in the UK. Hence, the 'starting position' of the UK was behind that of the rest of Europe, and with inherent *lags* in the training system it was postulated that it would take some time for the UK to be in a position to compete effectively in terms of quality. The participants from small firms expressed particular concern about the cost and paperwork involved in achieving BS5750 standards.

Cut-backs in Training

V.7 It was acknowledged amongst all participants that there had been cut-backs in training during the recession. These cut-backs appeared to be more pronounced in manufacturing than in services. Amongst the *reasons* forwarded for recent cut-backs in training were:

i. The decline in recruitment meant a reduction in demand for training, since a considerable proportion of training budgets are devoted to new staff.

ii. Pressures on profits during recession meant that there was less money available to spend on training.

iii. Fear of 'poaching' was exacerbated at a time of general cut-backs in training.

iv. General prevalence of UK companies to think *short-term*, contrasting with a norm of *longer-term* perspectives in the rest of Europe. Amongst the representatives from manufacturing and small firms this "short-termism" was explained mainly with reference to the relatively high *long-term interest rates* in the UK compared with the rest of Europe.

v. High starting salaries for young people leaving school with no/few qualifications meant that such people were expensive to train.

vi. The demise of *life-time employment* in single companies was said to have led to the disappearance of much of the industrial social support infrastructure which had bolstered traditional training systems - notably apprenticeships.

Attitudinal Considerations

V.8 Despite bemoaning the UK's position low down on the quality 'learning curve' and cut backs in training, it was acknowledged that there were significant and positive moves towards higher quality, multi-skilling, etc; but that there was a tendency in the UK not to 'shout about' positive attributes. For instance, the quality of UK graduates - particularly engineers - was considered to be very high compared to their European peers of a similar age, and such individuals - particularly those with language skills - were in high demand, both in the UK and in the rest of Europe. More generally, Britons tended to be well-respected for their technical and marketing ability. It was considered possible to cite examples of very good companies in Gloucestershire. A key feature marking out such companies from the rest was that *company ethos* was regarded as very important: an *esprit de corps* analogous to that found throughout much of Europe was in evidence, by contrast with the "them and us" attitude which was contended to be prevalent in many UK companies. The significance of *attitudes* in underlying many of the difficulties faced by Gloucestershire and UK companies was recognised. It was contended that attitudes could be changed only by 'massive shocks' - such as high and rising unemployment, more competition, deteriorating markets, etc. Some considered that the current demise of Gloucestershire from a position of relative affluence may provoke such an attitudinal change.

Responsibility for Training

V.9 Contrasting, and contradictory, views emerged from the round-table discussions about who should bear responsibility for training. Amongst the representatives of the local (mainly public sector) organisations there was near-universal agreement that training and retraining was the responsibility of employers. Amongst the participants from manufacturing industry there was widespread agreement that it was the responsibility of government to ensure that there were enough skilled workers: the onus lay with government to invest in training and encourage a longer-term outlook. There was general criticism of government policy in that the government does not put money into employers to train people - "Government has to fund employers to train". Those from small companies appeared to accept the necessity of training staff, as required; but favoured a system in which they could obtain subsidies for training. Some signs of complacency were apparent amongst the attendees from service industries; the contention was forwarded that, in general, service companies were more aware of the importance of training than those in other sectors because of their greater degree of direct contact with customers.

Training Providers

V.10 Representatives of the Colleges expressed concern about the declining resources available to them, and the continuing trend towards the removal of local and community interests. The Colleges were under pressure to become more and more *responsive* in outlook: in some instances this meant catering for students who wished to study the liberal arts, rather than 'pushing' technological and engineering courses - for which there was a greater demand and shortfall in some areas for skills. Some of the participants from the engineering sector felt that the Colleges had cut back on engineering training because of the cost of providing such training, rather than due to a lack of demand. The participants from small firms considered that the training system was geared too much in favour of large firms; smaller firms need cheaper "snapshot" courses. It was acknowledged that assessment of the market for training was very important.

Addressing Problems of Skills Shortages in Relation to the SEM

V.11 It was felt that some companies - particularly the manufacturers - had no option but to resort to "poaching". It was possible - and perhaps probable - that a situation would evolve in which there was a more *highly skilled core*, but all other functions would be *deskilled*. Representatives of local organisations felt that the main *training priorities* were to:

i. emphasise the importance of *collaboration* and *partnership* in training;
ii. promote transferable skills;
iii. promote the necessity of retraining;
iv. ensure the continuance of *high-cost training* and *hi-tech training*; and

v. to gear up firms to have a *strategy*, and to emphasise the relevance of *quality*, *marketing* and *training* to maintaining competitiveness.

Promoting Inward Investment

V.12 It was considered that one important way forward in enhancing Gloucestershire's competitiveness in European and American markets and in helping to alleviate unemployment, was to actively encourage inward investment - particularly in manufacturing. In the context of defence cut-backs and unemployment amongst skilled labour, it was contended that a policy to attract manufacturing industry to Gloucestershire was needed. It was felt that traditionally, local manufacturing industry had not been supportive of such a policy: fearing greater competition for labour and upward pressure on wages. The feeling emerged across industrial sectors that in the past the County Council had been *complacent*: adopting a reactive ('open door') policy to inward investment. It was considered that Gloucestershire was becoming a '*victim*' of having had a 'comfortable position' in the past. Indeed, some of the most vociferous proponents of an active inward investment strategy contended that the expansion of services had to some extent masked the initial cut-backs in manufacturing and aerospace, and contended that because of this the need for inward investment was not recognised as early as it might have been. However, a number of participants, including some of those who had bemoaned what they had considered to be a complacent stance on the part of the County Council, were able to identify reasons for the previous relative lack of success in attracting foreign direct investment:

i. unavailability of "golden hellos" with which to tempt potential inward investors;
ii. lack of labour available; and
iii. labour was not particularly cheap in Gloucestershire compared with some other locations (e.g. South Wales).

The significant role of political pressure in influencing decisions concerning the location of new investment was also recognised.

V.13 While there was widespread agreement that an inward investment strategy should be targeted on manufacturing, there was less consensus regarding the precise details of such a policy. The view was expressed that an inward investment strategy should focus on selected American/European targets and should encourage them to invest in existing small and medium-sized companies in Gloucestershire. There was also a recognition that UK and Gloucestershire firms were pursuing options of investing abroad, as part of the general trend towards greater "Europeanisation" of firms. Since the US, in particular, did not need to be a trading nation because of its large home market, it was considered necessary for the County Council to adopt a

more proactive stance in promoting inward investment in Gloucestershire companies. Some considered that there may be a case for *identifying companies in the local economy which can grow*, and promoting these companies as targets for inward investors. In the light of the time-lags involved in many investment decisions, it was acknowledged that there was a need for swift *intervention*. Others felt that such a strategy should focus on diversification in defence-related industries, with the aim of maintaining the local employment base and retaining skilled labour. Some favoured the use of inward investment to build "clusters" of new industries - preferably industries which could make use of the engineering skills in the local economy. However, it was recognised that an inward investment policy would have to be sufficiently flexible to be able to respond to changing economic conditions, and take advantage of new opportunities. Large scale projects - on the scale of Nissan at Washington - were considered inappropriate in the Gloucestershire context; industries were sought which would not detract from the environmental attractiveness of the area and which would enhance, rather than detract from, the quality of life in the county.

'Marketing Gloucestershire': Intra- and Inter-Regional Linkages

V.14 Gloucestershire was considered to have substantial attractions for investors. It had the advantage of a strong industrial base which was attractive to the Americans. Indeed, it was acknowledged that the UK acts as a natural "gateway to Europe" to US and Japanese companies. The availability of a "skilled labour pool" in the county was also highlighted as a positive strength, worthy of particular emphasis by the County Council in promotion policies. Moreover, Gloucestershire was acknowledged as having a positive image in terms of environmental attractiveness and quality of life. This image had been one important factor in the choice of Gloucestershire as a relocation destination for many financial services companies. It was also a significant factor underlying the strength of tourism in the county. Maintenance of this positive image was acknowledged to be of importance for the future health of the local economy generally.

V.15 There was general recognition - particularly amongst participants from the larger manufacturing companies - that Gloucestershire needed to play a positive role in the new "Europe of the Regions". Some expressed concern that Gloucestershire may appear more *peripheral* in an enlarged Europe. Others considered that the main problem was likely to be the perceived peripherality of the UK, rather than the peripherality of Gloucestershire within the UK. Since it was considered that Gloucestershire was probably too small on its own to be a meaningful entity in wider European terms, it would be necessary to make alliances with other areas and promote Gloucestershire within the context of a larger 'region'. Some considered that an advantage of Gloucestershire's *central* location was that it was in a position to choose which other areas it should link with. The participants from manufacturing industry felt that the county

had natural economic links with parts of the West Midlands, and with the M4 corridor centres of Bristol, Swindon and Reading. The financial services industries had links with Bristol and London. It was acknowledged by both the participants from manufacturing and from services that developments in Bristol were of key importance for the South West. By contrast, in the tourism industry the strongest links were with the Cotswolds, Oxford and Stratford-upon-Avon. There was a general unwillingness to be associated with depressed areas. The participants from manufacturing industry were adamant that Gloucestershire should not be linked with the area to the west of Taunton; hence a 'region' covering the whole South West standard economic planning region was considered inappropriate. There were also perceived to be dangers in too strong an alliance with the West Midlands; it was feared that Birmingham would dominate any such regional grouping, while some of the inner city areas portrayed a negative image. One participant suggested that the fact that there was a discussion about what 'wider region' Gloucestershire should be 'bolted onto' was a message in itself: indicating that the area does not have a strong identity and so highlighting the need for the creation and promotion of an image to be proud of in Gloucestershire. Overall, the sentiment emerging was that Gloucestershire should ally itself with Avon, Wiltshire and Oxfordshire to promote a broader regional entity with a favourable industrial base and occupational structure, a good environment, and strong links to the South East core of the UK economy.

Infrastructure

V.16 In general, Gloucestershire was considered to be well-served by its transport infrastructure. In particular, the motorway network was felt to be good, with the M4 providing links along the Thames Valley corridor, and the M5 connections with Bristol and the West Midlands. The rail network was also regarded as adequate; notably in the south of the county (along the main-line from Paddington to the west and south-west). From Gloucester and Cheltenham use was made of through services to London. Gloucester and Cheltenham are better served by cross-country links from the north-east (including Birmingham) to the south-west (including Bristol). Amongst a minority, there was some slight concern about the fact that rail and road connections to the east (i.e. with the South East core region) tended to be less good than those in other directions. Within the County Council there is some concern about possible future downgrading of Inter-City services from Gloucester and Cheltenham to London. There were few comments from the participants from industry about air travel, although the possibility of upgrading/expanding Staverton Airport or converting one of the military airfields for commercial use was mentioned.

Essential Elements in a Successful Economic Strategy

V.17 It was acknowledged that to be successful, the County Council (and other bodies) had to co-ordinate and match their policy strategy to the strategies of local businesses - so as to buttress

existing Gloucestershire companies and create spin-offs to other local companies. Other essential elements were land availability and an adequate transport system, and broader economic, educational and social infrastructure. It was recognised that economic strength and prosperity in the broader region would serve to enhance the Gloucestershire local economy.

A Role for Public Sector and Other Organisations at the Local Scale

V.18 There was general agreement that there was only a limited role for public sector organisations at the local level in helping businesses in Gloucestershire to respond effectively to the threats and opportunities of the SEM; because many of the most fundamental decisions - notably those relating to interest rate policy and investment in "real" training schemes, rest with the national government. Nevertheless, most participants were able to identify a general role for, and more specific initiatives/tasks which could be undertaken by, the County Council and other organisations. Some aspects of the more general role - such as leading and co-ordinating a more active promotional campaign focusing on the attractiveness of Gloucestershire and a proactive inward investment policy - have been identified above. Some of the more specific tasks suggested are outlined below.

Lobbying

V.19 The *political* dimension of the SEM process in general, and of competing for funds from European sources in particular, was acknowledged. It was felt that Gloucestershire stood to gain more from *sectoral* than *structural* funds. A number of participants considered that Gloucestershire County Council was more aware of the European Community than many other County Councils were, but that nevertheless further resources could usefully be devoted to climbing the 'learning curve' on bidding for funds/grants at UK and European levels. With regard to "getting money from Europe", the view was expressed that the best strategy was to find out what money was available, and then to 'fix' local applications to meet the necessary criteria. The need for 're-education' of businesses of the fact that they could seek access to European funds in association with European partners, and on how to apply for funding - again with a particular emphasis on the necessity of identifying collaborators in other European countries, was emphasised. The services offered by the Gloucestershire County Council European Business Information Centre were held in high regard, and considered worthy of more active promotion in order to enhance awareness of their existence. Most participants considered that the general business climate of access to, and dealings in, European markets had become easier over the last three years, but it was contended that currently the greatest call for joint ventures came from European companies seeking UK partners, rather than *vice versa*. Those from small firms were more likely to feel that exporting had become more difficult: mainly because of the paperwork involved. The view was forwarded that it was easier for a person from continental Europe to set up a business in or export to the UK, than for someone from the

UK to set up a company in or export to the rest of Europe. It was felt that there was an important role for the County Council in 'promoting awareness' of the opportunities available and so 'enthusing' businesses about the value of the Single Market, and in advertising examples of companies 'leading the way' in establishing partnerships, successfully bidding for funding, and penetrating European markets - in order to show what can be achieved. There was considered to be scope for the exploitation of videos, and even expert systems, as teaching aids. For small firms, it was considered that more practical help was needed: it was suggested that a step-by-step guide through a first European deal would be invaluable. There was also felt to be scope for extending the DTI Enterprise Initiative to Europe. Another initiative proposed which would be likely to encourage small firms to consider exporting to Europe included provision of a subsidised service at a local testing facility, (currently, the costs involved in assuring that appropriate technical standards were met was often considered prohibitive).

Brokering

V.20 It was observed that in general UK local authorities tended to be less active as "brokers" than their equivalents in the rest of Europe. The possibility of Gloucestershire County Council assuming a more active brokering role was suggested, involving taking examples of the products of Gloucestershire companies - particularly of the small and medium-sized companies for whom the costs of applying for funding are often prohibitive - abroad and actively seeking continental links for local companies and Gloucestershire links for continental companies. There was general agreement that there was scope for the County Economic Development Unit and the Chamber of Commerce to play a much more active role of this nature.

Identifying Market Opportunities

V.21 It was suggested that the County Council could play a useful role in identifying market opportunities. It was considered that most companies were not prepared to investigate potential new markets in a systematic way, and hence needed encouragement to do so; during recession there was felt to be a tendency for companies to focus on familiar markets. At a general level, participants from small firms felt that it would be useful for the County Council (or the TEC) to host *industry sector forums*, in order to provide an opportunity for interaction between companies in the same sector, and to discuss market trends, new developments in the industry, and other issues of mutual interest. Approximately two meetings per year for each industrial sector was considered appropriate. More specifically, a role for the expertise of statisticians and labour market analysts from the Joint Labour Market Information Unit in analysing balance of trade figures and other statistics in order to identify "areas of potential" and growth markets (in the European Community and in Eastern Europe) which could be served by Gloucestershire companies, was highlighted. Such a function would be of use to existing companies, and may also help the County Council to identify likely new industries to target with regard to investment

in the area; hence it would support the two-pronged approach of sustaining existing businesses and encouraging new investment which was considered by many of the participants from manufacturing to be an essential bulwark of local economic policy.

The Importance of *Strategy*

V.22 It was contended that the single most important policy priority of local public sector organisations with regard to the SEM was to 'gear up' firms to have a ***strategy***, and to emphasise the relevance of *quality*, *marketing* and *training* to maintaining competitiveness.

VI. CONCLUSION AND POLICY RECOMMENDATIONS

GLOUCESTERSHIRE, THE UK ECONOMY AND THE SEM

Introduction

VI.1 Gloucestershire has been one of the more buoyant local economies in the UK during the 1980s. From the policy perspective the question becomes one of identifying those measures which can be enacted at the local level to protect this position of strength. The economic modelling work and industrial forecasts reported in *Section IV* provided a context against which policy recommendations may be formulated. The modelling work used three scenarios to capture the uncertainty attached to the creation of the SEM and its likely impact upon the Gloucestershire economy. The feedback received from Gloucestershire employers and officials with respect to the industrial forecasts - reported in *Section V* - gave a qualitative indication of which scenario is likely to prevail in the Gloucestershire economy to the year 2000. What follows are recommendations which aim to optimally safeguard employment and GDP growth in the Gloucestershire economy. In short, those measures which will ensure that Gloucestershire's future is nearer the quality scenario than the cost-cutting scenario.

VI.2 However, a note of caution is required before the recommendations are outlined. The Gloucestershire economy like all local economies in the UK is essentially an open economy. First, its fortunes rely to a large extent upon the performance of the UK economy and this is why particular attention was paid to the relative performance of the UK economy compared to the rest of Europe in *Section II*. Second, and as a consequence, the powers of local actors to influence the performance of the Gloucestershire economy are necessarily limited, even marginal, in key instances.

VI.3 In specifying recommendations it is worth recapping on the relative strengths of the Gloucestershire economy and the threats and opportunities posed to them by the SEM. Important here is the identification of those factors which underpin the strengths of the Gloucestershire economy because it is the degree to which these factors can be maintained and made to adapt to the changing economic environment which will determine the scenario which will emerge in the period between now and 2000.

The Strengths and Weaknesses of the Gloucestershire Economy

VI.4 The report has identified the following strengths of the Gloucestershire economy:

- a concentration of those hi-tech manufacturing industries which are expected to demonstrate real growth in output in the EC to the year 2000;

- a strong representation of financial and business service industries which are expected to demonstrate real growth in output and employment in the EC to the year 2000;
- benefits of agglomeration for the above sectors which stretch towards the West Midlands, Bristol, the M4 corridor and the South East;
- proximity to London - which is especially important to the financial services sector; and
- a relatively highly skilled workforce by UK standards.

In addition, Gloucestershire can offer a quality of life, in terms of physical environment, travel-to-work times and house prices which is particularly attractive to, amongst others, South East based companies considering relocation. The present slump in the London commercial property market is likely to have lessened the comparative advantage of Gloucestershire's lower commercial property prices. However, this effect is cyclical and, in time, Gloucestershire's comparative advantage is likely to re-emerge.

VI.5 Weaknesses in the Gloucestershire economy may be defined as potential barriers to future growth:

- All successful economies demonstrate skill shortages, indeed this may well be a key indicator of a successful economy. However, beyond a critical threshold they are clearly a problem. Given the mix of industries in the Gloucestershire economy the future provision of highly skilled labour may well prove difficult to satisfy.
- The relative economic success of Gloucestershire compared to some of the areas which surround it - notably Wales and the extreme South West - other things being equal, will result in inward investment being directed towards these other regions given the grant aid available to inward investors in such areas.
- Cuts in defence expenditure will adversely effect the Gloucestershire economy as well as that of the South West and the M4 corridor as a whole. There is clearly a negative multiplier effect here - in terms of GDP and employment - which will feed through into other sectors of the economy including the service sector.

Threats and Opportunities of the SEM

VI.6 The creation of the SEM is expected to increase the price competitiveness of industry across Europe as the various forms of non-tariff barrier protection afforded domestic industries are removed. However, there is evidence to suggest that defence related industry - especially

the aerospace sector - has operated in a single European market for a considerable period of time. Therefore, the impact of the SEM upon defence related manufacturing in Gloucestershire is unlikely to be marked with pressures on this sector coming from a different source. Looking at the manufacturing sector as a whole, if the social dimension of the SEM imposes costs upon the manufacturing sector which cannot be offset by productivity gains then there is a real risk of either job losses or a decline in real wages. The effect of the UK's entry into the ERM results in it being unable to use the exchange rate as a means of lowering the export price of domestically produced goods, therefore the productivity/price competitiveness issue has assumed central importance in the SEM. In generating the necessary productivity growth the provision of a highly skilled workforce is of considerable importance.

VI.7 It is important to note here that in a more unified and price competitive market domestic producers will face increased competition in both their domestic markets and export markets. This point is especially important to non-exporting companies - especially small and medium sized firms - who may well find their traditional markets are coming under threat in the short- to medium-term. The associate membership status of Hungary, Czechoslovakia and Poland in the EC, with their skilled labour forces, low wages and increasingly advanced production processes, potentially poses a further threat to UK producers especially in export markets. From a more optimistic perspective the SEM may well generate export opportunities. Clearly information about the SEM and its potential impact on industry - in terms of both export and import threats and opportunities - needs to be readily communicated.

VI.8 Prior to the UK's withdrawal in September 1992, it was considered that the impact of the ERM and the movement towards EMU would potentially remove some of the cyclical determinants of the UK economy. If EMU is seen as the adoption of German monetary policy, then an element of stability is gained from membership by the UK economy. However, the price of that stability, as the example of France has illustrated, may well be low inflation at the expense of high unemployment. As already noted, the removal of exchange rates as a mechanism for coping with balance of payments and trade deficits, places a greater onus on productivity matching that of the other major European economies. In practice, this may well result in inflation and productivity levels in the UK economy needing to match those of the strongest economy in the EC - Germany - if high levels of unemployment are to be avoided in the medium term. In October 1992 the UK's future position with regard to the ERM remains uncertain.

VI.9 The UK as a relatively prosperous EC Member State and Gloucestershire as a particularly affluent region within the UK and the EC as a whole, are unlikely to capture a large proportion of the EC's structural funds. In the light of this it is recommended that economic

actors in Gloucestershire take a *proactive approach* to ensuring that the impact of the SEM upon the area is as favourable as possible. This may be seen in terms of Gloucestershire defending its present economic position as the CEC attempts to promote industrial development in poorer parts of the EC as part of its economic and social cohesion strategy.

POLICY RECOMMENDATIONS FOR GLOUCESTERSHIRE

The Scope for Recommendations

VI.10 In devising specific policy recommendations for Gloucestershire two factors are important:

- the creation of the SEM will increase price competitiveness throughout Europe and place an emphasis on productivity gains; and
- the final shape of the SEM in its widest sense is yet to be decided and its determination is as much a *political* as an *economic* process.

Policy recommendations need to address these issues directly if an effective strategy with respect to the SEM's impact on the Gloucestershire economy is to be formulated. Bearing this in mind, policy recommendations fall into three broad groups:

- industrial and training/educational policies;
- planning policies; and
- promotional activities.

Industrial Policy

VI.11 Gloucestershire has a successful mix of manufacturing and service industries. Only under the *cost-cutting scenario* is service sector employment at risk. In contrast, manufacturing employment will decline under all three scenarios. In an effort to retain an industrial balance in the county it is recommended that policy should be oriented in favour of retaining the hi-tech manufacturing base within the Gloucestershire economy. Although no formal statistical analysis has been undertaken of the input-output flows between manufacturing and service sector industries in the county, it may be safely assumed that a substantial proportion of the service sector's output and employment is dependent upon manufacturing. Central to the maintenance of the hi-tech manufacturing base is the supply of a skilled workforce, especially at the intermediate technical level.

VI.12 It has been noted that in terms of attracting inward investment more peripheral areas, such as Wales and more notably Ireland, have development assistance denied Gloucestershire.

In attracting inward investment, especially in manufacturing activities, this is a formidable barrier for the county to overcome. The desire of the CEC to increase the size of its structural funds potentially strengthens the hand of those peripheral regions in attracting inward investment. In the face of such a prospect Gloucestershire needs to make the most of its existing industrial infrastructure. Gloucestershire has a strong representation of growth industries, therefore policies need to be developed which will build upon what is already in place rather than attempting to alter the industrial structure of the county in the face of threats posed by the operation of the SEM. This point is returned to in the planning recommendations. However, the point needs reiterating that Gloucestershire has an enviable industrial base which should prove attractive to employers seeking relocation or extant employers looking to expand their operations. Given the dependence of Gloucestershire upon large employers, policies may be usefully directed at expanding the small and medium sized enterprises base. As already noted Gloucestershire has many large scale establishments, mainly belonging to multi-nationals, within its borders.

Training Recommendations

VI.13 Training may be seen as a key element of Gloucestershire's economic infrastructure which will maintain business within Gloucestershire and attract new businesses to the county. Skills supply may be seen as a motor force in generating economic growth. This has been particularly so in Germany where the German apprenticeship system has been identified as central to German economic growth. It is something of a truism that when employers are asked about training they always ask for more of it, although they are seldom willing to meet the costs of that training. Therefore caution is required in interpreting employers' comments reported in *Section V* with respect to training needs. Though Gloucestershire presently possesses a highly skilled and trained workforce, caution is nonetheless required to ensure that future economic growth in the county is not inhibited by the severity of potential skill shortages. In addition, training is central to promoting productivity levels which, as already noted, will become increasingly important in sustaining economic growth in a more economically integrated Europe.

VI.14 Discussions with employers and officials revealed that post-school education and training in Gloucestershire is disproportionately oriented towards business and the "liberal arts". The training market is demand led and the demand for training in Gloucestershire is focused on these activities. However, the liberal arts/business studies bias to training raises problems with respect to the manufacturing sector. Manufacturing employers in Gloucestershire complained that gaining the right calibre of recruit at the right price proved problematical and it was further reported that school and college leavers were not attracted to engineering because of a perceived lack of job security.

VI.15 It was noted above *(see paragraph VI.5)* that skill shortages are a reflection of a successful economy. However, if Gloucestershire is unable to generate a supply of skilled and qualified people at the intermediate level for its manufacturing base, then that base will be impaired as a consequence. The relative strength of France and Germany in producing individuals with these qualifications and skills potentially leaves Gloucestershire and the UK at a disadvantage - especially so in a more economically integrated Europe. There is a need to quantify the supply and demand for intermediate skilled and qualified personnel in Gloucestershire and produce a medium term forecast in order to gauge the true magnitude of this problem.

VI.16 To some extent generating a supply of intermediate skilled and qualified people can be addressed through marketing. The perception of college officials suggested that school leavers shied away from engineering/technician oriented training because of perceived job insecurity in these occupations. This may be addressed through provision of training courses which are not wholly aimed at providing trained staff for the manufacturing sector. Courses which offer both engineering and business skills may be an appropriate means of securing the necessary supply of skilled personnel for the manufacturing base whilst leaving the individual with a degree of choice with respect to their future career.

VI.17 As the manufacturing sector contracts in employment terms attention needs to be focused on re-training and multi-skilling - especially with respect to transferable manufacturing/technical skills - to ensure that skilled technical workers already living in the county are not lost to the local economy as a result of being made redundant.

VI.18 With reference to financial and business services, it was noted at the Round Table discussions by a representative from a financial services company that much of its specialist training was still carried out in London. The fact that Gloucestershire has increasingly acquired financial services companies indicates that local colleges may have an opportunity to expand their market share in this direction.

VI.19 Promotion of language training, given the potential for greater collaboration between European companies, would be particularly appropriate. Provision of a translation service may be especially useful for small businesses.

Planning Recommendations

VI.20 Geographically the position of Gloucestershire has many strengths which have been listed above *(see paragraph VI.3)*. Given the number of agencies designed to promote the various regions of the UK the question becomes one of deciding to which ones Gloucestershire

should ally itself. Any alliance would appear to be dependent upon which aspect of Gloucestershire is being promoted at a particular time. By *putting all its eggs in one basket*, so to speak, Gloucestershire risks losing the advantages to be gained from maintaining links with other agencies and areas. The issue is one of optimising the links to be had from other areas.

VI.21 Gloucestershire may be seen to some extent as a functional extension of the South East and the M4 corridor. In terms of industry structure and occupational structure it has more in common with the South East than the South West. Moreover, the overall economic performance of the county definitively places it in the same economic division as the South East. However, the region has much to be gained from maintaining wider links, especially with South Wales given the level of foreign investment in that area and with the West Midlands manufacturing base from which the county - notably Tewkesbury and Cheltenham - is not too distant. The opening of the M40 should generate investment in the area south-east of Birmingham which is in easy reach of Gloucestershire - by rail and road - and therefore yields potential spin-offs. In terms of the SEM the county should be able to promote itself - in functional terms - as part of the core EC "banana" axis of industrial activity which stretches from Milan to Manchester.

VI.22 With respect to tourism Gloucestershire has benefits to be gained from being close to the attractions of the West Country, as well as the attractions of Oxfordshire, Warwickshire and Hereford & Worcestershire, as well as being a tourist attraction in its own right. Moreover, by promoting itself as part of the South West within easy reach of the South East, the quality of life aspect of Gloucestershire's economy can be brought to the fore in attracting potential in-migrants (either companies or individuals).

Promotional and Informational Activities

VI.23 As part of the process of economic convergence in the EC, the CEC has been particularly keen to develop transnational networks of institutions and employers. In the information and communication technology area CEC programmes such as ESPRIT have been concerned with pre-market R&D and have established EC networks of companies, universities and other research institutes. Though large firms are often aware of these programmes and how to become part of a network, it is less obvious that smaller firms have the necessary *know-how* to become part of a trans-EC consortium or network. In the R&D area this is particularly important as economic theory indicates that innovation is more commonly found in smaller establishments.

VI.24 Promotional work is required at the local level to make employers - small, medium and large - aware of the opportunities made available by the CEC. This can take two forms:

- making large firms in the locality aware of local smaller firms' specialisms; or
- helping firms, both large and small, establish contacts throughout the EC.

VI.25 One possible course of action is for Gloucestershire County Council and associated bodies to take pro-active steps to promote the county throughout Europe with the specific aim of establishing links between institutions and companies across the EC and Gloucestershire. The large trade fairs held across the EC provide one forum in which these types of promotional activities could be presented. However, this may involve the Council and other agencies concerned with economic development in a level of partnership with industry hitherto not experienced. Funding for such activities need not be wholly met, if at all, from public expenditure.

VI.26 At a more general level the impact of the SEM upon industry is reasonably well understood by those organisations in Gloucestershire with established international links. However amongst those with few European or international links there was little perception of what the impact of the SEM will mean for their own business or the industry in which they operate. This was especially true for small and medium sized enterprises. It is also something of a truism to suggest that when (and if) the reality of the SEM becomes apparent in the employers' market they will be in defensive position and by definition in a weak position. Therefore emphasis should be placed upon providing information on the threats and opportunities of the SEM for local business. This report provides a view of these threats and opportunities primarily from the macro-economic perspective. At a sectoral level the Department of Trade and Industry has prepared details of how employers can respond to the SEM. Because local actors are inhibited in how far they can act with respect to mitigating the effects of the SEM on the local economy, at the very least local employers can be made aware of the threats and opportunities and prepare their own strategies with the assistance of local agencies where appropriate. Therefore, the provision of detailed information about the impact of the SEM on Gloucestershire should not be under-estimated as policy response.

POLICY RECOMMENDATIONS

VI.27 It is important that Gloucestershire safeguards what it already possesses and takes a pro-active approach to securing the benefits to be gained from the EC. Recommendations necessarily have to reflect the limited scope for action of local economic agencies with respect to the SEM. Therefore, the policy recommendations outlined below focus upon those marketing and information activities where the county has a degree of freedom with respect to developing a strategic response to the SEM. Issues related to training are also touched upon, although it is recognised that local economic actors in the public sector are constrained by national policy in this domain.

Industrial / training policies

1. Gloucestershire presently has a strong manufacturing and service base, notably in the hi-tech sectors. A *proactive strategy* should be adopted *to safeguard the present economic position of Gloucestershire*. The focus of such a strategy should be placed upon stimulating the *manufacturing sector*, given that this is the sector which is forecast to contract in employment terms under all three scenarios. It is emphasised that there is a need to maintain a manufacturing presence in the county, especially given the link between this industry and financial and business services in the area. Though the main threat to Gloucestershire's manufacturing base does not stem from the SEM but from defence expenditure cuts, the SEM may well bring about a restructuring in EC manufacturing industry which poses threats as well as opportunities to the county.

2. Central to a manufacturing oriented strategy is the *stimulation of the training base with respect to engineering/technical oriented skills*. This may be most effectively achieved through a *marketing exercise* to attract trainees given the policy constraints on local providers of training. The focus of such a marketing exercise may be directed at offering courses which provide a balance between business/management and technical skills, thereby proving attractive to the training market. The issue of *re-training* also needs addressing given the forecast decline in manufacturing employment. Attention should be paid to the means of re-training these individuals so that they are not wholly lost to the manufacturing base. This is especially important given the cyclical nature of the UK economy and the periodic skill shortages this has given rise to in the past. The provision of training in *transferable technical/manufacturing skills* therefore needs addressing, thereby providing individuals with the opportunity to transfer between manufacturing industries.

3. Attention also needs to be paid to the *provision of training in the financial services sector*. There were some indications that financial services organisations look to London for training courses; the extent to which this demand can be satisfied locally needs addressing.

Promotional activities

4. There is considerable scope for *promotion of the Gloucestershire skills base throughout Europe and beyond*. Given that the quality of the local skills base is one of Gloucestershire's strengths the most should be made of it. This will be important in attracting inward investment which might otherwise be targeted at *development regions*.

5. *European trade fairs*, and other pan-EC forums, could be used to promote Gloucestershire employers and institutions. The County Council and other local economic actors have an opportunity to provide an important service in this area. External sponsorship from business and elsewhere for funding such a service should be investigated.

6. *Employers must be made aware of the threats and opportunities of the SEM, especially small businesses*. This may be addressed through convening *industry sector forums* where businesses and other economic actors can communicate with one another on matters relating to the SEM and other issues.

7. The County Council may wish to explore with local business *how increased general promotional activities in Europe may be funded*.

8. *Existing information databases* - especially those of, or relating to, the EC - *should be actively promoted* with emphasis on small businesses gaining access.

Planning policies

9. In offering a series of services to local businesses and with respect to the wider lobbying activities of economic actors in the county relating to the SEM and associated issues, the *optimal spatial area of representation* must be decided upon. In some instances Gloucestershire may be in competition with other counties/regions, at other times a collaborative approach will be more efficient.

10. *Promotion of Gloucestershire throughout Europe* would be best achieved by emphasising the county's position as a part of the *'core' of Europe* by emphasising links with the South East and to a lesser extent the West Midlands. In a Europe where industrial restructuring is taking place on an international scale there is an urgent need to communicate to the international business community the particular strengths of the Gloucestershire area.

11. Central to the above point is the question of *transport infrastructure*. Employers found this adequate at present, however, any deterioration in this network, especially rail services to London from Gloucester and Cheltenham, may add to the perceived peripheral position of the county in some quarters. It is important that the county does not become detached from the primary transport networks feeding into the Channel Tunnel - should this occur then a perception of peripherality may be generated.

VI.28 The creation of the SEM and the greater economic convergence of the EC will result in a structural readjustment in the economies of the EC Member States. The macro-economic forecasting provided in *Section IV* provided an indication of the impact of the SEM upon the economy of Gloucestershire. These forecasts suggest that the creation of the SEM will have a significant impact on the economy of Gloucestershire. It is therefore essential that business - especially small businesses - are made aware of the potential **threats** and **opportunities** provided by the creation of the SEM and the greater economic convergence of the EC. The Round Table discussions with employers - *see Section V* - indicated that employer's awareness of the SEM in terms of what it will mean for their businesses needs to be better informed.

VI.29 Clearly the collection and dissemination of information relating to the SEM is costly especially when placed alongside the promotional activities also recommended in this report. There is no reason why such services should be free to business in Gloucestershire. If any service or promotional activity is to be embarked upon in Europe - such as representation at European trade fairs - on the behalf of local businesses, then local business may be reasonably expected to financially contribute to such an activity.

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APPENDIX 1

ATTENDEES AT ROUND-TABLE DISCUSSIONS

Round-Table 1 - *Officials*, Monday 15 June, 10.00-12.35

John Atkin - SW T.U.C., GlosCAT
Anthony Barlow - Gloucestershire Export Association
Lisa Belfield - Tewkesbury Borough Council
Mike Blackie - Gloucestershire Enterprise Agency
Judy Brandon - Gloucestershire TEC
Nic Brown - Cheltenham Borough Council
Tony Burley - Economic Development, Planning Department
Marion Cartwright - Cirencester College
Jill Harvey - Gloucestershire County Council
Jo Lloyd - Director of Enterprise, CGCHE
Alastair McKinna - European Business Information Centre
Mavis Morris - European Officer, County Secretary's Department
Sarif Rowe-Taylor - Gloucester City Council
David Seed - County Secretary, Gloucestershire County Council
Dick Whittington - Forest of Dean District Council

Helen Flanagan - IER
Anne Green - IER
Terence Hogarth - IER

Round-Table 2 - *Manufacturing*, Monday 16 June, 10.00-12.30

Peter Davies - Micro Circuit Engineering Limited (part of Smiths Industries)
Mike Frost - Coopers & Lybrand (based at Gloucester, co-ordinates European Affairs for Gloucester and Bristol offices)
Mike Goodwin - Micro Circuit Engineering Limited (part of Smiths Industries)
Mike Hutchinson - Arkon Detection (export to Europe)
Gwyn Jones - Renishaw plc (Training Manager)
Kevin Jowett - British Coal Research Establishment (interested in opportunities for technology transfer)
Mike Reed - SCA Packaging (manufacture of corrugated cases, based at Lydbrook [Forest of Dean], interested in finding out what industries will be the 'long-term winners' from SEM - so that SCA can target them)

Anne Green - IER
Chris Hasluck - IER
Terence Hogarth - IER

Round-Table 3 - *Services*, Monday 16 June, 13.30-16.00

Barbara Blatchley - Blue Badge Guide, Heart of England Tourist Board
Kevin Bogue - Ecclesiastical Insurance Group (Corporate Planning Manager)
Jane David - GLOSCAT (Enterprise Unit)
Richard Escolme - GLOSCAT (Director of Marketing)
Tina Griffiths - Eagle Star (Personnel Officer)
Eva Harding - World of Mechanical Music, Chair Tourism Committee
Julian Maitland-Walker - Charles Russell solicitors (deals with European legal matters)
Colin Potts - Gloucestershire County Council Tourism Officer (concerned with promoting the county in overseas markets)

Kath Price - Stretton Lodge Hotel (small hotel owner), Private Sector Heart of England Tourist Board representative
John Webb - Ecclesiastical Insurance Group (Personnel Manager)
Andrew Wyer - Travail Employment Group Ltd (Managing Director)

Anne Green - IER
Chris Hasluck - IER
Terence Hogarth - IER

Round-Table 4, Thursday 16 July, 10.00-12.30

Roger Applegate - Maxim Art (makes photo frames, exports to Europe)
Eric Grabham [EG] - Clearway Aluminium
Greg Moger [GM] - Novalight International Ltd (has 3 companies, all of which trade in Europe - notably in Germany and Czechoslovakia)
Andrew Moon [AM] - P&M
Bill Reeves [BR] - Forest of Dean Business & Professional Club

Helen Flanagan - IER
Anne Green - IER
Terence Hogarth - IER

Round-Table 5, Thursday 16 July, 13.30-16.00

Patrick Brooke [PB] - Grant Thornton (Gloucestershire TEC Director)
Stuart Harris [SH] - CFM Facilities Management (have sites nationwide, manage computer facilities for Gloucestershire County Council and Nuclear Electric)
David Main [DM] - Hazlewoods (Accountants - with 5 offices in Gloucester shire)
Brian Potter [BP] - Brian Potter & Associates (a Consultancy dealing with marketing of the DTI Enterprise Initiative, devising company marketing strategies, etc; a Director of Gloucestershire Chamber of Commerce)

Helen Flanagan - IER
Anne Green - IER
Terence Hogarth - IER