THE NETHERLANDS

VNO-NCW position on the implementation of the Lisbon process at EU and national level

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Memorandum of the VNO-NCW, Confederation of Netherlands Industry and Employers, for the consultation by the Dutch government in the context of the preparation of the Dutch position at the European Summit on 21 March 2003.

1. Europe is lagging behind

At the European Summit in Lisbon in 2000, the European Union set itself the goal of becoming the world's most competitive and dynamic knowledge-based economy over the next decade – one that will be capable of generating sustainable economic growth, more and better jobs and greater social cohesion. The employers' organisations working together in the Council of Central Employers' Organisations (RCO) have always strongly supported this goal.

Although some progress has been made in the three years that have passed since the launch of the Lisbon strategy, the central goal is still far from being attained. This was recently confirmed in the report published by the European Commission in anticipation of the forthcoming spring summit in March[1]. In it, the Commission concluded that not enough progress had been made. There are various reasons for this: the EU decision-making process sometimes lacks efficiency, Member States are failing to implement the decisions made at EU level quickly enough and some Member States are not doing enough to realise those aspects of the Lisbon agenda for which they are individually responsible.

If the European Union is genuinely to meet the pledges it made in 2002 (and business and industry expects it to do so), then it must do a great deal more to make the Lisbon strategy a success. After all, during the past three years, Europe has fallen still further behind its biggest competitor, the United States, and there are now only seven of the original ten years left to close the gap.

The fact that economic growth in the United States has been substantially higher on average than that in Europe in recent years is entirely due to the systematically higher productivity growth in the US. This is in turn closely linked to the higher investments that are made in innovation and to the greater adaptability of the US economy, not least as regards the labour market. This is also reflected in the capacity of the US economy to bounce back after economic downturns. Unlike Europe, which generally requires a considerable amount of time to pick itself up after a slowdown in growth (as we are seeing once again), the US economy recovers relatively quickly. Basically, then, the US economy grows faster and recovers sooner than the European economy. As a result, the gap between Europe and the US is continuing to widen. Fast-acting measures are needed to reverse this trend. The European organisation UNICE argues this very forcefully in a

[1] European Commission communication "Choosing to grow: knowledge, innovation and jobs in a cohesive society", COM (2003) 5 final, 14 January 2003.

report it has published in the light of the forthcoming summit entitled "Time is running out; action is needed".

2. The Netherlands' key message at the forthcoming summit: a greater sense of urgency needed

The key message to be delivered by the Netherlands at the forthcoming EU summit will therefore be that to begin with, a greater sense of urgency is needed in the EU's response to the Lisbon agenda. Not only in Brussels, but also and above all in the individual EU Member States. The governments of these countries must take the Lisbon agenda more seriously and tackle it with more ambition than they do at present. This is in everyone's interest. After all, the growth of one Member State is heavily dependent on what another manages to achieve in its own economy.
In order to encourage the Member States to do more to translate this greater sense of urgency into more "Lisbon actions" at home, the forthcoming spring summit will therefore need to agree that each Member State must compile its own schedule for growth based on the Lisbon agenda, and which is also anchored in government policy. This will of course also apply to the Netherlands. In the light of the forthcoming coalition talks to form a new government following the general elections in January, VNO-NCW has drafted a report for the incoming cabinet setting out a cohesive package of concrete policy proposals that can be regarded as a practical elaboration of the Lisbon strategy for the Netherlands[2]. There has been little or no sign of such an agenda in the past three years. Yet the need for one is now greater than ever before. Basically, VNO-NCW feels that the key priorities should be as follows:

Key priorities in the Lisbon agenda for the Netherlands

- Greater flexibility and lower costs through fewer regulations and reduced administrative costs
- A cut in corporate taxation
- A delta plan to promote knowledge and innovation
- Measures to encourage an adequate supply of highly qualified workers
- Measures to improve the infrastructure and allow greater freedom in spatial planning
- A tough approach to crime.

It is also important for the measures taken at EU level at the spring summit to focus in particular on the themes of labour market flexibility and scope for commercial enterprise and innovation. Below is a more detailed summary of what we feel these themes should involve.

[2] "Welvaart moet je verdienen" [Prosperity must be earned], Open letter from the Dutch business community to the cabinet *informateur*, January 2003.

3. Increasing flexibility on the labour market

A flexible labour market is vital in order to boost productivity growth and to increase the competitiveness of European business and industry. As mentioned, Europe is lagging far behind the United States in this regard. Adjustments to new circumstances and a transformation to a more knowledge-based economy are taking place far too slowly within Europe. As a result, European companies are saddled with prohibitively high labour costs for longer during economic downturns – both directly in terms of direct company costs and indirectly via the costs of growing unemployment, much of which has to be paid for by companies through our social security system. This handicap structurally weakens the economy.
Insufficient labour market flexibility also prevents Europe from taking measures to offset the progressive greying of the population. Over the next few decades, the progressive ageing of the workforce will substantially push up social costs. In order to maintain the sustainability of our pension systems, we must modernise them, and ongoing concern for this issue in the stability and convergence programmes is therefore crucial. Yet more is needed than this alone. We must also create the broadest possible economic base via an increase in labour participation and a reduction in unemployment. And this very obviously calls for sufficient labour market flexibility in Europe.

The European Commission's proposals for reviewing the European employment strategy includes the theme 'increasing labour market flexibility', just as it did in previous years. So far, however, little has been achieved, even though this is crucial if the Lisbon goals are to be attained. The RCO therefore proposes urging the European Summit to give the theme 'increasing labour market flexibility' top priority over the coming years.

How will this affect the measures taken at EU level and the Netherlands' input for the forthcoming summit?

First, there has to be a call for greater action in the Member States. Labour market flexibility can be increased by removing existing obstacles to the recruitment and dismissal of employees, creating more scope for differentiated forms of employment (part-time employment, short-term contracts, temporary employment) and for independent enterprises (including one-man businesses), exercising substantial restraint with regard to statutory fringe benefits (such as entitlements to leave), reducing poverty, adapting wage cost rises flexibly to the prevailing economic climate and moderating pension costs.

The Dutch economy also suffers indirectly from the fact that its neighbours are also making little progress in all these areas. Although other EU Member States have carried through reforms in one or two areas in recent years, there is still much to be done. The Netherlands still has a great deal to achieve through deregulation and the review of existing legislation (such as modernising laws on employment and health care, health and safety rules and rules governing temporary employment).

Second, we need to exercise stronger peer pressure. In order to encourage Member States to seriously get down to work on these issues, the Member States should be required to compile detailed annual reports, chiefly about the progress they have made.

The European Commission should then be expected to report to the Summit on the progress of the reforms and to issue report figures in order to increase pressure on poorly performing Member States.

Third, we must avoid introducing new inflexible Directives. It is crucial that no new EU Directives are introduced which could reduce labour market flexibility. The draft Directive on temporary employment, which is currently being debated by the European Council, is one example. The RCO believes that temporary employment should be further encouraged throughout the EU. The existing draft Directive will not have this effect. Better no Directive at all than a bad one.

Fourth, we must improve education and training. Improving the quality of manpower is also part of the Lisbon process and the strategy on employment. In view of (a) the emphasis on the knowledge-based economy and the need to boost productivity and (b) the need to moderate costs for companies, including wage costs and the costs of other terms of employment, efforts to improve the quality of manpower should be guided by investments in education and training. This is the sustainable route towards improving the quality of labour - not the converse, which is what the European Commission appears to be suggesting, of direct improvements in pay and other terms of employment. Boosting investments in education and training are a key prerequisite for a more knowledge-based economy. This imposes an important responsibility on both governments and the social partners. In many sectors, the social partners have taken up their responsibility via e.g. R&D funds in sectors and companies. The (European) social partners are also putting forward arguments in favour of 'lifelong learning'. Member States should support these initiatives through tax incentives. The Member States should also channel more public funds into basic education, with extra attention needed to promote professional education and the sciences.

4. Encouraging more scope for commercial enterprise and innovation

Deregulation

In order to allow businesses to operate competitively and to encourage more commercial enterprise, companies should not be unnecessarily saddled with too much regulation and with crushing administrative costs. This theme should therefore be an essential part of every national growth agenda. More attention should also be given to the problem at EU level. This is another message that will need to be delivered at the forthcoming spring summit. The specific proposals are as follows.

First, an EU programme of deregulation. This is needed since Brussels is the source of much of the regulation throughout the EU. Examples of EU regulations that need to be radically overhauled are the Bird and Habitat Directives and the Privacy Directive. The Directives governing insurance will also need to be addressed by the Netherlands, since, as is well known, the existing Directive is standing in the way of an efficient, market-based rationalisation of the social security system.

Second, an independent evaluation of existing and planned EU regulations. Existing and proposed EU regulations must be independently assessed in terms of their costs to businesses by a similar body to that in the Netherlands, where independent assessments are carried out by the Advisory committee on the evaluation of administrative costs (Actal).

Reducing costs for business and industry

European business is currently having a difficult time. Without entrepreneurs, innovation will not get properly off the ground. Entrepreneurs will need to play a key role in the implementing the Lisbon agenda and in translating it into practical measures. It would also be a particularly welcome psychological boost for businesses and start-up companies and for firms with growth potential if at the forthcoming summit the EU were to agree the common line that each Member State must do what it can to reduce the financial costs for businesses (through a cut in taxes and social contributions).

Knowledge and innovation

Various factors play a role in promoting innovation. First, adequate financial resources must be made available for investing in R&D. This underlines the immense importance of sound company profitability. Encouraging investments in the notoriously high-risk R&D sector requires a confidence-boosting macroeconomic climate. Moreover, a number of other key prerequisites for innovation must be met: namely, an adequate supply of researchers and above all of workers with scientific and technical qualifications, a high quality public knowledge infrastructure that interfaces well with the private sector and enough government incentives for (applied) scientific research, and a social climate and regulatory structure that give businesses enough 'scope' to investigate and apply new developments and to push through changes or reorganisations in good time. This is also why fewer regulations and administrative costs are vital in this area as well.

What is required at EU level and what issues need to be raised at the forthcoming summit? Apart from actually implementing these proposals at long last, what are the likely benefits of the introduction of a Community patent that is cost-competitive, invites companies to innovate and provides legal security?

First, a much greater sense of urgency regarding the whole concept of innovation. The Lisbon agenda will need to be more rigorous in this regard and must call on individual Member States to do more to create the right conditions for innovation.

Second, adapting the EU Framework to encourage innovation. The EU Framework will need to be reformed so that this avenue can also be used to strengthen R&D within companies and to intensify cooperation between research institutes and the private sector. After all, the existing support and competition framework does not match the R&D practice of companies. At the moment, the EU is too quick to label partnerships of this kind as cartels. There are various areas in which this support framework is impeding innovation. For example, it is

preventing the subsidy schemes run by the Dutch Ministry of Economic Affairs from moving towards closer cooperation between companies and research institutes. The hoped-for partnerships based on public-private R&D, as envisaged by the Genomics supervisory body, are currently suspended due to the need to evaluate them against this support framework. The European shipbuilding industry wants to jointly invest more in R&D and innovation in order to increase its competitiveness with Taiwan, Korea and others.

Third, creating an effective performance-based European Research Area. This will need to be strengthened by reducing the fragmented deployment of national and EU research funds. One possibility is that both the EU as a whole (once the current sixth Framework Programme has ended) and national governments should in future adhere to the policy principle that public research funds will be channelled to those research institutions that deliver the best quality scientific research *and* achieve the best results, and share that knowledge with society, including business and industry. This requires a more performance-driven method for financing research. If Europe is to become a world class knowledge economy, the tax revenue for scientific research will need to be distributed much more along those lines. The individual Member States will need to be urged to take up this responsibility and should be helped to do so via the process of peer pressure and the exchange of best practice. In that case, it will be important for the European Commission to do more to apply benchmarking and to evaluate the publicly financed research infrastructures in the various countries against the performances they will be expected to deliver in order to bring about a smoothly operating innovation chain.

Fourth, the e-Europe Action Plan 2005. In order to stimulate the knowledge economy, a broad application of ICT and a sound infrastructure are crucial. The 'e-Europe Action Plan 2005' contains agreements to this end. Since insufficient application of ICT has been a major factor in the gap that has opened up between the EU and the US, swift implementation of this action plan is vital.

VNO-NCW, The Hague, 30 January 2003