

**Meeting with the Employment Task Force
14 July 2003
Intervention by Philippe de Buck
UNICE Secretary General**

Chairman, Ladies and Gentlemen:

Let me first thank you for this opportunity for us to exchange views on how to shape policies that can improve the functioning of Europe's labour markets.

We have brought with us detailed written material, containing an assessment of and recommendations for each Member State's labour market policies prepared by UNICE's national federations.

In my intervention I would like to provide you and your distinguished colleagues with some food for thought by briefly explaining how companies think that labour markets in Europe can be improved.

But before making some recommendations, let me highlight first some of the key problems that are of particular concern for companies and afterwards to enumerate briefly the main causes that we have identified as being the reason for these problems.

1. Diagnosis: key issues

In the third year of the Lisbon Strategy, Europe is still lagging behind the US in terms of competitiveness. Chair, the overall economic situation of Europe vis-à-vis its main competitors is well known to you and the experts in the Task Force.

But let me enumerate some of Europe's weaknesses that are of particular concern for companies:

- Relatively low employment rate (very low in some Member States) combined with persistent high structural unemployment
- Low productivity levels. Europe does not create sufficient wealth because not enough people work, but also because labour productivity is weak. Over the last years, the gap between the US and EU has even widened.
- High labour costs discourage labour market participation and put a burden on companies' capacity to create more jobs.
- Ageing population. In a few decades the number of old people will double. The rising pension bill will put a heavy burden on the competitiveness of Europe.

2. Causes of underperformance

We have also tried to identify the main causes for Europe's underperformance which we hope, will be also be part of the analysis that you make in your report. We can divide them in three main clusters:

Entrepreneurship and innovation

- We have to create a stimulating and reliable financial and legislative environment for private research and development and innovation spending in the Union.
- An entrepreneurial culture and skills should be supported in schools and universities and among the working population to encourage individuals to become entrepreneurs. Lower costs and taxes for business, simplicity and less red tape are also necessary.

Skills mismatch

- Education and training systems do not always sufficiently manage to equip people with the adequate skills needed on dynamic and changing labour markets.
- Activation measures for the unemployed are not always efficient enough to allow their beneficiaries to find and keep a job; this results in a vicious circle for the recipients: from unemployment to training programme and then back to unemployment.
- Inefficient public employment services. Public employment services have not always managed to adapt to the new labour market circumstances and to the needs of jobseekers and companies. They do not sufficiently concentrate on improving skills match and promoting labour mobility.

Regulation

- Excessive and outdated labour market regulations in many countries are simply inappropriate for today's economies. Constraints on working time and a narrow range of work contracts discourage employment creation and make it difficult for entrepreneurs to operate flexibly. Disincentives (the level of social benefits, their duration, and the differential between benefits and income from work) embedded in the welfare and social security systems to enter, stay in and re-enter the labour markets are a main cause for low labour market participation rates.

3. Recommendations

Having set the scene, I come now to the main part of my message: what are the recommendations that your Task Force could make?

3.1. Recommendations to EU level

Promote benchmarking and avoid over-prescriptive EU legislation

Labour market reforms have to be implemented in Member States and the reforms have to respond to specific challenges. But the EU can act as a catalyst for change through benchmarking and exchanges of experiences on solutions. This is also an essential element of the open method of coordination which allows for comparisons between countries in achieving common goals.

Concerning the recommendation for the EU level, we would like to see in your report a recommendation requesting the EU level to respect the diversity of national social systems. EU institutions should avoid adopting over-prescriptive EU legislation in the

social field. Two recent examples come to mind: the temporary agency work directive or possible additional legislation on workers' data protection.

Ensure better transposition and implementation of existing EU legislation and adopt a moratorium on EU legislation

The EU institutions should concentrate their efforts on ensuring better transposition and implementation of current EU social policy acquis rather than on adopting new legislation.

This is all more important due to the future enlargement of the Union. To prepare a smooth enlargement, we need a moratorium on EU legislation and a focus on helping acceding countries to implement the legal acquis. For instance, in the social field further legislation such as a revision of the EWC directive should be avoided.

Coordinate policies better

Finally, since your group is looking at issues beyond labour market policies, it could be useful if you recommend that the EU level should ensure better coordination between various policy coordination processes (economic, employment, social protection, education and training) to improve cohesive output. We need coherent and mutually supportive economic, employment and social policies with a sound and strong economic pillar in order to ensure a sustainable development. A first step has been taken by synchronising the timetables of Broad Economic Policy Guidelines and employment guidelines.

I now would like to pass the floor to Mrs Renate Hornung-Draus, the chairwoman of UNICE's "Employment" group who will present our main recommendations to Member States.

3.2. Recommendations to Member States As mentioned before the labour market reforms are a national responsibility, and recommendations from EU to the national level can bear fruit only if they respect that feature. They can do so by targeting specific labour market circumstances in Member States.

Although the consensus around the right policy mix can only be found within Member States, we have identified with our members common areas requiring urgent reforms in most Member States. We hope that, when looking at individual Member States you will make recommendations on reforms in the following areas.

Social security and pension systems

- Social security systems must be modernised to ensure they are adapted to today's economies. Their social function has to be preserved while ensuring that they promote labour market participation (disincentives embedded in these systems have to be removed) and that they are financially sustainable (to foster a reduction in taxes and social security levies on labour).
- Tackling the pension problem is becoming urgent. Pension reforms are underway in all EU countries, but more comprehensive and far-reaching measures are needed in some countries to make them sustainable and to limit costs associated with their financing.

Employment policies and labour legislation

- Employment policies should move away from passive support for the unemployed in favour of activation measures allowing the unemployed to acquire skills needed on the labour market, to actively seek jobs and to be mobile on labour markets.
- Rigidities in the labour legislation have to be removed so as to enhance flexibility for companies and employees and to eliminate barriers to entry into labour markets by outsiders. More flexible and more dynamic labour markets will have a positive impact on productivity.
- Active ageing policies must be promoted. There is an urgent need to increase effective retirement ages in most EU countries. Older workers should be encouraged to stay in the workforce. Early retirement should be discouraged. Framework conditions have to be adapted so as to encourage companies to employ older workers.
- Attracting additional workforce from outside the Union could be part of the solution to the problems of ageing population and the skills gaps that Europe is facing.

Administrative requirements and red tape

A business-friendly environment can allow companies to focus their efforts on growth.

Actions are needed:

- to encourage entrepreneurship and business start-ups by lowering costs and simplifying procedures and legislation.
- to reduce the weight of bureaucratic burdens imposed on companies (for instance in Germany companies perform tasks belonging to the state by being obliged to collect wage taxes and to gather statistical information).

Education and training systems

Education and training systems need to be improved to promote lifelong learning strategies that meet changing demands during working life. With the aim of reducing mismatches between demand and supply, education and training systems have to equip people with skills needed on labour markets: basic skills (reading, writing, numeracy, skills for technical professions, etc.). High quality education and training will foster research and innovation.

In this way, we can ensure the quality of our workforce, which is decisive for an increase in productivity.

Aware of this fact, in March 2002, the European social partners adopted a framework of actions on the lifelong development of competences. The first report on its implementation was presented as a main contribution of the social partners to the 2003 Spring Council.

4. Final remark

If the EU economy today is weak it is because the current Member States have failed to address their structural weaknesses. In your analysis, you will see that, although there is a minor statistical effect, the magnitude of the underperformance stays the same in a Europe of 25 Member States and in a Europe of 15 Member States. Therefore we should not seek in enlargement a cause for our underperformance and an excuse for delaying reforms.