10 May 2004

Tenth meeting of the

Macroeconomic Dialogue at political level

on 10 May 2004

Speech by Philippe de Buck, Secretary General

Before sharing my views on the appropriate policy mix, which promotes growth and employment while safeguarding price stability, let me express my personal feelings about this meeting. This is indeed my **first official meeting since ten old partners joined the European Union.** I would like to welcome these new countries and their 75 millions citizens!

Beyond the political symbol of such an historic event, we will have to make it an economic success. As J.-C. Trichet has stated (EU Parliament hearing on April 29), one of the key challenges is to advance real convergence without putting at risk current achievements in terms of macroeconomic and financial stability. That is what all European businesses will look for in the years to come.

I also share the views of many previous speakers on the need to foster reforms to strengthen the competitive advantage of the EU. Hopefully, the Wim Kok II report will provide some good advice to the EU but above all to the EU Member States. Social partners will be at disposal of the Wim Kok group.

1. GROWTH FORECASTS: "DON'T REST ON THE SLIGHT RECOVERY FORESEEN FOR 2004"

The Commission growth forecasts for the EU are very close to the ones published by UNICE in its March 2004 Economic Outlook. Recovery seems to be in the air!

However, the optimistic view of the Commission following the release of its Business Climate Indicator for the euro area is at least puzzling bearing in mind that some of our Members are starting to correct their previous growth forecasts downwards.

The **positive growth stimulus** provided by the new Member States is naturally welcome. Further reforms will have to be implemented, for example in the fields of competition policy, better institutions or reduction of corruption. The path to convergence is still very long but the new Member States have often been more aware of the need for structural reforms than the EU-15. Some lessons could be learned from them.

The **risk of relocation** for EU-15 growth prospects is naturally a source of concern. Relocation decisions of enterprises that are looking for productive investment could affect not only low-skilled but also highly sophisticated activities. However, the fear of relocation should not be overestimated.

Actually, this is more worrying when it reflects a weakening competitive advantage in Europe, resulting from the slow pace of reform implementation in increasingly competitive global markets.

SIMILAR CAUSES BUT LOOK AT THE REAL ROOTS OF THE PROBLEMS!

I am pleased to share with Mr Monks a **series of similar concerns**. Europe is far behind the Lisbon Goals for growth and employment. However, our analyses often diverge regarding the ways the negative output gap of the European economy should be narrowed. Let's put our cards on the table!

First, **private consumption**. The terrorist threat is clearly not likely to improve consumer confidence. But uncertainty about structural reforms is the first point for blame. The challenges resulting from an ageing population and from a very competitive global market are not factors that we have created to support our points. This is just the reality our societies will have to face and have to be prepared for.

We know that reforms are difficult to put forward on the political agenda at the national level. **Communication** is a key factor to increase the impact of reforms on confidence. Governments and social partners could substantially reduce uncertainty, by better explaining the benefits that citizens could reap from reforms.

Second, **productivity**. The Commission recognises that employment figures will not improve without stronger **productivity gains**. But here again, we need more urgent action than usually advocated. Productivity gains will not be improved unless labour reactivity and mobility are radically fostered.

Third, **investment**. The **slight improvement in investment** in Europe remains disappointing compared with other major economies. Investment is also a very important factor to support structural changes. But if these expectations are to be fully confirmed, stability conditions for investors such as wise management of public finance, enforcement of financial supervision arrangements, must be ensured across EU-25.

2. MACROECONOMIC POLICY

Let me now reflect on what could be done to improve competitiveness, growth prospects and employment creation through an effective economic policy.

FISCAL POLICY: "STICK TO THE RULES"

We share Mr Trichet's position about the need to **"stick to the rules"**. Budgetary deficits in several countries have serious negative consequences such as future tax increases, wrong signals to financial markets, weakening of ECB's capacity to formulate an appropriate monetary policy, etc.

Sound but also "smart" fiscal policy is necessary. **Good quality** and cost efficiency in expenditures do matter. Consolidation is also "the art" of making economic choices, prioritising one expenditure over another!

Fiscal discipline is also an issue in the new Member States. I have heard that an average budget deficit of 6% would not be too excessive in these transition economies. The pace of adjustment might be discussed but **fiscal discipline, inflation control and, above all, structural reforms should be further promoted**.

Respecting the Stability and Growth Pact is an essential instrument of budgetary policy coordination. We should also bear in mind the main reason for low growth in Europe. While the Pact is often wrongly identified as a "scapegoat", lack of structural reforms remains the first point for blame.

MONETARY POLICY: "KEEP YOUR OPTIONS OPEN"

Allow me first to reiterate that we fully respect the ECB's independence and that we welcome its improved communication strategy. We are naturally interested in a low level of interest rates over a long period of time, provided that inflation is kept under control. As the ECB President J.-C. Trichet stated at the G7 meeting in Washington (24 April**), "all options are still open".**

Our members are increasingly worried about the upward pressure on energy and raw material prices, as well as its availability. Exchange rate volatility also makes any investment decision more difficult.

However, these sources of concern should not hide the main reason for poor economic performance. Structural reforms should be further translated into Member States' legislation to improve competitiveness. Monetary policy can do nothing in that regard.

LABOUR COSTS: "KEEP WAGE DEVELOPMENTS UNDER SCRUTINY"

Following the Labour Cost Monitor sent by the Commission, 2003 is the third successive year of fairly sustained rises in unit labour costs. A slight improvement is expected in 2004 but **wage moderation must go on!**

Labour reactivity could also be improved by allowing wages to better reflect productivity differences on local labour markets.

Non-wage labour costs should also be reduced to give European firms the opportunity to create more profitable jobs. These non-wage labour costs still partially offset the effect of moderate wage growth (Labour Cost Monitor).

STRUCTURAL REFORMS: "JUST DO IT"

I highly appreciate that the different speakers have stressed the need for further reforms. Better explaining the benefits of these reforms might be a field where social partners could work more closely.

But it is now urgent for national governments to transform declared intentions into concrete actions. That is why we have drafted a "Competitiveness Action Plan", in which business federations address recommendations for reform policy directly to their national governments. These reforms cover several areas including:

- Concerning the **labour market**, improving flexibility and mobility, promoting appropriate education and training systems, and ensuring the financial sustainability of pension systems.

- To foster **entrepreneurship**, facilitating private-sector involvement in research and development activities, reducing company tax burden for that purpose, etc

- **Better regulation** by reducing the risk entrepreneurs have to take when entering into a new business, tackling red tape and tax burden, etc.

- Finally, completing **internal market reforms**, particularly for services.

3. Conclusion

RECOVERY IS NOT GIVEN. THE COMMISSION AND OTHER MACROECONOMIC ACTORS SHOULD DO MORE TO STRESS THE URGENCY OF STRUCTURAL REFORMS. THESE REFORMS SHOULD LEAD TO GREATER PRODUCTIVITY, FOSTER GROWTH AND JOB CREATION. OTHERWISE, WE WILL STAY BEHIND OUR MAIN COMPETITORS.

New proposals should contribute to mainstreaming competitiveness in all EU policies.

- The implementation of the right policies to achieve the Lisbon Goals must be the priority of the newly constituted institutions: the European Parliament and Commission. In order to have a more horizontal view, we support the proposal to appoint a **Vice-President of the Commission for Competitiveness**.

- It is high time to understand the challenges that business is facing every day. **Release companies' potential**! Excessive regulatory burden is hindering growth and job creation. Necessary fiscal consolidation should avoid being translated into tax increases but should take the form of expenditure retrenchment and reallocation.

- The current **debate on the financial perspectives** is also an opportunity to emphasise competitiveness in EU policy. The EU budget should act as a lever for the Lisbon goals of economic reform. Give us the financial means to achieve our policy priority!

* * *