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MACROECONOMIC DIALOGUE AT POLITICAL LEVEL

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SPEECH BY PH. DE BUCK
SECRETARY GENERAL
UNICE

Ministers,
Presidents,
Commissioners,

1. This meeting focuses on the **relationship between macroeconomic policy and the Lisbon Strategy**. I am pleased to emphasise the importance of the mid-term review. My first comment is that investment appears to be the interface between the macroeconomic framework and the Lisbon Agenda. The question is then what should be the role of macroeconomic policy at this juncture.

2. We all agree on the disappointing economic performance of the EU in terms of growth and employment. Needless to say, there are marked differences between Member States. But it appears that **growth potential is declining in Europe**. As confirmed by the Commission through its business and consumer surveys of last month, **both expectations and confidence** of investors and consumers remain too weak to expect a firm shift from export-driven growth towards a more self-sustaining recovery. Consumers still prefer saving due to the uncertainty regarding their employment prospects, as well as the financial sustainability of pension and health care systems[1]. To invest more heavily, entrepreneurs should be convinced that Europe is still a place where profitable investment can be made.

3. **Investment appears to be the Achilles heel** of the EU economy. Despite fairly favourable financial conditions, investment expectations do not seem to be materialising. However, it is not enough to say that it is time for business to invest. Implementation of the Lisbon Strategy is the answer. This Strategy has the ability to put the European Economy on the right track, provided it focuses on competitiveness and it is effectively implemented at national level.

4. On the policy side, there is room for macroeconomic policy, but provided it does **not jeopardise the necessary stability by short-sighted policies**. The Kok report rightly emphasises the importance of a macroeconomic framework “as supportive of growth as possible” (p. 13) but what does it mean in concrete terms?

   - **A decrease in short-term interest rates?** Of course, the main task of the ECB is to rein in any inflation risk. But it seems that the risks of second-round effects from drastically increased oil prices are waning. On the other hand, the €/$ exchange rate is now at levels which could prove detrimental for Eurozone competitiveness. The UK is slightly better off since the pound sterling has

[1] The Commission Autumn Forecasts 2004 show that the household saving rate increased in the years 2001-2003 and more recently that it has stabilised.

Union of Industrial and Employers’ Confederations of Europe – Union des Confédérations de l'Industrie et des Employeurs d'Europe AISBL
Av. de Cortenbergh 168 - B-1000 Brussels -VAT BE 863.418.279 -Tel. +32(0)2 237.65.11 - Fax +32(0)2 231.14.45 - E-mail: main@unice.be -Website: //www.unice.org

appreciated less sharply than the euro against the dollar, but nevertheless recorded a worrying 12-years record last week. It would be worth scrutinising the possibility and practicability of any other measure which could contribute to smoothing out the surge in the euro's external value. In this context, the higher profile and the mandate to be given to the Eurogroup President will be useful.

- **An expansionary fiscal policy?** Some countries have in recent years so efficiently redressed their public finances that it may be opportune to adjust any further consolidation course to the flattening economic cycle. But for the other Member States, there is no place for a postponement of consolidation. Any relaxation would tend to be counter-productive by generating very small benefits in the short run but huge costs in the long run. It should be ensured that the revision of the Stability and Growth Pact strengthens this essential coordination mechanism by effectively providing the incentives to consolidate public finances in economic good times.

- An increase in disposable income through **wage expansion?** The increase in savings rates in some Member States suggests that the problem is more a question of confidence than one of disposable income. In any case, the only way to have some margins in this field is to increase productivity growth, which has slowed continuously in recent years.

- **Could a short-term demand-side policy play a role in raising growth potential?** At least, this is not the way we understand the "supportive to growth" macroeconomic framework promoted in the Kok report. We should avoid repeating some mistakes of the past, by seeking to boost the EU growth rate temporarily using "recycled Keynesian" policies. Macroeconomic policy remains essential to ensure the stability needed for sustainable growth. But determined action is further needed to release growth potential by enhancing investment, innovation and employment through the implementation of appropriate structural reforms.

5. There is certainly scope to **improve supply-side policy coordination**. Sustained structural reforms are a necessary accompanying policy to budgetary consolidation. Greater coordination in this field could give the ECB more room for manoeuvre, by pushing down inflationary pressure and improving the channels for transmission of monetary policy. At the time of the mid-term review, important signals should be released:

- **"Let people who want to work more or longer, do so".** Employees work on average approximately 1 month less a year than in the US and 1 1/2 months less than in Japan. The secular decline in working time does not so much reflect a preference for leisure but rather results from persistent disincentives to work in Europe. The gap in working time is not even matched by higher productivity per hour. Actions rightly promoted in the first Kok report "Jobs, Jobs, Jobs" need to be urgently implemented to boost productivity and growth.

- **"Release growth potential".** Productivity growth could also be boosted by making research much more business-based. Improving efficiency in the distribution of available public funds in the Seventh Research Framework Programme (FP7) is needed. This is not only a question of increasing the resources allocated to research but also to set a research agenda fitted to the needs of industry.

A **renewed industrial policy**, not even mentioned in the Kok report, should aim at enhancing the competitiveness of manufacturing industry by combining and adjusting for this purpose all the Community instruments available.
It is time to create a **truly internal market for the services sector**. Opening highly segmented services markets will boost productivity and could become a renewal catalyst to raise business expectations.

Better regulation has been rightly identified as an important priority by the Irish and the Dutch Presidencies. At the national as well as at the EU level, efforts to simplify existing red tape should now be intensified, and all new proposals must be assessed for their potential impact on Europe's competitiveness. As previously advocated, business would support business impact assessments conducted by an independent body.

- "**Do not give away the fruits of recovery"**. We should avoid repeating the experience of 1999-2000 when a fairly good growth performance was not used to consolidate public finances and implement structural reforms. Recovery, albeit modest, should be an opportunity to speed up the consolidation of public finances and even generate budget surpluses to reduce the debt burden for the sake of future generations.

The **Lisbon Strategy has the ability to raise business expectations and confidence**, as previous historical projects have been able to do since the creation of the European Coal and Steel Community in 1951 (e.g. single market, the euro, enlargements, etc.).

The Kok report has also rightly advocated **national action plans** to make governments accountable for their implementation in national parliaments. On the basis of a **renewed partnership for change**, UNICE and its member federations are willing to participate in the involvement of national social partners in implementation of the Lisbon Strategy. As argued previously by Prime Minister Jean-Claude Junker, we will also engage in better communicating the benefits that the citizens can reap from the Lisbon reforms. The **Competitiveness Day** on 9 December (where we will have the pleasure of hearing, amongst others, Mr Jean-Claude Trichet and John Monks, present here) will be an opportunity to present how we could further **assess progress at the national level through a new initiative.**

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