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SPEECH

CHECK AGAINST DELIVERY

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PRESIDENT SEILLIÈRE'S ADDRESS DURING THE MACROECONOMIC DIALOGUE MEETING – 08 NOVEMBER 2005

Presidents,
Ministers,
Commissioners,
Governor,
Ladies and Gentlemen,

It is my great pleasure to address this forum for the first time since taking up my position as President of UNICE. Looking around the table, I realise that this is a unique opportunity to reflect with the main European actors on the right response to today's economic challenges.

Economic outlook and appropriate wage response to high oil prices

And I must say that these challenges are enormous, as demonstrated again this year by the disturbingly weak performance of the European economy.

Today, UNICE has published its Autumn Economic Outlook, which presents forecasts for the 25 EU Member States. In this assessment, growth for the whole of 2005 has been cut back significantly to 1.6% for the European Union and to an even less impressive 1.3% for the euro area (A copy of this report has been distributed and should be in front of you).

Obviously, our disappointment this year can largely by associated with the impact of much higher oil prices than everyone could have expected only 6 months ago. And indeed, there is no doubt that private consumption, profitability and confidence have been visibly affected.

But we cannot simply blame it on oil prices. These are high today mainly because the global economy continues to be remarkably strong, not least supported by heavy oil consumers such as the US and China. In a bright international environment, Europe is lagging behind and now finds itself less able to cope with adverse shocks.

I will come back on the conditions in which Europe can deliver more growth and jobs in this new global economy, but let me first emphasise that higher wage growth is not an appropriate response to our current difficulties.

The experience of the two previous oil shocks demonstrates that inadequate wage increases when the economy faces a combination of low productivity growth and high oil prices can have devastating effects. At present, the risks of “second round” effects remain limited, and I am sure that the ECB takes comfort in that. On their side, social partners should continue to deliver prudent wage settlements, which will ensure that firms can hire rapidly as the recovery gathers pace.

Despite recent economic setbacks, we still find reasons to be cautiously optimistic about the economic outlook in Europe. Our growth forecasts for 2006 currently show estimates of 2.1% for the EU and 1.8% for the euro area. European businesses are ready to play their part in this recovery. They have made the necessary restructuring and consolidation efforts and are prepared to invest and hire on a larger scale if conditions to run profitable business are met. It is now for policy-makers to make the right decisions to let Europe embark on a higher, but most importantly sustainable, growth path.

Macroeconomic policies

I will now briefly reflect on how macroeconomic policies can best contribute to restoring confidence.

Regarding fiscal policy, it is misleading to advocate higher deficits in the present circumstances. Quite regrettably, fiscal squandering during good times has left us with no room for manoeuvre today. In countries where the economic situation is particularly difficult, notably Italy, Germany and France, deficits are, again, going to exceed the limit of 3% of GDP by a significant margin this year. High deficits not only damage the credibility of the new Stability and Growth Pact, but also signal that governments are insufficiently committed to prepare for the challenges of demographic ageing. Postponing the necessary adjustments to public finances and social systems can only aggravate the uncertainty, with negative effects on today's economic decisions.

As far as monetary policy is concerned, current financing conditions are favourable and are lending support to the recovery. The business community considers that low levels of interest rates are adequate and should be maintained in an environment where downside risks to growth dominate. Inflation is currently above 2%, but this is the direct consequence of high oil prices. Inflation expectations are well anchored, while prudent wage setting and the weakness of domestic demand continue to imply limited domestic inflationary pressures.

There is also a distinct possibility that an early increase in interest rates, or signal thereof, could trigger renewed upward pressures on the euro. This would put businesses in difficulties, as they are still coming to terms with the negative impact of high oil prices.

Of course, if the recovery is confirmed or if upside risks to price stability become more pressing, it would be perfectly justified to raise interest rates to more neutral levels.

Lisbon, labour market reforms, Hampton Court and Financial Perspectives

Anyhow, it is our conviction that Europe has some deep-seated weaknesses, which will not be resolved by any specific course of fiscal or monetary policy.

It is quite clear that the European economy is struggling in today's global environment. We are insufficiently competitive on external markets and are also loosing the race to attract and develop the most innovative activities. Domestically, high unemployment and low productivity growth are creating an environment marked by depressed expectations.

The roadmap to address Europe's more fundamental weaknesses is well known: it is a Lisbon agenda refocused on growth and jobs. But progress is disappointing. The ownership of the process has to be restored, and this will hopefully be done with a strong commitment to the new National Action Plans. We cannot miss this opportunity to re-activate Lisbon, as there might not be another one. More decisive actions should also come at the EU level with a focus on improving the regulatory environment and on completing the internal market for services.

However, Europe has had some economic successes as well. One of the most visible is the gradual rise in the employment rate over the last decade, which has made a significant contribution to economic growth. Around 14 million jobs have been created in the EU 15 since 1997, more than twice the increase of the population in active age. This positive development largely owes to wage moderation and active labour market policies. But this is not enough. We are far off the Lisbon employment rate objective of 70%, and large disparities across countries remain.

Looking forward, the rapid pace of globalisation is putting increasing pressure on our labour market and social institutions. Globalisation is not per se negative: it brings important job opportunities through trade and technological diffusion, but it requires more flexible structures. Workers and skills have to match the demand from sectors that are benefiting most from these opportunities. For that we need people to develop the right skills and training throughout their career, we need institutions that provide sufficient incentives to work and that help a better match between unemployed and vacancies.

Finally let me add that the current uncertainty surrounding Europe's economic future is aggravated by an ongoing institutional crisis at EU level. UNICE had asked for a strong signal in the informal European Council meeting in Hampton Court on 27 October. This could have started a new, more positive, momentum built on a common understanding of the challenges of, and response to, globalisation. But results fell short of expectations and the most fundamental issue of the modernisation of our social systems has been paid lip service.

The UK presidency should now concentrate its energy on finalising an agreement for the next Financial Perspectives, capable of meeting the competitiveness objectives. In fact, it is of the utmost importance that the next EU budget becomes an effective instrument of the Lisbon Strategy, allowing clear priority to research, trans-European networks, training, education and innovative SMEs. The effort recently made by President Barroso to lift the deadlock, with his five proposals to modernise the EU budget, are broadly welcomed. UNICE will make its full position on the next Financial Perspectives known in advance of the European Council meeting in December.

Dear colleagues, the clock is ticking. Europe urgently needs to move ahead if it doesn't want to fall further behind.