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TROIKA MEETING WITH SOCIAL AFFAIRS COUNCIL 6 JULY 2006

SPEECH BY PHILIPPE DE BUCK

Presidents, Ministers, Commissioner, Ladies and Gentlemen

1. The Finnish presidency has asked us to focus on how to respond to the challenges arising from globalisation by improving productivity and developing quality in working life.

We will see from the figures I will present to you that Europe suffers from a decline in productivity. It is therefore indispensable to work to reverse this tendency. Contrary to what some people think, an increase in productivity does not destroy jobs. Countries with high productivity also have a higher jobs growth indicator.

2. Europe's relative decline in terms of productivity is a daunting challenge, and a good summary indicator of Europe's difficulties. For the period 1995-2000 average productivity growth per hour worked was 1.8% in both Europe and the USA. For 2000-2005, the productivity growth rate was 1.2% in Europe compared with 2.6% in the USA.
3. Not all Member States are in the same situation. In relation to a benchmark figure of 100 for EU-25, GDP per person employed in the Eurozone declined from 108.5 in 2000 to 106.3 in 2005.
4. During the same period, US productivity rose from 132.1 to 136.1 (Eurostat). Sixteen EU countries¹ experienced stable or rising labour productivity during that period, while seven² have seen a decrease with the sharpest decline in Italy (from 121.2 to 108.2).
5. This situation reflects the persistence of major impediments, on both product and labour markets, which make it more difficult for our companies to adapt and innovate under fast changing conditions.
6. The underlying causes of our relative productivity decline are complex, but the impact of regulatory rigidities cannot be denied. In fact, the productivity growth advantage experienced by some countries, including the United States, is closely connected with lower barriers to trade and competition, which stimulates business investment, innovation and technological catch-up.
7. This strongly emphasises the need to speed up the completion of the internal market, especially on the services front.

¹ B, CZ, DK, D, Est, Esp, IRL, Latv, Lithu, Lux, H, NL, PL, Slov, Sk, UK

² F, It, Cy, Malta, P, Fin, Swe

8. On the labour market, strict employment protection regulations also play a key role. They hamper the creation and growth of new businesses, decrease the speed of adjustment to shocks, and ultimately curb productivity growth.
9. This is why the whole debate on flexicurity is so important, a debate that we will have on 20 October during the Tripartite Social Summit and the informal EU Council. The aim of flexicurity is to ensure the sustainability of our social model by restoring a positive link between competitiveness and social protection.
10. Flexicurity is about moving away from a job preservation mindset into a job creation mindset. It is about breaking barriers separating insiders and outsiders on the labour market. It is about quitting a logic of trade-offs between flexibility and security that has shaped our social systems in the past and looking at flexibility as a tool for security through enhanced employment prospects for workers.
11. The term comes from Denmark and there are interesting elements of the Danish experience that I would like to highlight. Firstly, the cost of hiring and firing is relatively low and, yet, Danish employees are among those in the EU who have the highest feeling of employment security. Secondly, some aspects of wage-setting have been decentralised to local levels to facilitate adjustment to external shocks. Thirdly, social partners have significant room for manoeuvre to shape working time arrangements without unnecessary legislative constraints.

Fourthly, there is a strong focus on active labour market measures, matching the support granted by relatively generous unemployment benefits with high individual responsibility to actively prepare for taking up new jobs. But the system is costly. Trying to replicate it in countries with unsustainable public finances would even have harmful effects. Each country has to find its own route to flexicurity.

12. The fact that there is no one-size-fits-all solution does not mean that the EU has no role to play. The integrated European guidelines on growth and jobs provide a framework to steer Member States' actions. We see no added value in developing additional EU principles on flexicurity. However, we fully agree that we need to deepen exchanges of experiences to better understand how different Member States have organised a virtuous sequence of events between changes in labour law, efficient active labour market measures and social protection reforms. To look beyond the surface, we need analytical material. Let us hope that the green paper will provide useful input on labour law aspects.
13. Let me now turn to the **EU social partners' contribution**. The agreements on part-time work, fixed term contracts and telework were part of the answer on the availability of flexible working arrangements meeting the needs of employers and workers.

With regard to lifelong learning, our 2002 framework of actions has boosted social partners' work in the Member States and we are confident that the framework of actions on gender equality will help to make better use of talents on the labour market.

14. Frameworks of actions and agreements are not the only tools of the European social dialogue. Bridging the gap between the social partners' respective analyses of the main challenges facing Europe's labour markets is important to pave the way

for the emergence of a consensus on solutions. The EU social dialogue work programme 2006-2008 therefore foresees a joint analysis of Europe's key labour market challenges as a stepping stone for further work on issues such as macroeconomic and labour market policies, demographic change, lifelong learning, flexibility and security, undeclared work, restructuring, etc. This joint analysis should be ready by the end of 2006.

15. **To conclude**, ultimately, productivity growth is the result of companies' and workers' efforts to produce more efficiently. Management practices, work organisation, on the job learning, involvement and empowerment of workers are essential ingredients for success. The most successful companies and most successful workers are those who strive for constant improvement. But let us not forget that the overall environment in which they operate has a major influence.

I look forward to further working with the Finnish presidency on how to support companies' and workers' innovation efforts by improving the overall business and working environment.

16. Thank you for your attention.

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