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SPEECH

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Tripartite Social Summit
20 October 2006
Managing change through flexicurity

Speaking time slot: 5 minutes

Address by EK President Christoffer Taxell (on behalf of UNICE President Mr Ernest-Antoine Seillière)

Mr President, Prime Ministers, Ministers, Commissioner,

Ladies and Gentlemen,

Let me first thank the Finnish presidency and the European Commission for organising this discussion on managing change through flexicurity prior to the Informal Meeting of the EU Council which will start later today.

I fully share the analysis presented in the note prepared for the meeting. Globalisation and demographic ageing requires Europe to improve its capacity to change and the European strategy for growth and jobs sets the right objectives to do so. Yes, innovation involves much more than research and development. It also makes it necessary to modernize work processes and there is undoubtedly a strong link between innovation policy and the debate on flexicurity.

As part of the European social dialogue work programme 2006-2008, the European social partners are discussing key labour market challenges with a view to arriving at a common analysis. UNICE has analysed the underlying causes of Europe's incapacity to generate enough growth and employment to meet the Lisbon objectives and how to remedy the situation. I would like to share our findings with you today.

In 2006, growth in the European Union has improved. However, with a GDP increase of 2.75 % at the top of the economic cycle, when China, India and the US respectively reach 9%, 7% and 3.5%, our results are mediocre. We can do much better if we remove obstacles preventing companies from innovating and

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employing people under fast-changing conditions. Structural reforms on both product and labour markets must be implemented vigorously to remove bottlenecks to economic growth and job creation.

Higher labour force participation and reduced unemployment have made a positive but modest contribution to real GDP growth since the mid-1990s. However, these achievements have been partly offset by poor productivity performance. Europe seems trapped in a negative trade-off between employment and productivity growth.

As a businessman, I have directly experienced the inadequate functioning of labour markets, which plays a crucial role in the difficulties that European job-seekers are facing. A lot of European decision-makers are conscious that outdated and unnecessarily rigid labour regulations hamper businesses development and curb productivity growth. Most people agree that high labour taxation and lack of mobility increase the adjustment costs associated with globalisation and technological innovations. Many even acknowledge, theoretically, that hours worked per person employed have declined dangerously in the face of demographic ageing.

However, when it comes to drawing the consequences of this analysis and deciding on reforms things are much less consensual. Fears and resistance, especially in some big EU countries, are considerably slowing down necessary measures. There is not enough awareness that time is running out and that the longer they are delayed, the more difficult and painful reforms will become. Until 2015, rising employment rates could offset the decline in working-age population but after that both the size of the working-age population and the number of persons employed will be on a downward trend. We must act now if we want to avoid seeing public debt rising to 200% of GDP as predicted in the recent Commission communication on sustainability of public finances.

Another difficulty is the distorted picture that is sometimes given of national reforms when comparing experiences at the European level. The way in which the flexicurity approach is described is a good example of that. It is usually simplified into three components: 1) active labour market policies + 2) generous welfare systems + 3) highly developed collective bargaining. The other side of the coin, namely 1) flexible labour law + 2) duty of the unemployed to participate in activation programmes + 3) sound budgetary policies to create the margins for investing in active labour market policies are simply swept under the carpet.

The experience of some Member States shows that there are ways to have both more inclusive labour markets and strong productivity growth. The key to success lies in six policy priorities:

- improving the business environment to foster innovation and job creation;
- turning job security into employment security;
- containing labour costs to increase the demand for labour;
- designing tax and benefit systems to improve work incentives and increase labour supply;
- ensuring a better match of labour demand and supply through lifelong learning and increased geographical and professional mobility;
- creating inclusive labour markets integrating disadvantaged groups.

The flexicurity approach requires comprehensive national strategies with the right mix of economic and social measures to foster job creation and help people to maximise their chances on the labour market. This means

- flexible labour law with smart rules on protection against dismissals and a variety of employment contracts to answer different needs of companies and workers together with a strong commitment to fight undeclared work,

- putting into place effective active labour market policies, which presupposes that the necessary budgetary margins have been created to allow such an investment, and

- having an employment-friendly social protection system and in particular an unemployment insurance which links rights and obligations for the unemployed as opposed to giving unconditional passive income support.

Boosting productivity and employment growth is essential to ensure the sustainability of our social model. Firm and forward-looking action is needed to correct structural weaknesses on Europe's labour markets. Decisions on concrete measures have to be taken at national level. However, the European Union also has an important role to play The emphasis at EU level should be on stronger surveillance of reforms undertaken by the Member States, and ensuring overall consistency of EU policies under the European growth and jobs strategy. In this context, we look forward to the reporting on the implementation of the National Reform Programmes.

Employers do not believe in the generalisation of national "models" across Europe but we are convinced that the European Social Partners would make a real difference if they were able to make a joint description of the key components of a genuine flexicurity approach. We therefore very much hope that on-going discussions with ETUC will succeed and that we will be able to present its results at the next tripartite social summit in March 2007.

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