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### **CONFERENCE ON THE EUROPEAN SOCIAL MODEL NUREMBERG, 9 FEBRUARY 2007**

#### **PANEL DISCUSSION: JOINING FORCES FOR A SOCIAL EUROPE**

#### **SPEAKING NOTES FOR PH. DE BUCK, SECRETARY GENERAL OF BUSINESSEUROPE**

Ministers, Ladies and Gentlemen,

Let me first thank the German Presidency for organising this conference. Social policy and modernisation of the European social model play an important role both in the EU institutional debate and in the European growth and jobs strategy.

In my intervention, I will first explain why there is a need to reform and modernise the European Social Model. I will then indicate in which direction reforms should go and conclude with a few remarks on social aspects of the debate on the EU constitutional treaty.

#### **On the need to modernise Europe's social systems**

For much of the 20<sup>th</sup> century, Europe has been able to achieve simultaneously good economic performance and a high level of social protection for its citizens. BUSINESSEUROPE agrees that the European Social Model is important to achieve both economic growth and solidarity but maintaining this positive relation requires modernising the European Social Model if it is to remain an asset for our economies and societies.

What are the warning signals? Firstly, potential output growth has been on a declining trend in Europe over the last decade, notably as a result of poor productivity performance. In 2006, growth in the European Union has improved. GDP increase stood at 2.9 % in the EU as a whole, while China, India and the US respectively reached 10.7%, 8% and 3.3%. We can do much better if we develop a business environment which encourages and supports companies to innovate and employ people under fast-changing conditions.

Secondly, unemployment remains a key concern in Europe. Employment creation has been substantial over the past few years and will remain on a significant upward trend (with 7 million jobs to be created between 2006-2008). However, in 2006 there were



still more than 17 million people unemployed. The average EU unemployment rate has fallen but still stands at 7.6% which is more than 3 % higher than the rates in Japan and the USA. In addition, progress in raising the employment rate is slow and - at almost 64% - remains far below the 70% target agreed in Lisbon. Young people, women, migrants and older workers are the hardest hit. And this limited success in fighting unemployment is holding back the reduction of poverty and social exclusion. Facilitating job creation and access to work is essential to improve social cohesion.

European social systems are at risk because they are no longer attuned to the reality and challenges of today's world. Let me give you some examples. As the "one job for life" model no longer applies, ill conceived employment protection laws which constrain job creation need to be modernised. Likewise, as we need more people in employment, tax and benefit systems must be redesigned in order to make work pay.

Europe faces two major and urgent challenges in the 21<sup>st</sup> century: globalisation and population ageing.

Demographic ageing in particular will have a significant impact on our social systems and on the European labour markets. Under current trends, the population of the EU will both be smaller and significantly older in 2050. The old-age dependency ratio is set to double and reach 51%, meaning that for every pensioner there will be 2 persons of working age, compared to the current ratio of one-to-four. In other words, there will be fewer people contributing to the systems of social protection and more depending on it, leading to ever greater pressure on public spending, especially in the fields of pensions, health and services for the elderly.

In addition, economic growth rates are also set to decline with the ageing of the population, mainly owing to the reduction in the working-age population. Immigration from third countries is needed to compensate for demographic ageing but will not suffice. The source of growth will undergo dramatic changes and will come essentially, if not entirely, from productivity gains in the next decades.

It is generally acknowledged that Europe's strategy cannot and should not be to compete with emerging countries in the production of low-cost and low-value added products. Moreover, these countries are also investing more in R&D and moving up the ladder of value-added products. We should therefore modernise our economies by promoting innovation policies and increasing the adaptability of enterprises and workers. I believe this is the only way forward for Europe in a global environment characterised by ever tougher competition and in which whole sectors of the economy are undergoing significant transformations.

To sum up, Europe must reform and modernise its social model to boost economic growth and address persistently high levels of unemployment and exclusion. Demographic ageing and globalisation have added to the sense of urgency. Status quo is simply not an option. Policy-makers across Europe agree on this. Many countries have turned the reform of social security systems into a policy priority. However, fears and resistance are slowing down the process. Reforms remain in preliminary stages in many countries or stuck in parliamentary discussions putting into question their final outcome. There is not enough awareness that time is running out.



## **On how to modernise Europe's social systems**

After having made the case for reform and modernisation, let me now turn to the crux of the matter, policy content.

Policies aimed at boosting productivity and employment growth must be placed at the core of economic, labour market and social security reform strategies. 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 both lifelong learning and increased geographical and professional mobility;
- creating inclusive labour markets integrating disadvantaged groups.

Public authorities and social partners must work to implement these priorities. Only by doing so, we will be able to boost employment and productivity growth which is essential to ensure the long-term sustainability of our social systems.

A vital element in improving European performance is to improve our capacity to anticipate, trigger and absorb change. Better responsiveness of EU economies to change requires finding a new way of combining social protection and economic flexibility. The concept of flexicurity is at the heart of efforts to restore a positive link between competitiveness and social protection.

In essence, flexicurity is about moving away from a job preservation mindset into a job creation mindset. It 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 public authorities have created the necessary budgetary margins 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.



Depending on the national context and traditions, the detailed ingredients of this mix will vary. There is no one-size-fits-all model of flexicurity to be implemented across the EU.

The EU level can play a useful role by defining common principles and pathways in order to facilitate discussions and policy developments at the national level. In this respect, the conjunction of the Green Paper on Labour Law consultation, the upcoming Commission Communication on flexicurity and the social partners' joint analysis of key challenges facing Europe's labour markets provides a unique opportunity for European social partners and public authorities to engage in an in-depth reflection on the issue of flexicurity and labour market modernisation, thereby contributing to the success of the European growth and jobs strategy.

## **What does it mean for the 50<sup>th</sup> anniversary of the EU ?**

To restore confidence in the European project, we need more economic growth and more jobs. The Spring European Council this year will take place in the context of the most favourable economic climate the European economy has known for a long time. This is of course a reason to rejoice and acknowledge that we are moving in the right direction. However, the upturn in the business cycle is no reason for complacency. The slight recovery, we are experiencing, owes a lot to external conditions. We must keep up the reform momentum and not repeat the mistakes of the end of the 90s, when a buoyant economic situation created exuberant optimism but stalled reforms.

On 23 January 2007, BUSINESSEUROPE presented a declaration for the 50<sup>th</sup> anniversary of the European Union. In that declaration we call for a boost to Europe by concentrating its future actions on six priorities:

- Implement the reforms for growth and jobs
- Reinvigorate integration of the internal market
- Complete the reforms of EU governance
- Fight national protectionism
- Take advantages of the opportunities of enlargement
- Reform social systems to make them sustainable

The whole European business community looks with great expectations upon the German EU Presidency. We particularly support its efforts to relaunch the discussion on the constitutional treaty. The current institutional framework is not equipped for an EU of 27, let alone more Member States. In Chancellor Merkel's speech to the European Parliament on 17 January, she warned that it would be a "historical failure" if the European Union did not succeed in overcoming its institutional crisis. BUSINESSEUROPE fully subscribes to this point of view.

Ladies and Gentlemen, brighter economic results give us a window of opportunity to restore trust in the European project by tackling all six challenges facing us. Let's grab this opportunity together and make it a success.

