BUSINESSEUROPE

SPEECH

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SIXTEENTH MEETING OF THE MACRO-ECONOMIC DIALOGUE AT POLITICAL LEVEL

ADDRESS BY MR PHILIPPE DE BUCK, BUSINESSEUROPE SECRETARY GENERAL

- **The European economy continues to send encouraging signals**, with robust growth, dynamic job creation, strong investment and all this taking place in a low inflation environment. This vindicates a scenario of growth around potential this year and next, with no significant inflationary pressures building up, and growth gap between euro area and the EU closing.

- Our chairman Minister Peer Steinbrück must be particularly satisfied at the performance of **Germany, shifting in a couple years from being the "sick man of Europe" to being today one of its fastest growing economies**. For us, this clearly illustrates that betting on global competitiveness always pays off, even though Germany could have speeded up its resurgence if ambitious reforms had been implemented earlier to support business restructuring.

- So how can we keep this recovery afloat and how can we ensure fair participation of all?

- To answer this question we have first to acknowledge the diversity of challenges in the euro area, given growing competitiveness divergences. For instance, **in Germany, slightly higher wage growth in the recovery does not seem a worrisome development**, and could be seen as "normalisation" process after a decade of courageous and successful wage moderation, and also reflects higher productivity growth.

- But **it would be a mistake to transpose these conclusions to other parts of the euro area**. Spain, Italy, Portugal, Greece or France have lost between 15% and 25% of price competitiveness against Germany since the start of monetary union, and have seen a continuous deterioration of their external accounts. It is now a priority for these countries to reverse the trend, and wage moderation will need to play a part, alongside measures to boost productivity.
- Regarding the question of a fair distribution of the fruits of the recovery, **I cannot emphasise strongly enough that sustainable job creation is the way forward, not high pay rises**. Moderate wage growth and measures to integrate more people in the labour market have been the engines of the employment revival in Europe over the last decade, and no one wants to see this momentum stop.

- Some **people argue that rising profits gives room for higher wage growth without generating inflation or hurting employment.** Past experience does not support this view**.**

- **What is needed instead is to ensure that rising profits end up boosting investment, innovation and employment.** This process is largely endogenous in a competitive environment where the labour force can shift from declining sectors to new and dynamic ones. In this regard, the focus should be on increasing competition, labour market flexibility, and improving education and training. This is where significant potential for higher productivity and wage growth lies today and this reinforces the need to implement an ambitious agenda for reforms during this upturn.

- **The concept of flexicurity appears particularly relevant and appealing in this regard.** As part of our social dialogue work programme 2006-2008, European social partners are trying to develop a common understanding of the key components of the flexicurity approach. I will not pretend that this is an easy exercise, but a successful outcome would make a real difference in the debate that is currently taking place.

- **It is also imperative that the interests of employees and that of shareholders are reconciled instead of being opposed, and that employees are more directly involved in the success of their companies**. This is important for the motivation, productivity and income of workers. Share ownership and profit-sharing schemes are useful instruments in this regard and should be developed further.

- **Since this is the Macroeconomic Dialogue, I must say a few words about fiscal and monetary policy.** First regarding fiscal policy, the 20 April declaration of the Eurogroup on budgetary objectives for coming years was a strong political signal and an unprecedented commitment to the preventive arm of the Stability and Growth Pact. BUSINESSEUROPE fully supports these orientations and will make sure to remind governments of their renewed pledge to bring budgets close to balance by 2010.

- **Regarding monetary policy, I will just say that what matters for companies is low inflation, low interest rates and exchange rate developments.** The ECB should take into consideration these three elements in its decisions.

- Mr Chairman, **these are good times for the European economy and while we certainly need to be pleased about it we also need to avoid missing the opportunities it offers to address the challenges ahead**: on top of this list I would put competitiveness divergences in the euro area. These divergences are not an immediate threat, but they hamper the cohesion of monetary union and come at an increasing cost for those lagging behind.

- **The Spring Council identified the right priorities for euro area countries**: more competition in the services sector, more financial integration, more wage responsiveness and faster budgetary consolidation. Our EU Reform Barometer Spring 2007 has showed that reform initiatives are taking place in virtually all member states but varying degrees of commitment are observed across countries and policy areas and implementation is considered to be slow.

All policy stakeholders have to play their role to sustain the recovery in the years ahead:

- **Member states:** should avoid complacency and use good times to consolidate public finances and progress with structural reforms

- **Social partners:** should agree on wage settlements bearing in mind the triple objective of price stability, full employment and high competitiveness

- **The ECB:** should internalise all risks to the outlook, including those related to exchange rate developments

- **The European Commission:** should keep a vigilant eye on member states' implementation of reform commitments, and develop a better understanding of policy spillovers in monetary union

- **The Eurogroup:** should strengthen reform surveillance, consolidate ownership of the Stability and Growth Pact and speak up with a unified voice at the international level

Thank you for your attention.