SPEAKING NOTES

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SALARIES IN EUROPE
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ADDRESS BY PHILIPPE DE BUCK,
SECRETARY GENERAL OF BUSINESSEUROPE

The European economy currently faces turbulent times.

- evidence for a broad-based slowdown in particular in industrialized countries
- new phase in financial market turmoil weighs on growth prospects
    - tremendous increase in uncertainty for companies as regards their future access to finance (latest ECB surveys of Bank Lending Conditions show sharp increase in banks' credit standards and credit costs to companies)
    - evolution of and confidence in the financial system in general.

At the same time, several factors still offer significant support, which for us are major arguments not to expect a prolonged recession in Europe

- still supportive labour market situation
- sound balance sheets for non-financial corporations
- a strong export penetration of European companies in the most dynamic economies
- the absence of Europe-wide housing market imbalances

Against this background, time for decisive policy action has come to find convincing answers to key challenges:

a) a coherent reply to financial market turmoil
b) proposals for a re-launch of the European economy and an improvement of companies' competitiveness

<u>@ a): replies to the financial market crisis</u>

Although this is not the main topic of the conference, I think the dramatic developments over recent weeks oblige us to say a few words on this first subject.

- The current financial market turmoil certainly is one of the biggest crises in the history of finance. Central banks – and above all the ECB – have done a remarkable job to ensure the orderly functioning off money markets by injecting huge amounts of liquidity.
- It is also clear that the euro has acted as a shield, where individual currencies would have triggered substantially instability in euro area but also more widely.

THE CONFEDERATION OF EUROPEAN BUSINESS a.i.s.b.l.

AV. DE CORTENBERGH 168
BE-1000 BRUSSELS
BELGIUM
VAT BE 863 418 279

TEL +32(0)2 237 65 11
FAX +32(0)2 231 14 45
E-MAIL: MAIN@BUSINESSEUROPE.EU
WWW.BUSINESSEUROPE.EU

- Even though European banks have been able to escape the worst so far, policy makers must act. At BUSINESSEUROPE we consider four areas to be of utmost priority.
    - The **governance of the financial system** in Europe – but also at the global stage – needs to improve, especially as regards its **transparency and supervision**. But we must also be prudent to avoid counterproductive knee-jerk reactions.
    - Policy makers must ensure that banks **strengthen their capital base**.
    - **SMEs** – the backbone of our economy – are often hit hardest as regards the fall-out of financial crises. We must ensure that they are not **strapped from access to finance.**
    - Finally – but maybe most importantly for the **future confidence in the financial system** – we must try to prevent that tax payers will be asked pay for reckless behaviour of some financial institutions. State interventions must always be actions of last resort, i.e. when there is a clear systemic risk.

<u>@ b): re-launching the economy</u>

Looking beyond the uncertainty financial market turmoil has stirred up, we need to reflect on ways to re-launch the European economy and to strengthen the competitiveness of our companies. Obviously, wage policies play a crucial role in this respect. However, they are not the only road we have to follow and I want to come back to this later.

➢ ***on wage policies***

Everybody agrees that

- salaries should grow in line with productivity and include a component that reflects future inflation developments, not past trends;
- With companies facing numerous headwinds and the ECB being very vigilant of second round effects, excessive wage deals risk aggravating a deterioration in employment conditions;
- Wage deals also need to reflect competitiveness challenges in particular where significant rebalancing is needed such as in Spain, Ireland, Greece, Portugal, Italy or France.

BUSINESSEUROPE therefore insists that wage developments

- reflect the diversity of productivity levels and trends,
- Reflect the specific conditions of labour market and competitiveness conditions.

So far, information on current wage negotiations in member states is mitigated:

- In the Netherlands, recent wage agreements show a great degree of responsibility on both sides.
- In Germany, however, recent news causes concern. In particular the underlying expected inflation rate of 2.5% could be interpreted as a de-anchoring of inflation expectations. Indeed, it has always been 2% thus far.

At the same time, **legitimate concerns about purchasing power** are not indifferent to the business community. Millions of companies rely on a strong consumer market in Europe.

Therefore, we need to explore **new ways that reconcile wage policies and companies' competitiveness**. BUSINESSEUROPE is convinced that possibilities of **financial participation schemes** in the debate on wages and purchasing power offer an appealing solution to workers and companies alike.

Indeed, financial participation schemes have several advantages:

- They involve employees more closely in the life of the business.
- They allow them to share in the success of their company and align their interests with those of the company's shareholders.
- They also link employees to the company over the longer term.

⇨ In other words, these schemes are very important tools to motivate employees.

But let me be clear: Financial participation schemes must be voluntary. Their introduction is a decision for the individual company or employer, in the light of existing national law and practice, and depending on the financial situation of the company.

The role of the social partners, and whether financial participation will be an issue for collective bargaining, will depend on national practice. Where this corresponds to national practice, financial participation schemes may allow for greater flexibility in collectively agreed remuneration systems. By this I mean that fixed wage levels may be supplemented by pay components to reflect the success and performance of the company. This flexibility, beneficial to both employees and companies, should be promoted.

However, important obstacles to wider use remain. Not all EU Member States provide a legal and tax environment that sufficiently encourages companies to introduce such schemes. Moreover, Member States should avoid putting financial and administrative burdens on companies that wish to introduce such schemes.

further measures to re-launch the economy and boost competitiveness

1. Closely linked to the aspect of responsible wage developments, I think **the ECB needs to regain room to manoeuvre**.
    - Business fully understands the need to keep inflation expectations at low levels as they are a prerequisite for sustained investment and thus job creation. We therefore strongly support the ECB's interest rate policy, which is conducive to this end.
    - But we also expect the ECB to stand ready to support the euro area economy in case of a severe downturn. For this to happen, inflation must be put on a credible downward path.

    - All stakeholders must contribute.

- As already mentioned, **social partners** through responsible wage policies.
- **Governments** by removing barriers to competition, particularly in services and energy markets. This has the potential to reduce price pressures, boost domestic demand and reinforce global competitiveness at the same time, creating the type of win-win measures that are needed today.
- Hence, reinforcing the internal market and pushing for further liberalisation of highly regulated segments – in particular services, energy and the retail sectors – must be more than ever a priority.

2. As I have said before, BUSINESSEUROPE has never been a friend of government intervention. Therefore, we have been **opposed to fiscal re-launch packages** from the very beginning.
   - We certainly do not want to prevent member states that do enjoy more comfortable budget positions from allowing automatic stabilisers to work freely, but the Stability and Growth Pact must be respected by all.
   - Public deficits do not offer real solutions to present difficulties. Governments should rather focus on the **quality of their expenses and tax systems**, in order to create a supply side push to the European economy.

3. We must not forget about **structural reforms** in order to ensure that Europe will not wake up after the crisis just to realise that its growth potential has declined even further.
   a) **improve the functioning of the labour market**
   - implement concept of **flexicurity**
     - We have signed with the Trade Unions fundamental principles regarding the concept of flexicurity. This agreement has been the basis for national negotiations that have lead to promising results, for example in France.
     - If implemented correctly, flexicurity has the potential to bring real solutions to current problems. Flexicurity is not only about flexibility, making it easier for companies to lay-off workers. Flexicurity is also about security for workers to find new and better jobs. Encouraging the participation in life-long learning schemes will inevitably boost the general skills level of workers and thus increase labour productivity.
   - improve **labour mobility**
     - This will multiply knowledge sharing and offer an efficient answer to the current mismatch between vacancies and those looking for a job.

   b) member states must rapidly **implement the Lisbon Strategy**
   - Unfortunately, ministers' brave intentions do not hide a **substantial delivery gap**.
   - We regularly identify in our Reform Barometer that member states do not accelerate those structural reforms that are at the very heart of a successful Lisbon Strategy. Important work still needs to be done, especially for the final reform cycle 2008-2010.

- **Beyond 2010** we do need an unequivocal commitment of all member states and European institutions to structural reforms that overcome current deficiencies, reinforce national ownership as well as public awareness and are centred around four pillars that we consider to be essential:
    - deepen economic integration by strengthening the internal market, improving the economic governance of the euro area and foster financial stability
    - enhance innovation, skills and entrepreneurship, building on important synergies between EU and national policies
    - integrate energy, climate change and competitiveness
    - shape globalisation and fight protectionism