



*****CHECK AGAINST DELIVERY*****

17 November 2009

FOUNDATION SEMINAR SERIES 16 & 17 NOVEMBER 2009, BRUSSELS

**SESSION 1: "PREPARING FOR THE FUTURE"
THURSDAY, 19 NOVEMBER 2009, 9:00- 11:15**

**INTERVENTION BY MARCUS SCHWENKE,
ADVISER SOCIAL AFFAIRS**

On the way out of the crisis

- The present worldwide crisis has hit Europe hard and the situation is particularly unsafe in Europe compared with other regions. This is because the short-term blow inflicted by the crisis on all economies worldwide is connected in Europe with problems special to Europe. This calls into question Europe's capacity to sustain the European social model in the future.
- The crisis has many aspects, and is being addressed by:
 - Restoring financial stability
 - Shaping globalisation and fighting protectionism
 - Protecting employment
 - Focusing on innovation, education and skills
 - Adjusting employment and social policies
- Companies' top priority in the present crisis, which started with a financial crisis, has been to restore access to finance through effective financial systems. Credits are indispensable to allow company investments and to generate economic growth.
- There are signs that the recession is now drawing to a close in Europe. However, the situation on European labour markets continues to worsen. In our latest Economic Outlook, we predict 10 million job losses in 2009-2010 in the EU. The EU unemployment rate stands at its highest level since January 2000 (9.2% in September 2009). Young people in particular are hard hit.
- In this context, one important question that needs to be addressed in the short term is how to return swiftly to European pre-crisis potential growth levels, i.e. at around 2 per cent for the EU as a whole. In this regard, one important element in the design of the post-2010 Lisbon policy agenda will be to invest our resources with a view to strengthening innovation and competitiveness.

- EU's capacity to prosper in the face of heightened global competition and a shrinking workforce will depend increasingly on its ability to innovate and to ensure a sufficiently strong skills base.

On short-term measures

- The efforts of European companies to limit job losses have been remarkable in this crisis. 'The Economist' highlighted in a recent article that Europe has shown a greater talent for dealing with recession than the United States. Unemployment in the euro area has risen by 30% from its pre-crisis levels, while America's jobless rate has boomed by more than 100%. Employers across the EU have done whatever they can to keep their workers. They were helped by a constructive attitude of workers and their representatives. In many cases, governments have been of a good support. The reasons are: Companies wanted to avoid losing their workers in which they had invested. They wanted to avoid having to compete after the downturn for skilled workers. They wanted not to be confronted with high costs for hiring and training new workers.
- Current measures to preserve jobs, such as short-time arrangements, were useful but are temporary and should remain so.
- It is of paramount importance that short-term measures are consistent with medium- and long-term priorities. Mistakes of the 1980s, when early retirement was used on a massive scale to address a rise in unemployment were costly and counterproductive and should therefore not be repeated.

On long-term measures

- To be successful in the global economy, further progress is needed with crucial structural labour market reforms to improve European competitiveness. They must be complemented by a broader framework that encourages the creation of new jobs through sound macro-economic policies and a favourable business environment. Cutting non-wage labour costs will be essential to create more inclusive labour markets.
- We welcome that the Swedish EU Presidency made the question how to integrate people who are furthest away from the labour market. European Social Partners are also addressing this issue. In the framework of their Social Dialogue Work Programme, they are currently negotiating a framework agreement on how to create more inclusive labour markets.
- Adaptability will be the key word for the recovery. The urgency now is to prevent long-term unemployment, increase mobility, skills and labour participation. To this end, it is key to implement the principle of flexicurity. It reconciles flexibility and security needs of employers and workers by facilitating the creation of new jobs, supporting people during transitions and developing skills through training



- The importance of having better skills, in particular in the crisis, was demonstrated by recent figures from EUROSTAT. They show that people with lower levels of education (less than upper-secondary education) are the ones most seriously affected by the crisis.
- Employment of low-skilled workers dropped by 2.6 million already last year while the employment among highly educated people even increased during the crisis.

On demographic change

- The long-term challenges facing Europe, the most serious threat to our future well-being comes from demography.
- The economic growth that we have known since the 1950s was to a large extent a result of the increase in the workforce. For decades the European workforce has been growing year by year. Not only will the workforce now stop growing, it will start shrinking in Europe (and Japan) while it will continue to grow in other parts of the world. Europe will continue to lose jobs and investments to the rest of the world unless we address the problem of a shrinking workforce.
- In order to handle the problem we will have to act now. There will be no automatic return to growth with a shrinking workforce. On the contrary, the European Commission has estimated that potential annual growth rates will almost be cut in half because our workforce will decrease by forty million people over the next forty years. This is a drastic change from the last thirty years where the labour force has increased by almost sixty million. Added to this is the fact that Europe will have sixty million more elderly people, which will create a pressure for more people working in services demanded by the elderly.

Conclusion

On the basis of my previous points, here are the main conclusions that I would like to share with you today:

1. To solve the long-term challenge of demographic change and create sustainable economic growth, it is imperative to reform labour markets and develop social policies with a view to achieving higher employment and productivity growth rates.
2. To attract investments and create economic growth and jobs, we must make certain that all Europeans have the competences and qualifications that companies and public sector institutions need and that at the same time make people employable.
3. To undertake adequate labour market and social reforms, the flexicurity agenda, with its focus on actions decided and taken by Member States in a broader European framework, is as or even more relevant today than it was when it was introduced before the present crisis. Much remains to be done in

Member States to implement the principles of flexicurity. Many countries still have overly rigid employment protection legislation and disincentives to enter or progress on the labour market.
