

2 June 2010

## **INTEGRATED GUIDELINES FOR THE EUROPE 2020 STRATEGY AND REFORMS AT MEMBER-STATE LEVEL**

### **Introduction**

On 27 April 2010, the Commission published its proposals for integrated guidelines setting out the framework for implementing the EU 2020 strategy and reforms at Member-State level. They comprise ten guidelines for national economic and employment policies.

BUSINESSEUROPE believes that the guidelines address the main priorities and fundamental economic issues necessary to put Europe back on track for sustainable growth and job creation. It welcomes the reduced number of guidelines chosen in order to focus Member States' efforts on delivering balanced reforms in line with the flexicurity approach.

BUSINESSEUROPE supports the call on Member States to

- ensure the sustainability of public finances,
- address macroeconomic imbalances and reducing imbalances in the Euro area,
- optimise support for innovation and unleashing the digital economy,
- improve resource efficiency to reduce greenhouse gases,
- improve the business environment and modernise the industrial base,
- increase labour market participation and reduce structural unemployment,
- develop a skilled workforce,
- improve the performance of education and training systems,
- promote social inclusion and combat poverty.

However, it believes that

- access to finance is insufficiently covered in the broad macroeconomic policy guidelines,
- green taxation, green regulation or so-called green jobs are approached in a simplistic way,
- references to social dialogue and wage developments must respect the autonomy of social partners' negotiations,
- the employment guidelines do not acknowledge sufficiently the importance of flexible labour markets for growth and employment.

BUSINESSEUROPE's suggestions for improving the recommendations made in the guidelines are set out below.



## **Economic guidelines:**

### *Guideline 1: ensuring the quality and the sustainability of public finances*

BUSINESSEUROPE fully agrees on the need to implement budgetary consolidation strategies under the Stability and Growth Pact (SGP) and prioritise growth-enhancing expenditures items such as education, skills and employability, R&D and innovation, investment in network, etc. We also support the three-pronged strategy advocated: fast debt reduction, reform of age-related expenditure and raising effective retirement age.

However, the text proposed fails to take into account the complexities of the ongoing debate on growth-enhancing tax reforms. Limiting tax reforms to shifting the burden of taxation from labour to green taxation could be counterproductive. The main point should be to make tax systems more supportive of growth and job creation (preventing double taxation, excessive tax administrative burden, reducing loopholes, ensuring cost-efficiency, safeguarding a level playing field, etc.).

### *Guideline 2: addressing macroeconomic imbalances*

BUSINESSEUROPE supports the call to avoid unsustainable macroeconomic imbalances arising from developments in current accounts, asset markets, or balance sheets of the household and corporate sector. However, it believes that structural government deficits should be added to this list.

The recognition of the importance of addressing the persistent lack of competitiveness at the root of large current account imbalances is also essential. However, the reference to “*prudential and taxation policies*” could be misleading and should be replaced by a reference to “*unsustainable budgetary positions*”.

With regard to wage bargaining systems, BUSINESSEUROPE agrees with the importance of aiming at developments consistent with price stability and productivity trends. However, the reference to the need to “*reduce external imbalances*” could be misinterpreted and should be replaced by “*the need to restore external competitiveness.*”

### *Guideline 3: reducing imbalances in the Euro area*

BUSINESSEUROPE fully agrees that large and persistent divergences in current account positions and macro economic imbalances are a matter of common concern. It therefore supports the call to monitor current account positions in the Euro area. However, since the guideline acknowledges the importance of competitiveness weaknesses at the root of persistent current account deficits, it would be desirable to regularly monitor competitiveness positions too.

For countries with a current account surplus, the call to implement structural reforms that help strengthening domestic demand should be balanced by a reference to the need for external competitiveness to continue to thrive.



*Guideline 4: optimising support for innovation and unleashing the potential of the digital economy*

The guideline rightly recognises the need to reform national and regional R&D and innovation systems. Ensuring efficient public support to research development and innovation is vital. To do this, Member States should improve framework conditions that influence the innovation process, promote innovation-friendly markets, through demand-side instruments such as sustainability conscious public procurement, standardisation, and the “Lead Market Initiative”, and take care that regulations are as innovation-friendly as possible.

BUSINESSEUROPE therefore welcomes the calls on Member States to improve the business environment and facilitate risk capital financing. It also agrees that improving the governance of research institutions and exploiting synergies between private and public as well as EU and national investment in this field

The recommendation to facilitate the development of the digital Single Market by offering accessible online contents and services in the European Union and European Economic Area (EEA) Member States is a good example of how positive synergies can be created between national and EU actions to boost growth and employment.

*Guideline 5: improving resource efficiency and reducing greenhouse gases*

BUSINESSEUROPE supports the objective of reducing greenhouse gas emissions by 20% by 2020. However, the conditions for increasing the target to 30% are not fulfilled as the other developed economies have not made comparable commitments. To fight climate change whilst preserving the competitiveness of European companies, technological development to increase energy efficiency is key. The guidelines rightly call for investments in research, innovation and skills.

However, simplistic messages on green taxation, green regulation or so-called green jobs as opposed to traditional activities must be avoided.

*Guideline 6: improving the business and consumer environment and modernising the industrial base*

Access to finance is included in the exhaustive list of policies to improve the business environment. This issue must be given more prominent attention. The combination of a weakened banking sector, heightened level of risk aversion and rising public indebtedness create significant constraints on the availability of finance for companies. If financial markets are not regulated in a smart way, productive investment and entrepreneurship could be stifled. Investors willing to take sensible risks against appropriate remuneration must be allowed to do so. Otherwise, the pace of investment, growth and job creation will suffer.

BUSINESSEUROPE fully agrees that markets should work for citizens and consumers. However, they must work for companies too. Similarly, over-prescriptive or badly designed regulation does not only hinder companies' development. It also harms citizens by undermining growth, employment and innovation. Implementing the Small



Business Act and the “think small principle” is in the interest of society as a whole. However, it is not sufficiently backed by concrete proposals. Adding a reference to the objective of reducing the EU administrative burden by 25% by 2012 and a call on EU and EEA Member States to adopt targets of comparable ambition would be useful. Experience shows that where industrial production is undermined, innovation subsequently decreases rapidly. BUSINESSEUROPE believes that the call on Member States to support industrial change is of strategic importance for Europe’s success. It would also be strengthened by the addition of the references to the reduction of administrative burdens by 25% suggested above

### **Employment guidelines:**

*Guideline 7: increasing labour market participation and reducing structural unemployment*

BUSINESSEUROPE fully supports the reiterated support to implementation of the flexicurity principles agreed by the EU Council. However, it regrets that this signal is subsequently undermined by a recommendation to “tackle labour market segmentation by addressing temporary and precarious employment.”

Workers on fixed-term contracts and those employed via temporary work agencies are protected by well developed systems of European and national legislation as well as collective agreements. Precariousness comes from unemployment and needs to be addressed by improving the overall functioning of labour markets. Putting a straitjacket on flexible forms of work will restrict companies possibilities to hire workers and will be counterproductive

The guideline also suggests that Member States should step up social dialogue. This should be reformulated to call on Member States to support and facilitate the social dialogue in order to respect the autonomy of social partners.

*Guideline 8: developing a skilled workforce responding to labour market needs:*

*Guideline 9: improving education and training and increasing participation in tertiary education*

The distinction made between guideline 8, which takes a genuine labour market approach to education and training issues, and guideline 9, which covers the systemic and institutional aspects, is useful.

However, past experience has shown that this is sometimes subsequently lost in the course of implementation in Member States. Encouraging cooperation between business and education and training institutions and involving the social partners in the definition of measures to implement this guideline is particularly important.



*Guideline 10: promoting social inclusion and combating poverty*

BUSINESSEUROPE fully supports the call to promote social inclusion and combat poverty and broadly support the content of the proposed guideline. However, the efficiency of setting a specific target for poverty reduction at EU level is questionable. Social exclusion and poverty are multidimensional phenomena which cannot be captured by a target based on an income indicator. The introduction of an economic growth target coupled with an employment rate target is the best way to achieve real and measurable progress towards reducing poverty in Europe.

**Conclusion**

The difficulties encountered by the European Union in the aftermath of the sovereign debt crisis makes it all the more important to send a strong signal that the EU 2020 strategy will be implemented effectively.

BUSINESSEUROPE is convinced that Europe can double its growth potential if it fosters innovation, develops entrepreneurship, improves education, defends open markets and puts in place an integrated industrial policy.

European companies count on the European Union institutions and the Member States to adopt ambitious national targets to back the commitments made and transform the Commission proposals for integrated guidelines implementing the EU 2020 strategy into a real action plan.