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Speech

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ECONOMIC OUTLOOK AUTUMN 2010

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Today, we are presenting our November economic outlook.

We are at a very interesting moment: we are surprised by the importance of the recovery in some member states, even though we had already announced better results last June.

We are at a moment:

Where we need a strong and common action by the commission and the governments to reinforce the European economy in order to:

- rebalance the fiscal deficits policy
- decide structural reforms

Where we – perhaps for the first time in the history – are completely dependent on the global economy and therefore on the need of a global approach. Indeed,

- we depend on exports even if the growth has broaden to consumption and investments
- we fear protectionism

Marc Stocker will present the economic situation. I will draw some political conclusions.

(Marc Stocker's presentation)

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Political comment

We were surprised since our last outlook to see this positive evolution, not only in Germany but also in Sweden, Poland and Finland.

This shows that, broadly speaking, their economy, their companies are competitive.

Other countries, on the contrary, have to readjust: as in Greece, Ireland, Spain, Latvia and Romania.

But for all the countries this crisis should be a strong catalyst for reform. In Greece and Spain, governments have taken measures which are positive and unprecedented.

The question is: will this positive economic evolution sustain in the future?

You have heard it already. According to us, this is not granted. What are the main risks our members identified? I see five main ones:

> Firstly: the renewed protectionist tendencies at global level which can be very diverse.
>
> Secondly – and crucial for industry – the rise of commodity prices and not only the rear earths.
>
> Thirdly: the levels of public debt and the danger of rising taxation.
>
> Fourthly: the consequences of the financial regulation on the access and costs to finance for companies, SMEs in particular.
>
> Fifthly: the currency developments and the danger that the euro is a variable of adjustments.

The answers to those risks are at national, European or global level.

The recovery can quickly be brought to a halt if the policy environment and the quality of the policy response are not accurate.

What should be done? I see five answers to the 5 risks:

> Firstly**,** a strong commitment to cap public debt and at the same time to implement pro-growth agenda. Reforms are needed in labour market, product markets and capital markets.
>
> The Commission has published most of its communication: industrial policy, the Single Market Act, EU Trade policy, better skills for better jobs, European digital agenda. This is positive: but now it is time for implementation.
> Take the very welcomed Single Market Act: there is no need for further consultation.

Secondly, we need a pro-jobs agenda. Why? The resilience of the European labour market has been remarkable and its rapid stabilisation after the recession too.

Contrary to what is said, the growth of 2010 is not without jobs creation: we predict that more than 600.000 will be created over the next 12 months. The European social systems have worked. The question is how we proceed further:

How can we encourage more jobs creation to reduce the number of the 23 million unemployed people?

- We must promote adaptability and facilitate the reallocation of workers across sectors, this is the flexicurity principle.

- We must favour jobs creation rather than wage increases: we have calculated that 1% increase in employment translates into 1% increase in aggregate consumption. 1% increase in real wages translates in 0,7% in consumption, 0,3% being saved.

- We must concentrate efforts on improvement of skills in particular for younger workers. The unemployment rate of young workers is unacceptable; our society cannot afford a "lost generation".

- We must – in the member states where it has not been done – reform the pension systems.

Thirdly, the economic governance reform. The European council has made a crucial step forward last October 29th. Now it is time for the European parliament to finalise 4 out of the 6 proposals. The business community trusts that the European Parliament will not let the governance proposals being water downed.
What is important is that all the measures that are put in place, that they will be activated and, where needed, implemented. A stronger European governance is key for the credibility of the European action.

Fourthly: at global level. Seoul and the G20 demonstrated the difficulty in driving a multilateral approach to a coordinate economic rebalancing. Apparently – to quote Dominique Strauss-Kahn – this G20 was more a G20 of debate than a G20 of conclusion.

The risks are great for the global economy if we start an era of protectionism:

All the emerging economies should enter into a market based system for their currencies;

There are concerns about the consequences of quantitative easing in the US

We need a Doha round to be finalised with more market access especially in the emerging economies.

Fifthly, new capital rules were endorsed for banks, the Basel III rules.

They must be implemented and calibrated in a coordinated way. This is especially true across the Atlantic. It is a matter of access and cost to finance. It is a matter of competitiveness for the European banks and the European economy at large. For Europe, the central role of bank financing and the diversity of banking models should be considered.

On top of this, we are still waiting for a consistent impact assessment looking at the cumulative effects of all the financial market reforms on access to finance and on growth.

We will have also to find alternative ways for companies financing if we want to sustain the growth:

- Increase the access of SMEs to capital markets;
- Encourage venture capital
- Ensure equal treatment to debt and equity financing;
- Develop the public private partnership approach to meet the immense financing needs for infrastructure.

As a conclusion:

- Yes we have better results;
- They are not spread all over Europe;
- Some countries have still a long way to go;
- Governments must be encouraged by those results to reform further.

This is the message that we will bring together at the Macro Econoic Dialogue. There, we will continue our debate. The position of the Trade Unions for an open debate in the social dialogue will be crucial.

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