BUSINESSEUROPE

SPEAKING NOTES

3 October 2011

SOURCES OF GROWTH IN EUROPE CONFERENCE
BRUSSELS, 6 OCTOBER 2011
BERLAYMONT, SALLE WALTER HALLSTEIN

Session One: The future of the European economic and social model

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I. Growth and jobs at the core of Europe's Economic and Social Model

Our economic and social model is an asset for Europe. We have seen it during the crisis. It is founded on a diversity of national social systems. Which share a common feature. The fact that Europeans value **solidarity**.

However, contrary to what we sometimes hear, solidarity is not a given. **It depends heavily on Europe's capacity to generate growth.** We tell EU policy makers for years that slow growth undermines social protection systems in the long run. Even more so in a context of rapid demographic ageing.

The drivers of change are many. Globalisation, technological and climate change, the emergence of new economic powers.

The **economic crisis speeds the pace at which the world is changing**. And these changes radicalise the challenges for European policy makers to increase, or even maintain, our prosperity in the future. For the next generations of Europeans.

However, this is not the time to get depressed. This is the time to act. Indeed, the gloomy picture of our future can be changed. If we "go for growth". And if we "put Europe to work".

II. Economic outlook

Economic activity has slowed markedly in the latest months, **but** given strong growth momentum, **we still expect growth** to be in the region **1.4-1.7% in 2011**. Part of this slowdown reflects a return to potential growth rates. However, uncertainty about the sustainability of the recovery has increased, with concerns over growth in 2012;

Instability in financial markets reflecting political uncertainty, is feeding through to business and consumer sentiment, having a negative impact on the real economy;

While Inflationary pressures have abated, inflation remains above target. The decision of the **ECB** on September 8th to maintain rates at 1.5% recognizes the **difficult challenge** of trying to be supportive of **growth,** and at the same time maintain **price stability,** in line with its mandate.

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III. Importance of Euro for Companies

Safeguarding the Euro is an absolute must. Company investment and job creation depend on it. There is no other option than to secure the stability and credibility of our common currency. **Euro will keep providing immense benefits for businesses**, especially after the necessary institutional reforms needed;

Since its adoption, euro single currency and monetary Union brought **several advantages** in economic terms, creating the basis for a stronger, more competitive and more integrated Europe.

1. **Trade costs** within euro zone **have reduced**. Before the euro, the costs associated with exchanging different currencies were estimated by the European Commission at €20 to 25 billion per year in the EU (as much as 0.3% to 0.4% of GDP);

2. The single currency **increased competitiveness**, inducing firms to trade higher volumes and establishing newly-trade good channels. Today, trade among euro area countries is around 2 to 3% higher thanks to euro;

3. Before the euro, volatile interest rates meant unpredictable costs. **With euro, inflation has come to a lower and more stable level**, stabilising also interest rates. **This facilitates both investing and planning business strategies**;

4. **A rise in Foreign Direct Investments within the currency area has been observed**. For example, intra-euro area FDI flows as a share of total euro area FDI increased from 35% in 1999 to 45% in 2006. The euro creates also a larger market where foreigner investors can access;

5. **The strength of the single currency**, wherein inflation is kept under control, **reduces the import costs for companies** belonging to the Euro Area. For instance, oil price is relatively cheaper, as it's traded in dollars.

IV. Policy implications: How EU economic and social policies can enhance growth and stimulate job creation?

A. Reforms on economic governance and competitiveness

We welcome the euro group agreement made on 21st July, particularly the **measures to increase the powers of the EFSF** and its successor the ESM, which by assuming responsibility for any secondary market bond purchases, can in turn help secure the independence of the ECB.

The adoption of the "six legislative proposals", last 28th of September**, represents a very positive step to improve Economic Governance**. In particular, it is very important to have more automatic sanctions and closer monitoring of macro economic imbalances;

The priority at **Member State level** is to make real progress on the implementation of the structural reforms required **to improve** the **sustainability of public finances and increase** long-term rates of **sustainable growth**. The European Commission will play a key role in monitoring progresses of Member States;

Fiscal consolidation in most Member States should be geared more clearly towards **enhanced public sector efficiency** and cuts in wasteful expenditures, while supporting growth-enhancing investments and tax reforms.

Also part of the governance debate is **the role of social partners**. Social partners will have a role to play in a properly functioning monetary union to ensure that wage policies are flexible and responsive to the triple objective of price stability, full employment and high competitiveness.

Modernising wage bargaining and wage-setting mechanisms is an important factor to improve competitive adjustment channels and avoid macroeconomic imbalances.

This does not affect **social partner autonomy**, which employers' organisations value as much as trade unions do. However, when we are not able to take responsibility through social partner negotiations, we should also recognise that others could step in.

B. Maximising sources of growth and jobs

1. Access to international markets

Multilateral and bilateral trade negotiations must focus on **broad-based market access for trade and investment in key markets** and improved global rules.

A strong **link between trade policy and overall EU competitiveness policy** is needed. In an increasingly globalised world it is vital that the EU policies contribute to strengthening the EU's international competitiveness.

The rising strength of the emerging economies, especially **China**, which is becoming the second largest economy in the world, offers plenty of new opportunities for businesses. **EU companies can benefit from immense new markets**, taking advantage of the experience of EU companies in international trade and investments.

For the year 2010, European Commission estimated the EU goods exports to China in €113.1 billion (+38% on 2009), the services exports in €20.2 billion and EU inward investment to China in €4.9 billion.

At the same time, EU is actively promoting strong rules **to protect European investments abroad** through EU level **investment agreements**. The EU is already negotiating bilateral trade agreements with India, Singapore and Canada. For EU industry, important targets for investment protection are **Russia** and **China**.

2. <u>EU Single Market</u>

With a market comprising 30 countries and 500 million citizens, annual cross-border investment flows of 430 billion Euros and 70% of Member States exports being destined for other EU countries, the **benefits from closer integration are undeniable**.

Nevertheless, **barriers** to the free movement of people, goods, services and capital still represent an untapped economic potential of between 275 and 350 billion euro. As an example, services account for about 75% of EU GDP and 70% of total employment.

Yet, **cross-border services** only account for 5% of EU GDP, compared with 17% for goods. The single market growth potential in the area of services is huge. Services not only comprise the largest part of the European economy, they are also the main engine for growth and productivity within advanced economies, with 9 out of 10 new jobs created in the services sectors.

The potential gains from high-quality implementation of the Services Directive range between 60 billion and 140 billion euro. This represents an increase between 0.6 and 1.5% of EU GDP.

In terms of jobs, an effective services sector would generate an extra 2% of total jobs per year. Improving transport and energy infrastructure could create 775,000 jobs and increase GDP by 19 billion euro by 2020 according to Commission estimates.

Now, take the digital Single Market. The EU could gain 4% of GDP by fully developing the digital single market (which includes the timely deployment of broadband networks) by 2020. This corresponds to a € 500 billion gain, meaning that the digital single market could have an impact similar to the 1992 Internal Market programme.

Potential of **e-commerce**: in 2009, only 9% of EU citizens carried out purchases from suppliers in other Member States via Intra-EU e-commerce. Developing cross-border e-commerce could bring economies worth 2,5 bn EUR, or 0,2% of GDP.

In order to meet the full economic potential of the Single Market, BUSINESSEUROPE calls for the ambitious implementation of the 12 key levers of growth identified by the European Commission in the Single Market Act.

First, we must prioritise action to achieve quickly the true opening of the single market for services through the complete and correct implementation of the Services Directive.

Second, we must make the Digital Single market a reality as a matter of urgency.

Third, in order to create growth and jobs on the ground, companies need that Member States deliver the commitments they take in Brussels. Improved governance is key to increase Member States' involvement in single market policy and to ensure better implementation.

3. <u>Reform labour markets</u>

We just published a report on putting Europe to work in which we have identified twelve priority actions to reform the labour markets.

In most EU member states, **unemployment has risen** as a direct consequence of the financial, economic and sovereign debt crises. In addition, **the crises accentuated underlying structural weaknesses**, as manifested in Europe's failure to deal with a chronically high level of long-term unemployment and weak labour productivity growth.

Labour market reforms are needed to address the critical situation and successfully tackle medium and long term challenges such as population ageing.

Flexicurity is and remains the right framework for Member States to tailor their employment strategies to their specific labour market characteristics. We look forward to contributing to the Commission's communication on the second phase of flexicurity that will be published next year.

In the short-term, measures aimed at increasing employment are key to boost the tax base and therefore the credibility of countries' public finance positions. **Our report presents a checklist for action**, calling on member states to urgently put in place the policies that will create growth and jobs. Among them are:

- **Increasing labour market flexibility**, for example by ensuring that employment protection legislation for all forms of employment does not hinder job creation.

- **Reducing the tax burden on labour**, where possible, to make employment affordable and avoid discouraging companies to invest in Europe. Recent OECD research shows that a 1% reduction in employers' contributions would result in a 0.6% employment increase.

- **Equipping people with the skills companies need** to allow their integration and mobility in the labour market. Part of the answer to end the skills mismatches and shortages observed in Europe lies in the adaptation of education and training systems to attract more young people in Science, Technology, Eneneering and Mathematics (STEM) skills.

- **Encouraging active searching for work**, while providing adequate income support for those who remain outside the labour market.

- **Reforming social protection systems** to ensure labour supply and their financial viability in the long run.

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