



3 October 2012

SOCIAL PARTNER CONSULTATION – 2013 ANNUAL GROWTH SURVEY

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**ADDRESS BY PHILIPPE DE BUCK, DIRECTOR GENERAL OF
BUSINESSEUROPE**

MAIN COMMENTS

- On current EU context: the EU is facing what is widely considered to be its worst crisis since the founding of the Union. This crisis initially stemmed from the economic and financial sectors as well as a loss of competitiveness in many Member States, as a result of labour costs not being in line with productivity. It has subsequently taken on a distinctly social dimension, as is emphasised by the unemployment figures (over 25 million unemployed, including 5.5 million young);
- Europe urgently needs to return to growth. As stated in our recent publication “Growing out of the crisis” a minimum target should be to double Europe’s long-term annual growth rate from 1.25% to 2.5%. This would mean 1.4 million new jobs created every year, which based on productivity growth of 1.9% would bring about full employment in Europe by 2020;
- We welcome growth friendly fiscal consolidation as there is no opposition between fiscal consolidation and growth. Policy makers should better explain the reasons why reforms are needed, rather than concealing the truth to try to make them politically acceptable, which is a populist tactic;
- On the consultation process: we welcome this first opportunity ever to give our views on the 2013 Annual Growth Survey (AGS) before its publication. We want to be closely associated to EU economic governance. Business organisations at European and national level are ready to be involved in national labour market reforms that will stimulate economic growth and job creation. We stress the importance for the European Commission to speak with one voice in this domain, and therefore welcome the participation of DG ECFIN today, as well as on future occasions.
- On the consultation note: broadly, we support the Commission’s approach of ensuring continuity in the 3rd European semester, based on this year’s AGS priorities and the Europe 2020 strategy. We also welcome the new emphasis on the demand side and believe growth can be stimulated by boosting, at the same time, productivity and competitiveness.



I. LABOUR COMPETITIVENESS AND JOB CREATION

A. ISSUES

1. LABOUR COSTS IN LINE WITH PRODUCTIVITY

➤ Challenges

- In a globalised economy, European labour needs to be more productive and more competitive.

➤ Responses

- Total wage costs are a key element of labour competitiveness. Wage negotiations are organised at different levels in European countries. Whatever the level at which they are negotiated, it is important to take into account companies' productivity;
- An overheating of the labour market due to housing bubbles or excessive demand from the public sector must also be avoided. This was an issue in a number of Member States, including Denmark and Ireland, resulting in high wage costs;
- Where they exist, wage indexation systems should be reviewed to assess whether adaptations could be brought forward to avoid the negative effects of disconnecting wages from productivity, thereby contributing to unemployment;
- We support measures to reduce the tax wedge on labour. Employer social security contributions account for the majority of the tax wedge in many Member States. Targeted cuts in employer contributions can play an important role in stimulating demand by encouraging employers to hire more staff. OECD estimates show that a 1% reduction in employer's social security contribution leads to a 0.6% increase in employment;
- OECD estimates suggest that a 10% reduction in the tax wedge, the difference between total employment costs and net take-home pay, would increase employment by 3.7%.

2. EMPLOYMENT CONTRACTS

➤ Challenges

- To achieve the right level of employment protection for all contracts and counter labour market segmentation;
- The consultation note suggests that labour market segmentation is not being reduced with the fluctuations in the number of jobs since the crisis mainly driven by part-time and temporary contracts;



- Moreover, we have noted comments made by Commissioner Andor at a conference on 17 September in Ljubljana where he has argued in favour of a single open-ended contract.

➤ **Responses**

- Introducing a Single Open-Ended Contract would be at odds with European policy-makers' and social partners' endeavours during the last twenty years to put in place a balanced legislative framework to allow for the harmonious development of flexible forms of employment in Europe;
- Different forms of contractual arrangements are needed by employers and workers as a means to stimulate job creation by companies and to better reconcile work and family life;
- Temporary forms of employment act as a stepping stone to permanent work both for young people and as a mode of entry into the labour market for the unemployed and are, therefore, not a precarious form of employment. For example, in Germany, more than 50% of fixed-term employees move directly into a permanent work relationship. Between 2005 and 2011, the transfer rate increased markedly – from 39% to 56%;
- A balanced level of employment protection for all contracts is the most effective way to combat labour market segmentation. For example, we support the efforts currently under way in several southern European countries to make permanent employment contracts more attractive and affordable;
- On 10 February 2012 a programme of comprehensive labour market reforms was approved by the Spanish government. This includes a reduction in dismissal costs to address labour market duality and encourage employment creation under permanent contracts.
- In Italy a programme of comprehensive labour market reforms was adopted in July 2012. In particular, this concerns tackling labour market segmentation. Important discussions are ongoing to find solutions to enhance labour productivity, and to foster growth.

B. METHOD

1. STRUCTURAL LABOUR MARKET REFORMS

➤ **Challenges**

- The consultation note rightly highlights the short-term challenges of the crisis (lower job creation, rising unemployment) as well longer-term structural challenges;



- The note is also right to stress the need for continued progress with national labour market reforms, both in response to the crisis and to tackle long-term issues, such as demographic change;

➤ **Responses**

- The principles of flexicurity remain valid and necessary. A system of flexicurity that combines labour market flexibility and employment security must be a key element of well-functioning labour markets;
- We believe that national labour market reforms are the primary instrument through which labour can become more competitive and growth and job creation can be enhanced;
- Significant progress has been made in implementing reforms in some Member States, notably in Spain and Italy, but more needs to be done across the EU.
- In view of changes to Europe's demography over the next 40-50 years it is imperative to implement policies that ensure a sustainable labour supply and sustainable pension systems.

2. EU EMPLOYMENT POLICY

➤ **Challenges**

- Ensuring sustainable economic growth and job creation in Europe and a higher degree of convergence between countries;
- Identifying key areas with job-creation potential.

➤ **Responses**

- The key for a successful EU employment policy is to outline a coherent framework for national labour market reforms. The Council common principles on flexicurity of 2007 remain valid and must be fully implemented in all Member States in order to obtain more convergence on European labour markets.
- Moreover, BUSINESSEUROPE believes that a more comprehensive EU employment policy focusing on key areas for job creation should be proposed by the Commission.
 - More focus needs to be placed on the EU's industrial policy, which takes into account climate and energy policies, and highlights the role of research and development and innovation in achieving growth and competitiveness;
 - Within the EU's industrial policy, the manufacturing sector, in particular, can play an important role in revitalising Europe's industrial base, bringing



competitiveness and job creation. Europe's manufacturing policy needs to address issues of work organisation and human resources in view of global competition in this area;

- Completing the Single Market in areas such as services, the digital economy and energy would add €800bn to EU GDP and is, therefore, also a key area to focus on for job creation. Implementing the Single Market Act II will be vital in this respect.
- International trade agreements with third countries can have a significant positive impact on job creation in Europe. For example, EU-US trade negotiations, based on a comprehensive package covering trade in goods and services, investment, procurement, protection of intellectual property rights (IPR) and regulatory issues, will generate huge growth possibilities and new jobs in Europe.
- If EU exports to US increase by 7%-18% due to tariff elimination an estimated 200,000 to 520,000 new jobs could be created in the EU.

II. AVAILABILITY OF SKILLS NEEDED ON THE LABOUR MARKETS AND MOBILITY

➤ **Challenges**

- Investing in education and training is a key priority for Europe to remain competitive in high value-added sectors of production;
- Reducing the mismatch between the skills of the unemployed and the skills required for the available jobs.

➤ **Responses**

- To do this labour market needs must be put at the centre of education. This was the main message of our "educate for employment" publication which was handed over to President Barroso on the occasion of the last European Business Summit on 26 April 2012.
- Addressing the skills mismatch is rightly an important aspect of the proposed Annual Growth Survey. The mismatch can be overcome through:
 - Strengthening ties between business and educational providers, such as in the development and enhancing of dual-learning systems. This should go hand in hand with Member States upgrading their education and training systems;
 - Encouraging more people to study STEM skills. The number of graduates specialising in STEM subjects falling in relation to the total number of university graduates from 24.8% in 1999 to 22.7% in 2005;



- EU worker mobility initiatives, such as the European Employment Services tool (EURES), can play an important role in supplementing national efforts to match labour supply with demand;
- For example, responding to labour market needs in countries experiencing labour shortages can be facilitated by mapping unused human resources in countries with high levels of unemployment.

III. SOCIAL PROTECTION GEARED TOWARDS EMPLOYMENT PARTICIPATION

➤ Challenges

- To move from dependency on passive social protection benefits to active labour market inclusion.

➤ Responses

- In 2011, according to Eurostat, almost 50% of general government total expenditure in the EU was devoted to the redistribution of income through social transfers in cash or in kind. We have generous social systems in place. In fact, with around 7% of the world population, the EU spends 56% of the global public spending on social protection;
- BUSINESSEUROPE supports our European model of solidarity. But there is one prerequisite, which is economic growth. Moreover, we strongly support the Commission's priority to ensure that the available resources are spent in priority in growth-enhancing measures.
- The Commission will publish in 2013 a "social investment pact for growth and cohesion", which will set out priorities for social investment and protection to achieve increased effectiveness and efficiency in spending. It also aims to strengthen active inclusion policies and to fight poverty and social exclusion;
- On the social investment pact: In order to create growth, it is important to limit social security spending where possible. Beyond the reduction of employers' contributions already mentioned, the tax burden on employees should also be reduced. It is essential that work is an economically attractive option for low-income earners, compared with welfare beneficiaries. Having people in work creates economic growth and vice-versa;
- Tax and benefit systems should be reformed to avoid unemployment traps. Systems should be designed in such a way that they facilitate activation, participation and re-integration into employment (this was a common position in the 2007 joint labour market analysis);
- For example in Denmark, intensification of active labour market measures has been accompanied by financial incentives for welfare recipients to find employment. A cap on social security has been introduced, which sets an upper



limit on how much an individual can receive in total benefits. The cap applies after 6 months;

- Active labour market policies should focus in priority on the two groups that are most in need: Young unemployed people, and the long-term unemployed.
- Finally, the note proposes for the first time to go for an EU unemployment scheme to *“provide EU level stabilisation and mitigation of the worst effects of an economic downturn in those Member States most affected by asymmetric shocks”*. More clarification is needed on what the Commission proposes with this.

IV. USING EU FUNDS FOR JOB CREATION

➤ Challenges

- EU funds, used in an effective and complementary way can play a vital role in stimulating job creation;
- The note calls for a minimum ESF share of 25% of cohesion policy funding to enable sufficient ESF investment in human capital (i.e. employment with an emphasis on the Youth opportunities initiative, education and social exclusion)

➤ Responses

- The EU budget for the period 2014-2020 needs to be a budget that boosts competitiveness, economic growth and job creation. Therefore, greater focus needs to be placed on investment in trans-European energy, transport and ICT networks and research and development;
- The ESF plays an important role in investing in Europe’s human capital, by helping jobseekers into work, as well as through investments in education;
- Nevertheless, the ESF can be used in a more effective way than it currently is. Instead of setting a minimum ESF share of 25% of cohesion policy, we believe that any increase in the ESF envelop must be conditional on satisfying this criteria;
- Specifically, a new investment priority should be added under the second priority “Investing in education, skills and life-long learning” to allocate a share of ESF resources to support Member States that are willing to establish, reform or expand a dual learning apprenticeship system;
- The ESF regulation for 2014-2020 should also allocate 2% of ESF resources to bilateral and/or unilateral activities undertaken by social partners at the level of the operational programmes. Whether to use this money and the conditions for use should be agreed between Member States and social partners in each country.