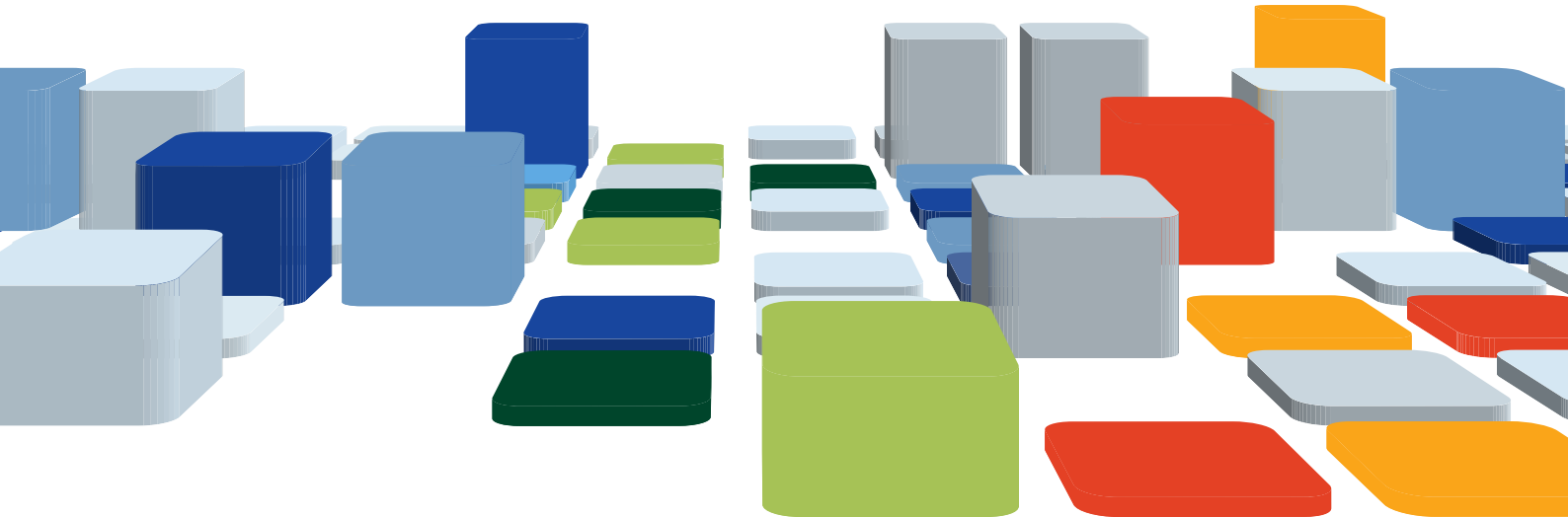
BUSINESSEUROPE

REFORM BAROMETER 2014

Spring 2014



BUSINESSEUROPE

Who are we?

BUSINESSEUROPE is the leading advocate for growth and competitiveness at European level, standing up for companies across the continent and campaigning on the issues that most influence their performance. A recognised social partner, we speak for all-sized enterprises in 35 European countries whose national business federations are our direct members.

What is the European Reform Barometer?

BUSINESSEUROPE's Reform Barometer looks at the global competitiveness performance of Europe on the basis of key indicators covering taxation and public finances, business environment, innovation and skills, access to finance and financial stability, and labour market. Based on a survey of BUSINESSEUROPE's Member Federations, the report evaluates the recommendations for structural reforms made under the European Semester, assesses progress in implementing them and identifies priorities for future reforms.

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Foreword

Recent years have seen Europe engaged in crisis management. Boosted by progress towards a reinforced Economic and Monetary Union, implementation of a banking union and a strong support for the Euro from the ECB, financial markets tensions have reduced and business confidence has slowly started to improve. Steps taken by a number of countries that were hit hardest by the crisis have led to improved export performance.

But as the first part of this report highlights through an in depth analysis of global competitiveness indicators, the rest of the world has not stood still waiting for Europe to recover. Both emerging and developed economies across the globe have been investing in skills, infrastructure and R&D to improve their competitiveness and attractiveness for global investment. Europe has lost global competitiveness and urgently needs to increase its focus on supporting business, in creating the economic welfare and employment opportunities that are essential to fund our public services, sustain our social protection systems and support social cohesion.

The economies of Member States are heavily interlinked, with cross-border spill-overs from policy choices underlining the importance of strengthening the EU integration process, particularly of the Economic and Monetary Union. The European Commission and the Council must continue to play a significant role in encouraging, helping to stimulate and co-ordinating reforms at national level. This complements the action needed at EU level to complete the single market, ensure better access to foreign markets, and reduce the regulatory burden on business.

The second part of this report provides a comprehensive assessment of implementation of the Council's Country-Specific Recommendations (CSRs) drawing on opinions of our Member Federations across Europe. We believe that the results should be a wakeup call to leaders across Europe.

While the EU institutions have consistently identified the broad reform areas that are most important to business, implementation on the ground has been poor. Business believes that less than one fourth of recommendations has been followed by satisfactory implementation.

Member States urgently need to make greater progress in implementing the growth enhancing fiscal consolidation, labour and product markets reforms that are essential elements for growth and competitiveness. These need to be complemented by action at EU and Member State level that recognises the key role industry – when combining with business services – can and must play in kick-starting EU growth.

European business has many strengths. But we cannot afford to stand still for any longer and allow other economies to take the competitiveness lead. The time for reform is long overdue.

Emma Marcegaglia
President

Markus J. Beyrer
Director General

Executive Summary

Overview: The EU is losing global competitiveness

While the EU has been engaged in crisis management, and is still to see its economy return to its pre-crisis size, other economies across the globe have not stood still waiting for Europe to recover:

- In the last 5 years, Chinese **GDP** has grown by over 50% and the Indian economy by over 30%. Even the developed economies of Japan and the US have already recovered the ground they lost during the crisis, with the US expected to grow by a further 2.6% in 2014.
- In the last 5 years, **6 million jobs have been lost in the EU**, compared to around 1 million in both the United States and Japan.
- The EU's share of **worldwide Foreign Direct Investment flows** fell to 24% in 2012 compared to 40% in 2000.

Urgent action is required to improve key competitiveness drivers

- The **overall tax burden** in the EU is higher than in our main international partners. Member States need to continue **growth enhancing fiscal consolidation**, focusing primarily on reductions in current public expenditure protecting investment, rather than tax rises.
- While the ease of meeting **administration requirements** for business start-up varies considerably across the EU, overall, the EU still has scope to improve in this area compared to the US. All **regulation must be simplified and well designed, with minimum administrative burdens** in order to support business start-ups and companies' expansion. **Competitiveness proofing**, must become an integral part of ex-ante impact assessment for all legislative proposals.
- **Industrial electricity price** rises of 37% in the EU[1] between 2005 and 2012, compared to a fall of 4% in the US are making it increasingly difficult for EU firms to compete in global markets. **Targets and measures to address the energy price differential with major competitors** and to ensure energy security should be introduced.
- Overall EU **R&D spending** as a percentage of GDP has remained at around 2% in the last decade, far behind the 3% Europe 2020 target and that achieved in Japan (3.4%) and United States (2.8%). As well as address meeting the 3% target, innovation policies, including the EU Horizon 2020 programme must be more business oriented and focused on **facilitating the commercialisation of innovation**.
- **Education performance should be raised**. Governments should ensure that available resources are used by priority to bring to Europeans of all ages the knowledge and skills they need to succeed on labour markets. An important part of this is to address in the short-term shortages in terms of science, technology, engineering, mathematics skills and to boost work-based learning throughout secondary and tertiary education to enhance young people's employability.

[1] Average of OECD EU members, source IEA

- Both the financial crisis and increasingly stringent prudential regulation of banks continue to impact upon **access to finance**, particularly in those countries most affected by the crisis. Outstanding loans to companies from euro area banks fell by around 10% between the start of 2012 and the end of 2013. The immediate priority is to unlock credit access by **implementing the banking union** including through reaching agreement by the end of the legislative term on a single resolution mechanism. In a context of banks' deleveraging, Europe must also improve complementary sources of financing routes to bank lending.

- The average **tax wedge** on low income earners is much higher in the EU than in both United States and Japan. The **tax burden on labour should be reduced** to foster job creation, in particular for young people, and make work more attractive for low-income earners, compared with welfare beneficiaries.

- To ensure **open, dynamic and mobile labour markets**, reforms focusing on stimulating job creation and employment participation, smoother labour market transitions, and better allocation of labour based on employers' needs must be implemented.

Reform implementation in Member States needs to be significantly improved

Recent studies from the Commission show that the euro area GDP could be up to 6% higher after ten years if Member States adopt reform measures to halve the gap vis-à-vis the three best performing Member States.

Most of the policy instruments to implement structural reforms are in the hands of Member States. But the crisis has underlined that European governments cannot ignore the impact of each other's decisions on their intertwined economies. The European Semester is therefore crucial to both increase the coordination of economic reforms and their intensity.

We have carried out an in depth survey with our Member Federations[2] assessing the appropriateness of each of the Commission's Country-Specific Recommendations (CSRs) and their governments' efforts to implement them:

- **Member Federations believe that Commission and Council's reform objectives generally focus on the right issues for competitiveness**, with 83% of the CSRs assessed by Member Federations viewed as important or extremely important.

- **However, only 23% of the 150 recommendations assessed by Member Federations have been followed by satisfactory implementation.**

- **There are no broad policy areas where a majority of members consider reform progress satisfactory**. Whilst progress is continuing in areas such as reforming public finances, labour market reforms and improving the business environment, it could be stronger in many countries. Progress in the area of financial stability and access to finance has slowed compared to 2012.

[2] 25 Member Federations have participated to our survey.

Outline

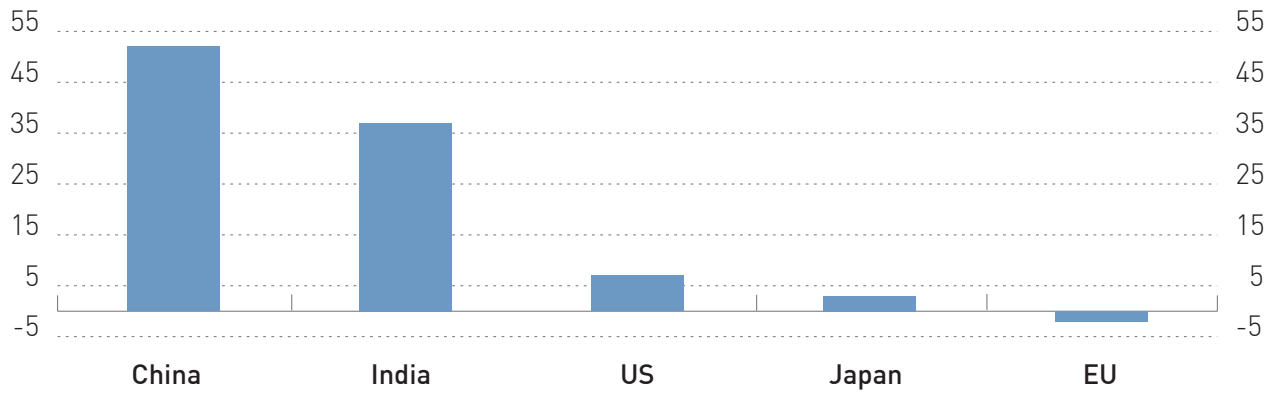
PART 1
EU COMPETITIVENESS IN THE GLOBAL ECONOMY

INTRODUCTION

2013 saw the EU economy start to stabilise, with financial markets in particular benefitting both from progress EU Member States have made towards reinforced Economic and Monetary Union, in particular a banking union, and the strong commitment to supporting the euro provided by the ECB. As a consequence, 2014 provides the prospect that economic growth, albeit modest, may return to the majority of EU economies.

But while the EU has been engaged in crisis management, and is still to see its economy return to its pre-crisis size, other economies across the globe have not stood still waiting for Europe to recover *(chart 1)*. In the last 5 years, the Chinese economy has grown by over 50% and the Indian economy by over 30%. Whilst developed countries cannot be expected to growth at such rates, even the developed economies of Japan and the US have already recovered the ground lost during the crisis, with the US expected to grow by a further 2.6% in 2014.

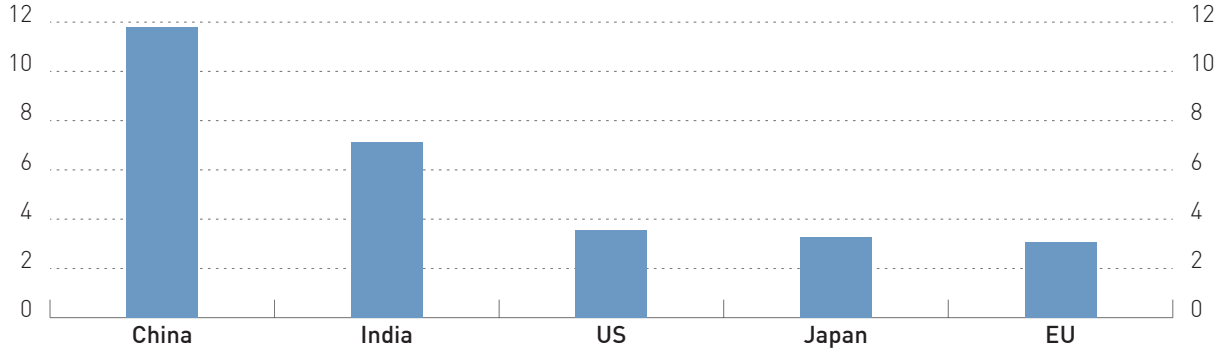
Chart 1 **The global economy has not waited for the EU to recover**
GDP growth between 2008 and 2013, %



Source: BUSINESSEUROPE calculations based on IMF data

Driving Chinese and Indian growth has been strong competitiveness gains *(chart 2)*. Whilst Europe appears to have been holding its own in this area against Japan and the US, labour productivity gains in the EU have arisen primarily through firms having to downsize or through less competitive firms closing entirely. In the last 5 years, 6 million jobs have been lost in the EU, compared to around 1 million in both the United States and Japan. Similarly, the EU employment rate, presently around 68%, has remained far below the EU 2020 strategy target of 75%.

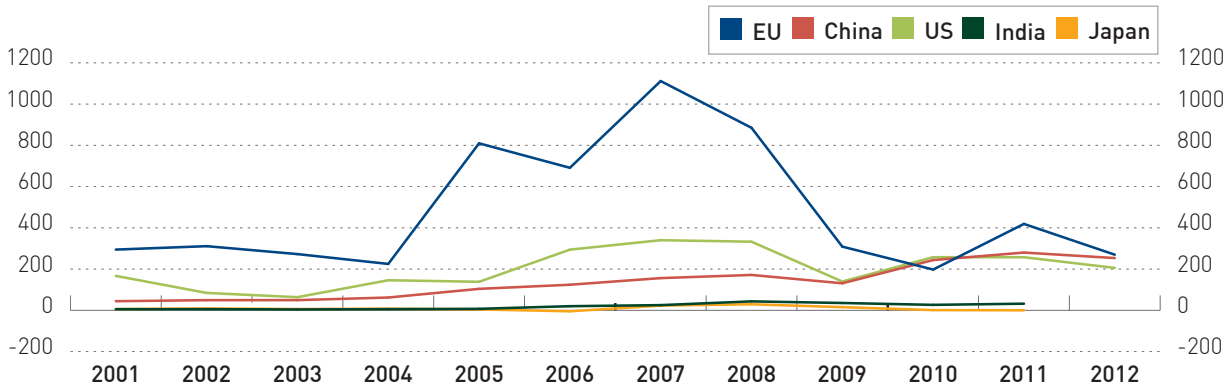
Chart 2 **Emerging markets are gaining global competitiveness**
Labour productivity per person employed, average annual % increase between 2001 and 2012



Source: BUSINESSEUROPE calculations based on Conference Board data

The growing competitiveness of the Chinese and Indian economies is reflected in their increased attractiveness as a destination for global investment. Whilst the EU remains an attractive destination for Foreign Direct Investment (FDI), higher uncertainty arising from weak economic outlook and financial instability in the euro area has caused foreign investment to fall back to the levels seen in the early years of the century. Rising investment flows during the same period to both China and the US mean that the EU's share of FDI fell to 24% in 2012 compared to 40% in 2000.

Chart 3 **Increasing competition for global investment**
Foreign Direct Investement, net inflow, current billions US dollars



Source: United Nations

Part 1 considers in detail how the EU has fallen behind in recent years in key areas – taxation and public finances, the business environment, innovation and skills, access to finance and financial stability, and the labour market – that underpin long-term growth and competitiveness. Europe urgently needs to implement and deepen the structural reform process in order to regain the ground lost in terms of global competitiveness in recent years, to restore growth, ensure employment creation and sustainably raise European living standards.

I. TAXATION AND PUBLIC FINANCES

KEY POLICY RECOMMENDATIONS

1 Member States need to continue **fiscal consolidation**, focusing primarily on **reductions in current public expenditure** protecting investment, **rather than tax rises**.

2 Tax reforms should shift **taxation away from labour and business investment**, which are most damaging to growth and employment.

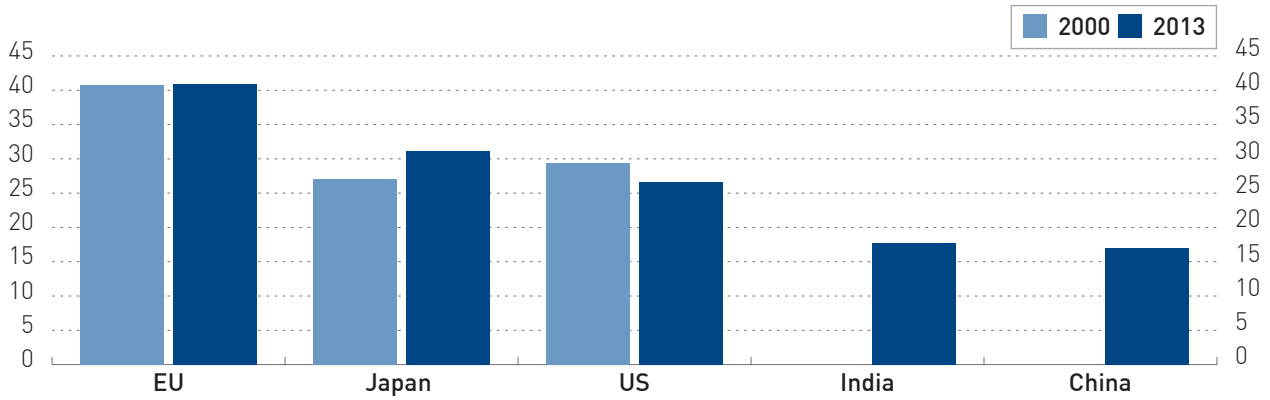
3 Member States should make the administration of their **tax systems more simple** and user-friendly.

Events of recent years are a stark reminder that sustainable public finances are key for long-term growth. Lack of confidence over the ability of a government to repay its debts can lead to a self-reinforcing spiral whereby increased borrowing levels lead to higher borrowing costs, and in turn require higher taxation levels.

Member States are making significant progress in reducing public deficits. Budget deficits of EU Member States fell to 3.5% of GDP at the end of 2013, compared to 6.9% in 2009. But, given the poor growth performance, higher interest expenditure and one-off public intervention in the financial sector in a number of countries, debt to GDP ratio have continued to grow in the last few years (from 74% to 90%). Such a rise is a particular concern in the context of demographic ageing weighing growing risks over the long term sustainability of public finances. Population ageing, which as well as reducing the share of the working population contributing to tax income, will lead to a projected increase in public pension expenditure in the EU of almost 2% of GDP by 2040.

The overall tax burden in the EU is also considerably higher than in our main international partners *(chart 4)*. This clearly reflects policy choices linked to the European social model, including public health care provision. But high levels of taxation risk weakening incentives both for investment and workers to enter the labour market, impacting negatively on long-term growth. Further fiscal consolidation therefore needs to focus on increasing the efficiency and quality of public expenditure, prioritising growth-enhancing investment, while avoiding tax increases.

Chart 4 **Overall tax burden in the EU is higher than elsewhere**
Total tax burden as % of GDP, 2013 (2012 for China and India)



Source: European Commission Ameco Database and Heritage Foundation

II. BUSINESS ENVIRONMENT

KEY POLICY RECOMMENDATIONS

1 Achieve a **truly integrated single market**, particularly in areas of digital economy, telecoms and energy, to enhance Europe's global competitiveness and support reindustrialisation.

2 Ensure that the EU and national regulation is well designed and properly enforced, with minimum administrative burdens in order to **support business start-ups and companies' expansion**. Competitiveness proofing, including SME test, must become an integral part of ex-ante impact assessment for all legislative proposals.

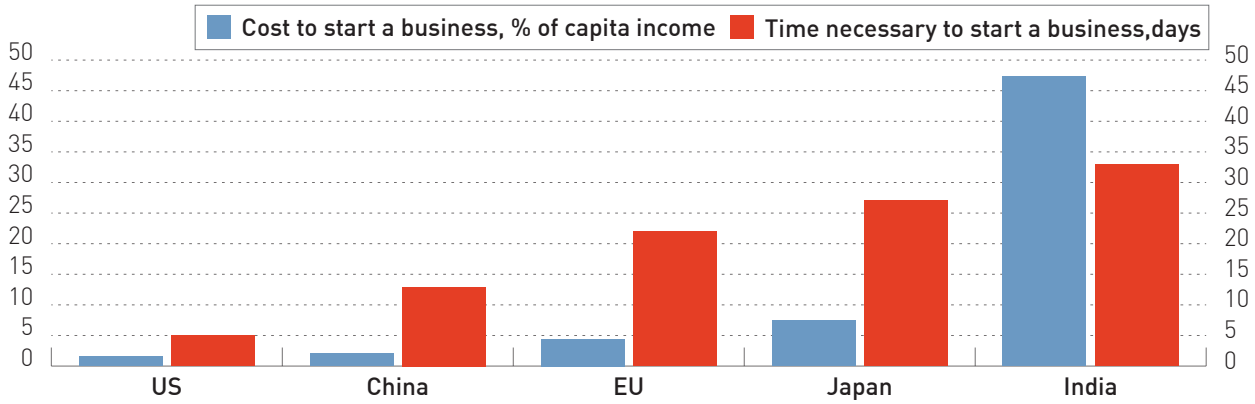
3 Energy prices must allow EU businesses to be competitive in international markets. Targets and measures to **address the energy price differential with major competitors** and to ensure energy security should be introduced and taken into account in any EU energy and climate policy initiatives.

4 **Trans-European** (and national) **infrastructure must be expanded**. Remaining regulatory, administrative and technical barriers in all modes of transport need to be removed to ensure access to adequate infrastructure facilities. Likewise, energy infrastructures should be fully interconnected so as to further integrate the internal market.

A competitiveness-friendly environment is crucial for business start-ups and expansion. Open markets with clear and properly enforced rules can promote competition, legal certainty and in turn productivity growth.

The time and cost of starting a business and of getting operating licenses are key pointers towards the overall ease of doing business in an economy. While the ease of meeting administration requirement for business start-up varies considerably across the EU, overall, the EU still has significant scope to improve in this area compared to the US *(chart 5)*. More broadly, the European Commission estimates that costs of administrative burdens in the EU amount to €120 billion, the equivalent of 1% of GDP, providing considerable scope for better regulation to enhance competitiveness.

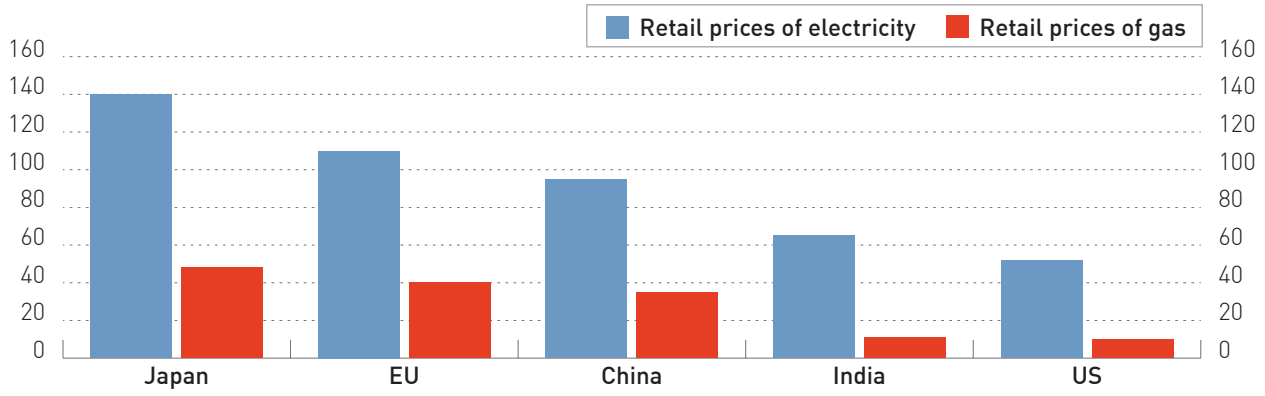
Chart 5 **Business environment conditions need to improve**
Cost and time to start a business in 2013



Source: World Bank

A crucial foundation for business success, particularly in manufacturing industry is the secure supply of competitively priced energy. In this context, Member States should ensure the reduction of the impact of current renewable support schemes on energy costs. Industrial electricity price rises of 37% in the EU[3] between 2005 and 2012, compared to a fall of 4% in the US are making it increasingly difficult for EU firms to compete in global markets. Electricity and gas prices for industrial users are much higher in the EU than in United States, India and China *(chart 6)*. *If appropriate measures will not be taken urgently, this gap risks to become even deeper.*

Chart 6 **High electricity and gas prices are harming EU industries' competitiveness**
Retail prices of energy in 2012, EUR/MWH, industrial consumers



Source: European Commission energy prices and costs report, 2014

III. INNOVATION AND SKILLS

KEY POLICY RECOMMENDATIONS

1 **Research & Development investment must be increased** to reach the goal of 3% GDP in R&D expenditure. The EU Horizon 2020 funding programme should be implemented in a business-friendly manner, ensuring that the time period to bring innovation to the market is shortened.

2 Innovation policies must be more business oriented. Incentives for cooperation between companies and research institutes in networks and clusters should be improved in order to **facilitate the commercialisation of innovation**.

3 **Education performance should be raised**. Governments should ensure that available resources are used by priority to bring to Europeans of all ages the knowledge and skills they need to succeed on labour markets. An important part of this is to address in the short-term shortages in terms of science, technology, engineering, mathematic skills.

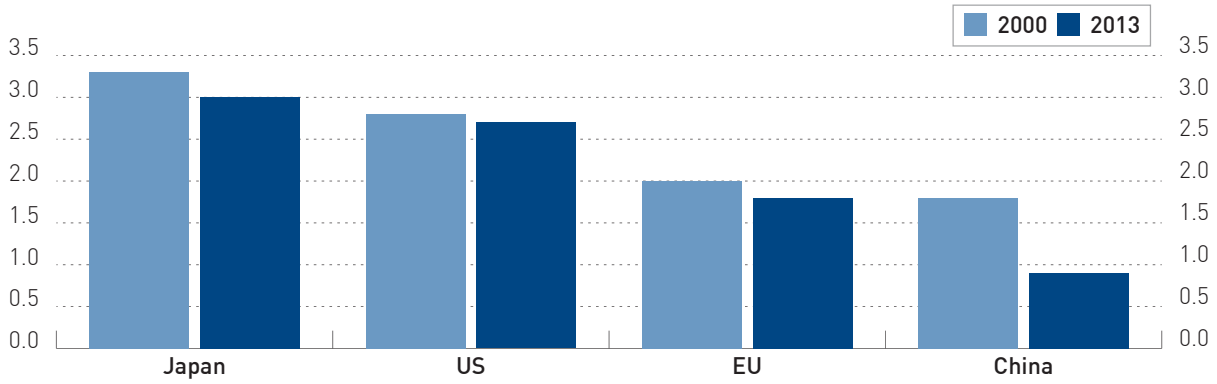
[3] Average of OECD EU members, source IEA

The EU's innovation, skills and technological capability is fundamental to our ability to attract and retain high quality, high productivity jobs across all sectors of the global economy.

Measuring innovation capacity is complex, but R&D investment and international patent registrations provide a starting point in assessing both our current and future capability.

Overall EU R&D spending as a percentage of GDP has remained at around 2% in the last decade, far behind the 3% set as target in the EU growth strategy (EU 2020). With the exception of a few countries including Finland, Sweden, Denmark and Germany, EU investment in this strategic area lags behind that of Japan (3.4%) and United States (2.8%).

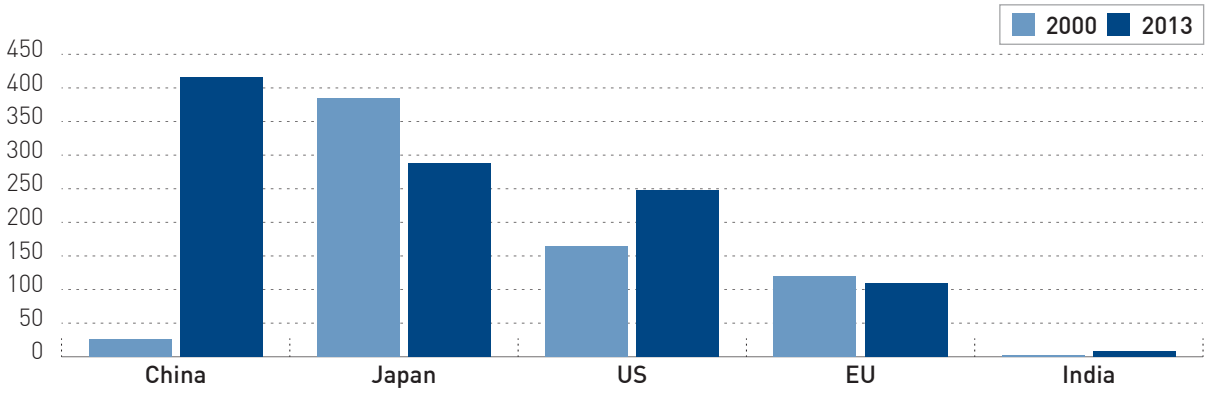
Chart 7 **The EU has failed to close the R&D investment gap with Japan and the US**
R&D intensity as % of GDP



Source: World Bank

This failure to invest in R&D appears to be impacting on innovation output, at least measured by the crude measure of international patent applications (defined). In terms of patent applications, the gap with the US and Japan has grown in recent years, whilst China has risen from almost nothing to become the largest filer of patents *(chart 8)*.

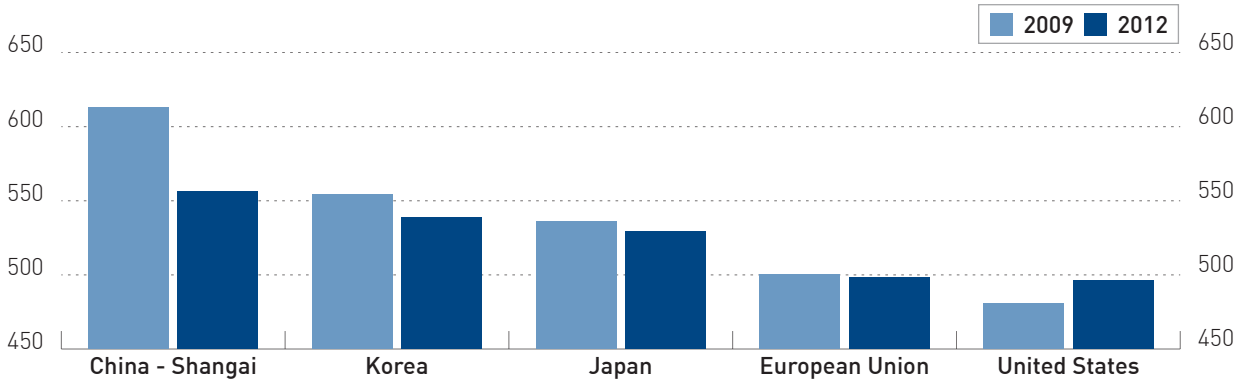
Chart 8 **The EU's share of international patent applications is falling**
Number of patent applications, thousands



Source: World Bank

Measuring education performance is also complex, particularly given the need to assess both the quality and suitability to the labour market of qualifications. The Europe 2020 Strategy set the headline target that at least 40% of 30-34 year old should have a tertiary or equivalent qualification by 2020. This objective is important but not enough. To contribute to innovation and competitiveness, education policy should focus more on promoting the practical component of education through work-based learning models. The goal should be to achieve learning outcomes that are in line with future labour market needs, at all levels of education. In this sense, more should be done to promote vocational education and training systems and improve secondary education performance especially in STEM subjects (Science, Technology, Engineering and Maths). The OECD's PISA survey for 2012 shows that most EU countries lag significantly behind the best performing Asian economies *(chart 10)*, in maths, reading and science which are key areas for future competitiveness.

Chart 9 **Education performance showing room for improvement**
Mean student performance in maths/reading/science score, OECD Pisa Study



Source: World Bank

IV. ACCESS TO FINANCE AND FINANCIAL STABILITY

KEY POLICY RECOMMENDATIONS

1. **Implement the banking union** in order to break the negative feedback loop between sovereign and bank financial positions and stop the fragmentation of the European financial market, including through reaching agreement by the end of the legislative term on a single resolution mechanism.

2. **Prudential rules** must strike the right balance between increasing financial stability and supporting companies' financing needs for investment and business activities.

3. Develop **complementary sources of finance** to bank lending in order to offset the consequences of banks' deleveraging on companies' access to credit, in particular SMEs.

4. Greater **leverage of public funds** must be ensured. A number of the schemes being taken forward by the European Investment Bank have a key role to play.

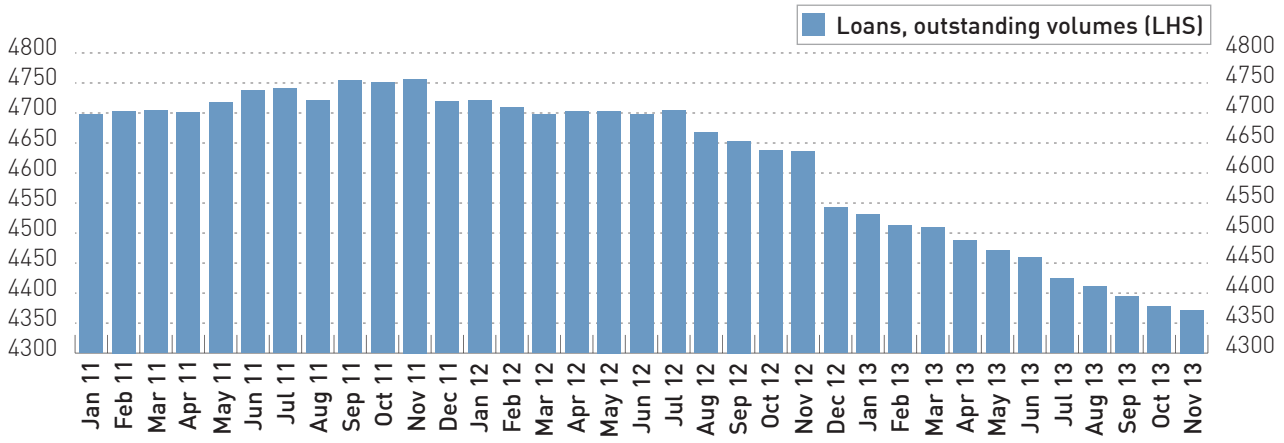
Access to finance on reasonable terms is a pre-condition to allow business to make the investment necessary to drive growth and maintain competitiveness. Finance needs to be available through a variety of routes, to both provide stability and meet the different needs of all companies, especially SMEs.

The financial crisis has illustrated the damage financial instability does for access to finance, confidence and growth. The negative feedback loop between sovereign and bank financial positions we saw build from 2010, which created political uncertainty and financial market instability, has become less strong during 2012 following ECB action and agreement on a banking union. Both the financial crisis and the increasingly stringent prudential regulation of banks continues to impact upon bank lending to businesses, particularly to SMEs and in those countries most affected by the crisis.

As a result of both weak demand and constraints on the credit supply side, outstanding loans to companies from euro area banks fell by around 10% between the start of 2012 and the end of 2013, with new issuance failing to match loan repayments.

Chart 10 **Bank lending to business is still falling**

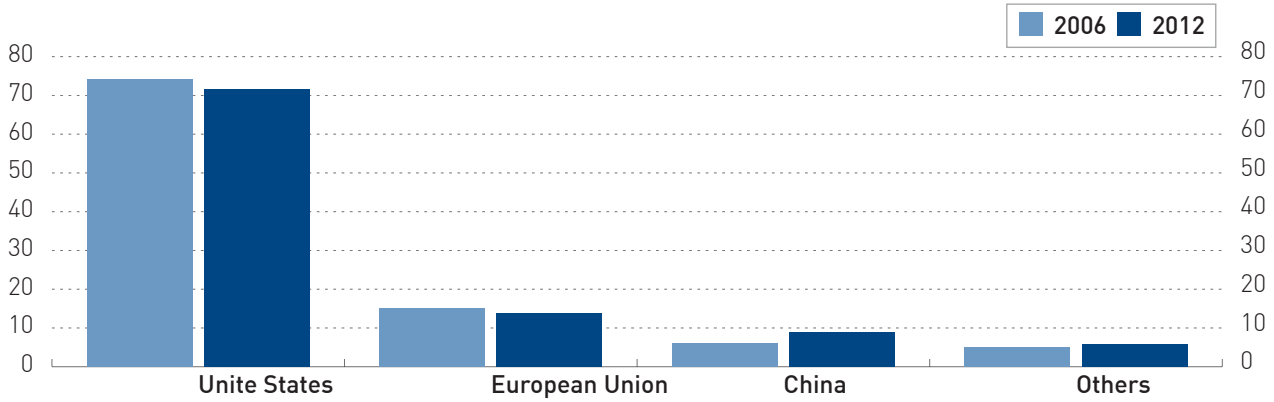
Bank loans to Euro Area non-financial corporations, outstanding billion euros



Source: European Central Bank

With traditional bank loans becoming harder to obtain for businesses in some countries, it is important that Europe looks to fully exploit non-bank financing routes. Bank loans account for around 85% of business financing in the euro area and in the UK. In the US, by contrast, this share is around 53%. While progress is being made in developing Europe's corporate bond market (whose net issuance in the last few months of 2013 has been positive), SMEs' access remain constrained by burdensome reporting requirements and regulatory disincentives to securitisation. The EU has also failed to make significant progress in recent years in developing its venture capital industry to US levels. The EU accounted for less than 14% of global venture capital investment in 2012, well below the US share of 72% *(chart 11)*.

Chart 11 **Limited progress in developing non-bank financing routes such as Venture Capital**
Share, % of global annual venture capital investment by part of the world*



** the global number does not include Japan, for which data was not available*

Source: Dow Jones Venture, 2013

V. LABOUR MARKET

KEY POLICY RECOMMENDATIONS

1. To ensure **open, dynamic and mobile labour markets,** reforms focusing on stimulating job creation, in particular for young people, and employment participation, smoother labour market transitions, and better allocation of labour based on employers' needs must be implemented.

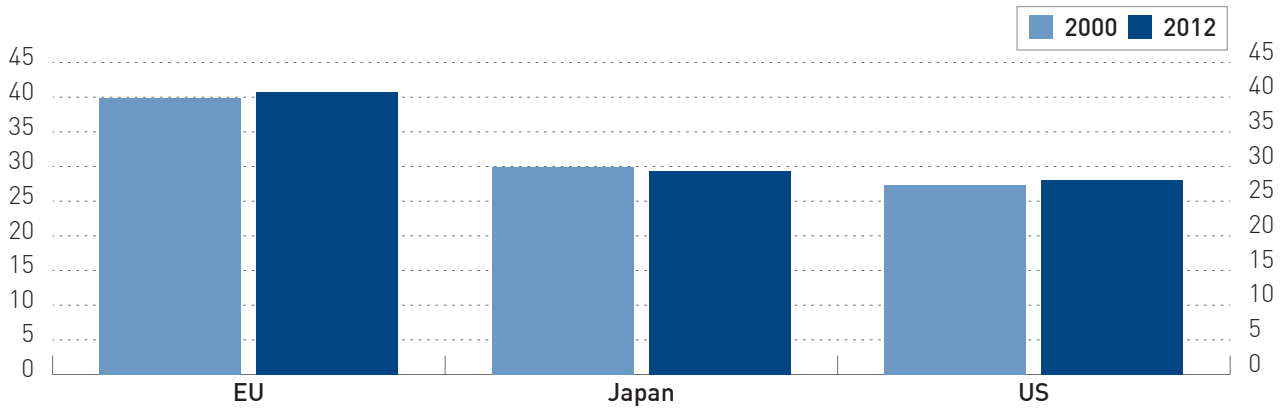
2. In order to maintain global competitiveness, labour markets' **legislative framework needs to be simple and flexible**. At the same time, labour markets need to ensure that labour costs rises are consistent with rises in productivity growth.

3. **Targeted cuts in employers' social security contributions** can play an important role in stimulating demand by encouraging employers to hire more staff. The **tax burden on labour should be reduced** to make work more attractive, especially for low-income earners, compared with welfare beneficiaries.

Well-functioning and flexible labour markets facilitate transition between jobs and help match skills supply and labour demand. The existence of labour market rigidities can make a country a less attractive place for both domestic and overseas investors, reducing employment creation, productivity and economic growth. In addition, excessive pay-roll taxes, lack of skilled workers and inadequate training systems are barriers to new hiring.

For example, both the OECD and EU emphasise the particular damage that taxes on labour can do to both growth and employment, given the damage to incentives both for workers to enter the labour market (if net gains after taxes and benefit losses are small) and for employers to take on new staff (if labour costs are very high). It is particularly a concern that the average tax wedge on low income earners is much higher in the EU than in both United States and Japan *(chart 12)*.

Chart 12 **Tax wedge on low income earners in the EU is higher than elsewhere**
Tax wedge level (as % of average) on low income earners, 2012



Source: Eurostat

In a monetary union, labour markets must have even to a greater extent the flexibility to adjust in the event of external shocks, given that members of the currency union no-longer have the option of achieving a short-term competitiveness boost through a (nominal) devaluation of their currency.

Countries that accumulated cost competitiveness imbalances, particularly through wage rises well in excess of productivity gains, have subsequently seen higher job losses *(chart 13)*. Nevertheless, these countries have started to undertake competitiveness adjustments in recent years, with benefits starting to feed through into some aspects of economic performance. For example, since 2010 nominal unit labour cost has shrunk by 14.0% in Greece, 5.1% in Spain, 3.6% in Portugal, and 3.1% in Ireland. But much more action needs to be taken to implement structural reforms in both the labour and product markets to support competitiveness, including by modernising wage bargaining structures and implementing forceful measures to reduce the tax wedge on employment.

Chart 13 **Unsustainable labour cost increases hamper job creation**

Source: Eurostat

PART 2
STRUCTURAL REFORM PROGRESS

INTRODUCTION

Part one has highlighted that despite recent encouraging signs of stabilisation in the EU economy, other regions of the globe are continuously outperforming Europe to gain competitiveness, attract investments and create the conditions for a dynamic and job rich growth.

The decline of the EU share in the world GDP shows how instrumental structural reforms are for Europe if it wants to keep a leading role in the world economy and remain an attractive investment destination in the context of increased competition with emerging countries.

The full benefits of structural reforms take time to feed through the economy and immediate implementation is needed if we want to close our competitiveness gap with key trading partners, raise our long term growth and create the millions of jobs needed to scale down unbearably high unemployment levels. This is essential if we want to put Europe's economy back on track of growth and achieve the target set out by the Commission of increasing the industrial share of Europe's GDP from its current 15.3% to 20% by 2020.

Most of the policy instruments to implement structural reforms are in the hands of Member States. But the crisis has underlined that European governments can't ignore the impact of each other's decisions on their intertwined economies, particularly when they share a common currency. **Recent studies from the Commission[4] show that the euro area GDP could be up to 6% higher after ten years** if Member States adopt reform measures to halve the gap vis-à-vis the three best performing Member States in market competition and regulation, taxes, labour market, innovation and skills.

The European Semester is therefore crucial to both increase the coordination of economic reforms and their intensity, thus strengthening the ongoing process of European integration.

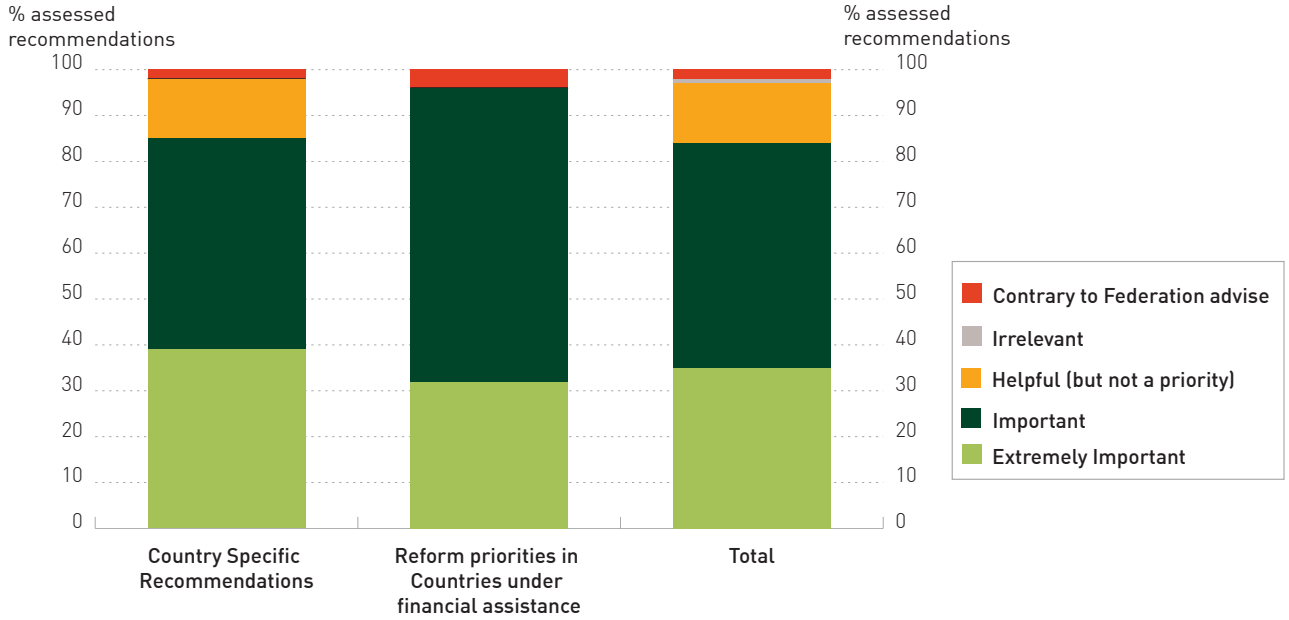
[4] The growth impact of structural reforms, Quarterly Report on the Euro Area, DG ECFIN, December 2013.

1 REFORM PROGRESS IN THE EUROPEAN UNION

For this year's Reform Barometer, we have carried out an in depth survey amoung our Member Federations to evaluate the success of the European Semester in helping drive structural reforms. In particular, federations commented on the appropriateness of each of the Commission's country specific recommendation and on government's efforts to implement them[5].

A large majority of our Member Federations believe in the overall effectiveness of the European Semester in driving the right structural reforms, although National Reform Programme could still gain in ambition and accuracy in a number of countries. In particular, **they believe that Commission and Council's reform objectives, as set out through the country specific recommendations, generally focus on the right issues for competitiveness**, with 83% of the 150 recommendations[6] for structural reforms assessed by Member Federations viewed as important or extremely important *(chart 14)*. Detailed answers by Member Federations on individual country recommendations can be found on BUSINESSEUROPE's website[7].

Chart 14 **The Commission sets out the right priorities for reforms**
Member Federations' assessment of the appropriateness of individual country specific recommandations



Source: BUSINESSEUROPE survey of Member Federations

→ **However, our survey shows a poor level of implementation of reform recommendations:**

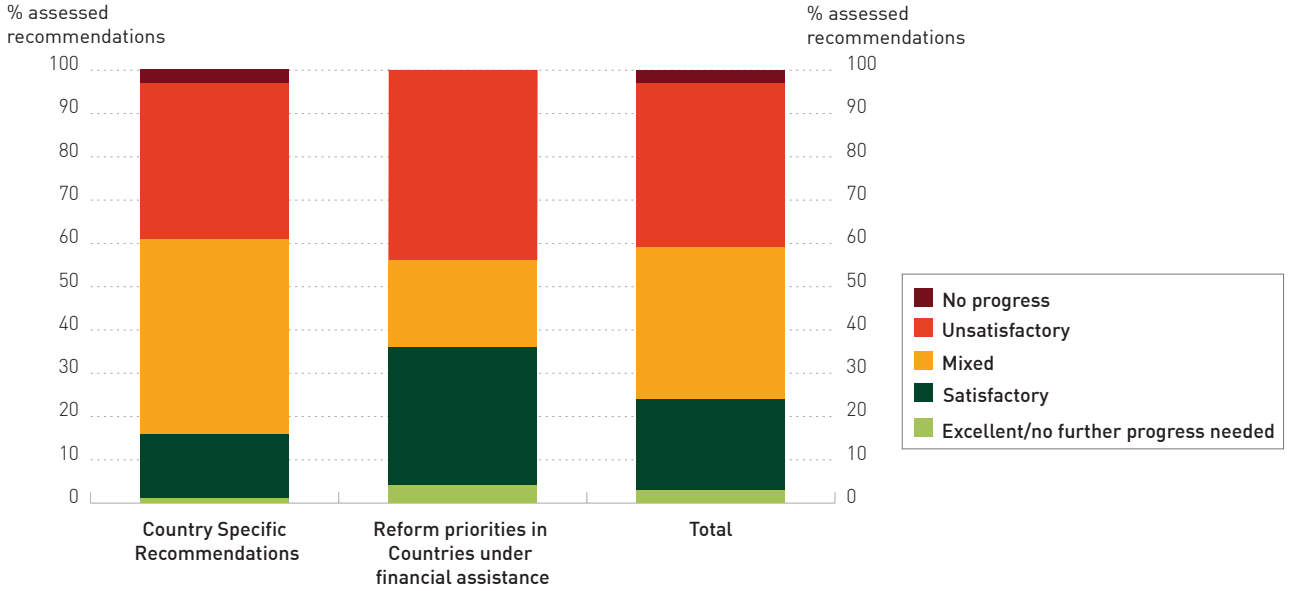
- Only 23% of the 150 recommendations assessed by Member Federations have been followed by satisfactory implementation.
- In countries under financial assistance facing the most urgent need for reforms, implementation is much better, but could still be stronger; just over one third of the recommendations result in concrete effective measures.

[5] Federations in countries under financial assistance commented on recommendations made by the troika in Economic Adjustment Programmes. Member Federations of non EU countries assessed key reform priorities identified by the OECD and their implementation by their government.

[6] The total also includes reform priorities identified by the OECD for non EU countries in order to ensure a broad european assessment of recommendations for structural reforms and govenrments' effort to implement them.

[7] www.businesseurope.eu

Chart 15 **Reform implementation by national governments remains sluggish**
Member Federations' assessment of Member States' efforts to implement recommendations

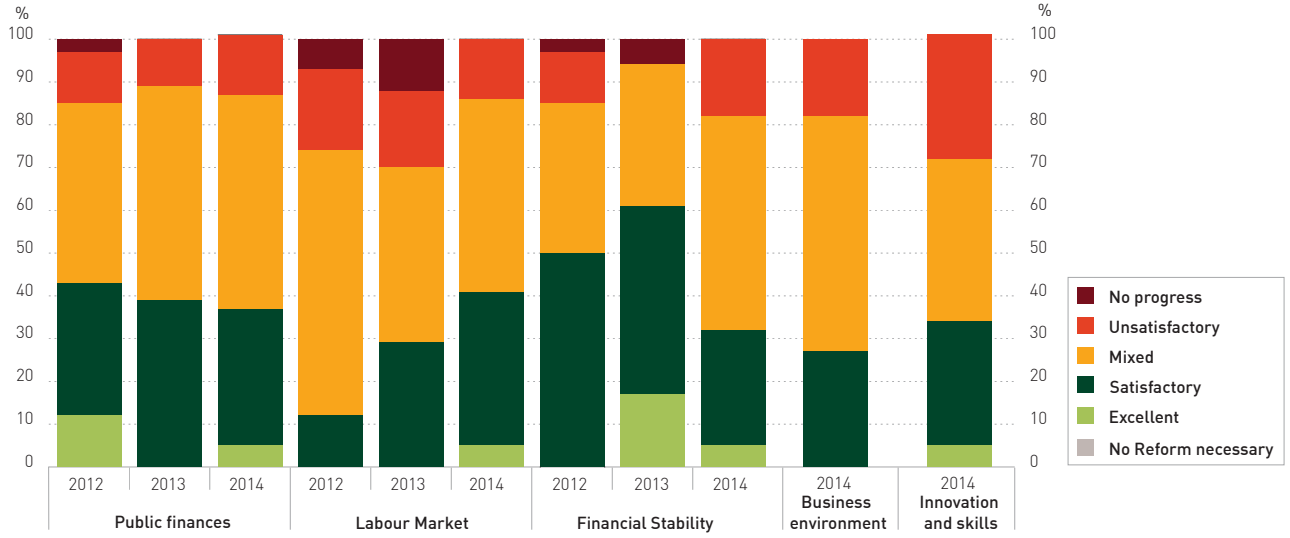


Source: BUSINESSEUROPE survey of Member Federations

The Commission has also identified a significant degree of progress in comparison with the previous years in only 15% of the country specific recommendations[8]. BUSINESSEUROPE is therefore supportive of stronger monitoring mechanisms ensuring greater enforcement of structural reforms in the European Semester, including through the development of contractual arrangements.

In addition to assessing overall reform progress, Member Federations have also assessed progress in the 5 key reform areas outlined in part 1 *(chart 16)*.

Chart 16 **Reform progress is considered as overall mixed across the main policy areas**
Member Federations' assessment of reform progress by main areas



Source: BUSINESSEUROPE survey of Member Federations

[8] Mentioned in the European Parliament's ECON Committee report on the European Semester, published in October 2013

Key results are:

- Overall, there are **no broad policy areas where a majority of members consider reform progress satisfactory**.

- **Progress is continuing in most Member States in reforming public finances,** but could be stronger in many countries. 15% of Federations believe progress was unsatisfactory, 50% of Federations estimate progress was mixed.

- **Reform progress has improved in the area of labour market reforms, but still needs to be stronger**. 45% of members still consider reform progress to be mixed and 14% consider progress unacceptable. Overall, the state-of-play remains unsatisfactory. It is also important that there is no backtracking on reforms that have already been implemented or agreed. A detailed assessment of labour market reforms is included in the box.

- **Progress in the area of financial stability and access to finance has slowed compared to 2012**. 20% of Federations consider that there was either no reform progress or that it was unsatisfactory.

- **Reform progress in the business environment was mixed.** Federations believe more can be done to reduce the regulatory burden, improve competition by completing the single market, and to reduce energy costs.

- **Only 35% of Member Federations consider reform progress in innovation and skills satisfactory.** A number of Federations in traditionally strong performing economies, particularly in Northern Europe, are concerned that reform complacency in this area could lead to their economies losing the global leadership position.

ASSESSMENT OF RECENT LABOUR MARKET REFORMS 2013

Flexible labour markets

Objective: Flexible labour markets that are characterised by the availability of different contractual arrangements, as well as the necessary working time and wage flexibility, including aligning wages with productivity levels, while respecting the autonomy of social partners in the collective bargaining process.

Positive: *In **Spain**, reforms have been initiated to encourage the use of permanent contracts; more internal and geographical flexibility; greater external flexibility through the reduction of unfair dismissal costs; and reducing the administrative issues around collective dismissals. Collective agreements can also now be amended to enable wage-setting policies to be linked with productivity. In **the Netherlands**, a social partner agreement was made on – amongst others – a simplification of employment protection legislation and on shortening the length of statutory unemployment benefit rights. In **Greece**, a lot of constraints have been put down, bringing much more flexibility on labour markets.*

Negative: *In **Austria** and **Luxembourg** there is a lack of flexibility when it comes to working time arrangements. There are also no plans to change or abolish the wage indexation system in Luxembourg. In **Bulgaria**, the decision to increase the minimum wage was taken against the official employers' positions, as expressed during consultation. In **Germany**, plans to restrict the use of flexible forms of employment and to introduce a general statutory minimum wage are highly counterproductive to previous, successful, reforms of 10 years ago.*

Encouraging employment by making work pay

Objective: Reducing the tax burden on labour, including targeted cuts in employer's social security contributions will encourage employers to hire more staff. Employment also needs to be a more attractive option than income support.

Positive: *In **Sweden**, the implementation of income tax credits has, together with reduced unemployment insurance benefits, created stronger incentives to work, leading to higher labour force participation and increased employment. In the **UK**, the threshold for income tax will rise to £10,000 from 2014 on taking more people out of income tax altogether.*

Negative: *In **Denmark**, high levels of social assistance for single parents make the incentive to work very small. A ceiling should be introduced on social assistance. In Spain a reduction of the social contributions is needed to boost employment.*

Sustainability of social protection systems

Objective: Social protection systems need to be sustainable to cope with high levels of unemployment in the short-term (through encouraging people into work) and Europe's ageing population in the long-term. Pension reform - linking the retirement age to life expectancy - will help address the demographic challenge.

Positive: *In **the Netherlands** there has been a social partner agreement on reforming the statutory and occupational pension system, including a gradual raising of the retirement age and linking it to life expectancy. In **Greece** changes in the statutory retirement age, and greater use of ICT to improve the management of benefits and adress undeclared employment are yielding increasingly tangible results.*

Educate for employment

Objective: Education curricula need to be better aligned to the needs of the labour market with a focus on employability and overcoming skills mismatches. Resource-efficient training schemes are also required, inside and outside companies, on a cost-sharing basis.

Positive: *In **France**, the social partner agreement on vocational training reform aims to secure employees' careers with the creation of a "personal training account"; better take account of enterprises' needs, and streamline the current system so as to optimise employer investment in vocational training.*

Negative: *In the **Czech Republic**, although tax reliefs have been put in place for technical education, more needs to be done to address the mismatch between labour market needs and the composition of the work force.*

2 FUTURE REFORM PRIORITIES

Member Federations were also asked to consider reform priorities for 2014 from a list of 24 possible policy areas *(chart 17)*. Key results include:

- Members continue to give high priority to growth-enhancing **consolidation of public expenditures**, avoiding tax increases through greater efficiency of public spending to restore confidence and reduce the pressure on interest rates. As part of a broader approach of reducing public expenditure, businesses also highlight the need to bring **pension and health care** costs back on a sustainable path.

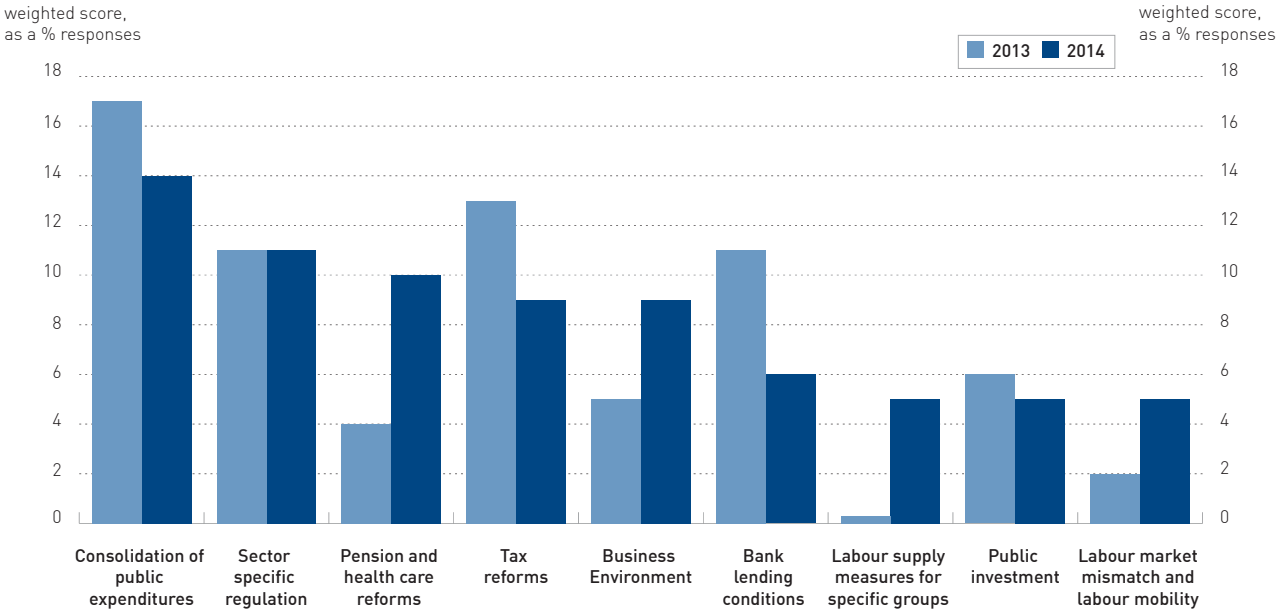
- **Labour market reforms** need to be implemented or deepened, with specific measures generally varying between Member States. More needs to be done to effectively introduce measures to eliminate entry barriers to labour markets and facilitate job creation and employment participation, particularly for young people. The objective is to achieve open, dynamic and mobile labour markets, ensuring a better match between labour market demand and supply. As part of this, education and training systems reforms addressing in particular bottlenecks in the supply of STEM (Science, Technology, Engineering and Maths) is a key issue for many businesses.

- High energy prices are increasingly weighing on companies' cost structure and global competitiveness, with many federations prioritising a need for an improvement in **sector specific regulation, particularly energy**, both at EU and Member States' level.

- The need for **an improvement in bank lending** is a continuing concern in many Member States. Constraints in accessible funds, in particular for SMEs, represent a major obstacle to companies' investment and growth and a major risk over the fragile observed recovery. Reforms must strike the right balance between ensuring greater financial stability and ensuring access to affordable loans. In this context reforms raising the cost of capital and undermining investments such as a tax on financial transactions must be avoided.

Chart 17 Improving sector specific regulation and strengthening public finances are key reform priorities for 2014

Member Federations' reform priorities



Source: BUSINESSEUROPE survey of Member Federations

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BUSINESSEUROPE is the leading advocate for growth and competitiveness at European level, standing up for companies across the continent and campaigning on the issues that most influence their performance. A recognised social partner, we speak for all-sized enterprises in 35 European countries whose national business federations are our direct members.

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Denmark	Denmark	Estonia	Finland	France	Germany
Germany	Greece	Hungary	Iceland	Iceland	Ireland
Italy	Latvia	Lithuania	Luxembourg	Malta	Montenegro
Norway	Poland	Portugal	Portugal	Rep. of San Marino	Romania
Serbia	Slovak Republic	Slovenia	Spain	Sweden	Switzerland
Switzerland	The Netherlands	Turkey	Turkey	United Kingdom	

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