

SPEECH

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EMPLOYMENT WEEK SESSION ON ENTERPRISE AND JOB CREATION

SPEAKING NOTES FOR PAUL JACOBS VICE-CHAIR OF ENTREPRENEURSHIP AND SME COMMITTEE

Introductory remarks

- European companies have since 2005 alone created nine millions jobs and considerable wealth. The large majority of these jobs have been created by SMEs. Entrepreneurship and a further release of SME potential is pivotal for the EU's future economic performance. However, Europe is still less entrepreneurial than many other regions in the world and European SMEs tend to grow much more slowly than their US counterparts. The EU and its Member States therefore can and must do more to promote entrepreneurship and develop the potential of small businesses in the EU.
- A number of important steps have already been taken: the Lisbon Strategy for Growth and Jobs is instrumental for improving the business environment. In addition, consistent application of the "think-small-first" principle and the recently adopted Small Business Act should lead policy-makers to take better account of the specificities and constraints of SMEs when drawing up new policies and legislation
- A good entrepreneurial climate depends on many different conditions. I would like to highlight some of the key actions that need to be taken to improve Europe's business environment, with a particular focus on SMEs. I will focus specifically on the need to:
 - Increase simplification and push better regulation;
 - Complete the internal market;
 - Ensure the availability of a skilled workforce;
 - Ensure employment-friendly labour costs; and
 - Stimulate a more entrepreneurial culture.

Increasing simplification efforts and rendering the Better Regulation project effective

- Better regulation is a central element of the policy for improving the business environment, strengthening competitiveness and supporting sustainable growth and employment. If the Commission and Member States seriously drive the better regulation and simplification agenda forward, we could free additional economic potential amounting to 1.5% of EU GDP (or about 150 billion euros).

BUSINESSEUROPE therefore strongly supports the Commission's objective of a 25% reduction of administrative burdens by 2012. We welcome important simplification proposals such as the review of the rules on public procurement and business statistics, accounting rules, or the revision of company law.

- However, we consider that progress is much too slow. Results still need to be felt on the ground. For the time being, entrepreneurs increasingly have the impression that administrative and regulatory burdens are still growing and not the contrary. In this respect, it is of utmost importance that new legislation does not undermine the reduction target.
- Wholehearted national simplification efforts are also required. BUSINESSEUROPE regrets that not all Member States have set national targets for the reduction of administrative burdens generated by national legislation.
- Better regulation and administrative simplification is not just important for the business environment in general, but for the creation and growth of new businesses in particular. Expansion is often hindered by the complexity of existing rules and regulation. For example, threshold effects leading to increased regulation if businesses employ more than a specified number of workers can act as a break on the expansion of small firms. Recent studies suggest that this is particularly the case with respect to rules and regulations such as recruitment and dismissal formalities.

Reducing the tax burden

- Another key factor regarding the business environment is the level and structure of taxation. Reducing the overall tax burden on companies is of direct relevance to boosting entrepreneurship. Moreover, to maximise job creation it is particularly important to ensure employment-friendly labour costs.
- However, in many Member States, employers' taxes and social security contributions – in particular for low-paid/low-skilled workers – still act as a serious disincentive to job creation. Looking at the overall burden of taxation on labour in 2007, it accounts for more than 40% of gross income in half of EU Member States and more than 50% in Belgium, Germany and Hungary.
- A reduction of non-wage labour costs, notably through lower social security contributions, will become ever more important to maintain high levels of employment in a context of increasing international competition and an ageing workforce. Unfortunately, in the EU, the total tax wedge on labour decreased by only 1.2 percentage points on average between 2000 and 2005. Clearly, with the average gross level staying around 40%, these reductions are unconvincing.

Lift the remaining obstacles in the Internal Market

- The Internal Market is a tremendous instrument for economic power and a pillar of European well-being. Since the 1990s it has created numerous advantages and opportunities for consumers, citizens, companies and the economy. For the time

being, remaining barriers in the single market are estimated to represent an unrealised economic potential of 275 to 350 billion euros. Administrative, regulatory and tax obstacles hinder in particular SMEs that wish to develop cross-border activities and represent a real challenge to a well functioning Single Market.

- Therefore, serious efforts must be undertaken to lift remaining barriers, complete the Internal Market while better enforcing legislation in Member States. A high quality implementation of the services directive is particularly relevant for SMEs. Real benefits can be delivered for SMEs through reduction of red tape, alleviation of administrative procedures as well as better cooperation between competent authorities and the use of e-procedures.

Ensure the availability of a skilled workforce

- In a more competitive international economic environment, the availability of a skilled workforce is of crucial importance. Yet, across Europe, companies find it more and more difficult to find the workers with the right skills and qualifications. Too many people do not enter the workforce because they lack the necessary skills. Clearly, education and training provision and labour market mechanisms are not fully delivering. For example, in March 2008, Germany had 3½ million unemployed while at the same time almost 600,000 job vacancies remained unfilled. The pattern is pretty much the same across Europe. An important contributory factor is the existence of skills mismatches.
- But also for those at work, rapid technological change and the requirements of an increasingly knowledge-based economy, skills should be continuously updated or renewed. This is all the more so taking into account the need for people to remain at work longer in the face of population ageing. Against this background, it is imperative to prevent an obsolescence of skills.
- Ambitious policies are needed to increase participation in training throughout working lives. The responsibility lies with all actors: companies, individuals, social partners and governments. The latter also need to raise the bar in higher education attainment levels and focus specifically on science, technology, engineering and maths disciplines. This applies to most of Europe where many SMEs are experiencing shortages in these areas.

Stimulate a more entrepreneurial culture

- The EU must also become more entrepreneurial. Europeans are still less inclined than US citizens to take the risk of setting up their own business. Defined as a percentage of the labour force who are either a nascent entrepreneur or owner-manager of a new business, early-stage entrepreneurial activity varies from 2 to 3% in Austria, Belgium or France to 8.2% in Ireland. This compares with 9.6% in the US.¹

¹ Source: Global Entrepreneurship Monitor 2007, Executive Report

- More systematic integration of entrepreneurship education into school and university curricula would considerably help stimulate a more entrepreneurial mindset in Europe. Current enterprise education programmes (which are successfully run by JA-YE Europe and JADE) demonstrate this. Unfortunately, results regarding the integration of entrepreneurship education into curricula are patchy. Considerable progress therefore needs to be made.

Conclusion

- While important steps have been taken recently, many challenges remain when it comes to increasing entrepreneurial activity in Europe and setting SMEs' growth potential free.
- Our economic future will to a large extent depend on the growth potential of European SMEs and on further concrete progress made in the priority areas for action highlighted: cutting red tape, ensuring employment-friendly labour costs, making real progress in completing the Internal Market, ensuring the availability of a skilled workforce and, last but not least, preparing people to take up entrepreneurship up as a career.
- We therefore urge the Commission and Member States to step up efforts in their areas of responsibilities and help release a new entrepreneurial dynamism in Europe.
