



MACROECONOMIC DIALOGUE AT POLITICAL LEVEL
11 MARCH 2019
11.30 – 13.00

JUSTUS LIPSIUS BUILDING (ROOM 50.4)
RUE DE LA LOI 175,
1048 BRUXELLES

INTERVENTION BY MARKUS J. BEYRER
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Ladies and Gentleman

Let me first thank you for taking time to engage with social partners today. As we have stressed in the past, BusinessEurope greatly values this macroeconomic dialogue.

I will start my intervention by briefly setting out businesses' views on **the economic situation**, before turning to the specific issue of **inequality**.

1. ECONOMIC SITUATION

Recent months have reminded us of the fragility of the European economy.

Temporary factors, including changing car emissions requirements, political uncertainty in Italy and public strikes, notably in France, as well



as longer running trade tensions appears to have had an important impact on business and consumer confidence.

We will produce a full forecast in the Spring, but we would expect to reduce our growth expectations for 2019, by a similar magnitude as the Commission. [So rather than the 2.0% we forecast for 2019 growth we forecast in the Autumn, we would now expect more like 1.5%.]

And this of course assumes that we will have an agreement regarding **Brexit**. Whilst the impact on the UK economy of a no-deal Brexit would clearly be more significant than on the EU, the impact on the EU27 business community should not be underestimated. Companies have been preparing but there are many uncertainties and very limited time to put in place all contingency measures. It is essential that we reach agreement on the UK's withdrawal including the transition period in this way avoiding a chaotic exit.

We recognise that with both consumer and business confidence at a critical point, it is important that we not over alarmist, but my private message is that policy makers have to act with much more urgency to put in place the reform needed to our long-term growth rate.

BusinessEurope has once again produced its **Annual Reform Barometer** which we will release in full before the Spring European Council. But we can already see that rather than stepping up their reform efforts to fix the roof whilst the sun was shining, many Member States continue to postpone the implementation of growth-enhancing reforms agreed at the Council. Our members suggest that only 20% of the EU's reform recommendations are being satisfactorily implemented.

2. INEQUALITY

Moving on, we welcome the opportunity to talk about inequality.

Many of the reforms we highlight in the reform barometer will also play an important role in ensuring we have more inclusive growth. This is



because, the most effective way of reducing poverty is through enabling as many people as possible to have a job.

It is clear there are factors at a global level that are creating pressure for income divergences in developed economies such as the EU. Whilst inequalities at a global level have reduced in the last 30 years as a result of billions of people in China and India becoming part of the globalised economy, this has also created downward pressure on lower skilled wages in developed economies. And these have combined with skill biased technological change which has increased the value of high level skills.

Our success in creating 10 million jobs since the crisis in the EU has played an important role in ensuring that overall inequality (as measured by the gini coefficient) has not increased significantly in recent years.

And we particularly welcome the convergence that has taken place between member states in the EU, although more needs to be done to ensure that this convergence also restarts in the euro area.

Even at the level of individual member states, we have seen inequality reduced in as many member states as it has increased in.

As well as increased employment, Commission analysis also shows that – contrary to the popular austerity narrative – member states' tax and benefits systems are actually doing more to reduce the difference between market incomes and disposable incomes after taxes and benefits than before the crisis. And they continue to play a much greater role than in the US.

Our response to inequality also needs to remain focussed on increasing peoples' success in the labour market:

- Ensuring that labour market legislation encourage companies to hire more people.
- Ensuring that wage bargaining systems lead to settlements in line with productivity developments so that companies, and in turn,



workers, don't lose competitiveness. [This can be assisted by a shift away from taxes on labour, as well as capital which the OECD considers to have the most damaging impact on growth and employment.]

- And ensuring that benefits systems, whilst providing necessary safety nets, also create the right incentives for people to look for work. The so-called flexi-curity approach.

All this needs to be combined with increased efforts to help people develop the skills to make them effective in labour markets, at all times of their careers. [In particular to make sure we take advantage of the opportunities of the **digital economy**, an area where our businesses continues to report increasing skill shortages.]

There are also opportunities to improve equality and growth beyond labour market outcomes.

For example, a business environment that encourages competition, open and transparent public procurement processes, meritocratic institutions as opposed to nepotistic favourism, can all contribute to stronger growth as well as reducing inequality.

[Finally, I know many people see addressing **corporate tax evasion and avoidance** as a key part of the inequality debate. BusinessEurope supports the fights against tax fraud and evasion. But we should always remember that corporation tax is a small part of overall taxation, and an even smaller part of overall tax avoidance. Businesses are working with the OECD to find solutions to present challenges in global taxation, particularly as a result of the growth of the digital economy. But we must ensure that the debate does not unfairly paint all businesses as the enemies of prosperity and wealth creation, or we risk damaging living standards for all.]

Conclusion



To conclude, the relationship between inequality and growth is a complex one, and we should be cautious of suggestions that reducing inequality will automatically increase growth.

But I hope I have set out a number of areas where reform can play a role in both increasing employment and growth and ensuring growth is much more inclusive.

Economic data in recent has underlined that we must act with greater urgency to implement, and not just talk about reforms whilst the EU economy continue to grow.