

PUTTING EUROPE BACK ON TRACK

European Growth and Jobs Strategy post-2010

FOREWORD

The impact of the crisis on the corporate sector, labour markets and public finances has been significant and will be long-lasting in the absence of an adequate policy response.

Market integration and the well functioning of the EU Single Market, which should serve as the engine for economic recovery, have also been challenged by the international economic downturn and rising national protectionism.

Beyond the more immediate loss in output and income levels triggered by this crisis, European companies and citizens are rightly concerned about the risk of weak growth persisting for a considerable period of time. The consequences for the welfare of European citizens, the sustainability of social systems and the EU's position in the world would be far-reaching.

Confidence must return, and concerns give way to hope and aspiration.

With a new European Commission and Parliament, the European Union has a unique opportunity to inspire a fresh vision and set the course for a coherent growth strategy for the next five years.

The business community is ready to take up the challenge.

It is through the development of private initiative and investment that Europe will find the capacity to successfully meet societal and environmental challenges and at the same time rebuild a sound macroeconomic environment. As responsible stakeholders, companies will spare no efforts to speed up the recovery and are committed to help advance a competitive model of sustainable development for Europe.

But this is not an ordinary downturn and it will take a fine balancing act to ride it out.

First of all, the financial system needs to be fixed. A sound level of financing and an appropriate evaluation of risk are essential pre-conditions for a sustained economic revival. Financial market reforms and bank restructuring efforts will need to durably reinforce the resilience of the system while better supporting investment, innovation and entrepreneurship.

Second, at a time when major relocation of productive investments is taking place in the global economy, Europe's competitiveness is of greatest importance for sustained economic revival on our continent. Instead of preventing the risk of capital outflows, we need to enhance the chance for capital inflows. This will contribute to the growth of our economies, limit risks of protectionism and lead to significant additional public revenue to restore healthy public finances.

The return to fiscal sustainability will need to be achieved through growth-enhancing reforms, and by modernising the public sector and social systems, rather than by increasing an already excessive tax burden.

Efforts must continue to ensure that the Single Market functions effectively and delivers opportunities for business development and for citizens. For this, it is necessary to create a supportive environment for innovation, reduce regulatory burdens on companies and ensure full respect of the fundamental principles of the Single Market, avoiding protectionism.

Supporting the competitiveness of European industry will also be critical to consolidate EU's leadership in the green technology revolution, with substantial benefits to be expected in terms of eco-efficient growth and global climate change mitigation.

Third, the EU needs a solid strategy to boost employment and skill levels in an ageing society. Improving the quality of education and training, fostering an entrepreneurial mindset, encouraging adaptability, mobility and a sound immigration policy are all fundamental components of the EU's future economic and social agenda.

We are convinced that Europe's social and economic model, alongside a vibrant single market, a well-functioning monetary union and solid international relations, offers a strong base for turning current challenges into opportunities for development.

But to do this, strong political leadership and an unwavering commitment to reforms will be needed. BUSINESSEUROPE is calling for the actions of the European Institutions over the next five years to be framed around a clear growth strategy for Europe, extending and improving on the current Lisbon strategy.

BUSINESSEUROPE recommends that EU policies are strengthened around five mutually reinforcing 'pillars', aimed at:

- 1 deepening economic integration and restoring financial stability;**
- 2 enhancing innovation, entrepreneurship, education and skills;**
- 3 putting modern employment and social policies in place;**
- 4 integrating energy, environmental and competitiveness policies;**
- 5 shaping globalisation and fighting protectionism.**

To achieve progress around this five-pillar strategy, we call for the EU legislative process to become considerably more mindful of its impact on competitiveness, demand a radically modernised EU budget and suggest ways of increasing the ownership of EU policies and recommendations at the national level.

Our proposals are outlined in this report.

MEETING POST-CRISIS CHALLENGES

1 Financial stability and access to finance

The fallout from unprecedented financial market turmoil will significantly transform the European and global financial sector landscape and affect companies' access to finance for a considerable period of time. A major reassessment of credit risks, reflected in the sharp deterioration of corporate credit ratings (see chart 1), has already led to major funding constraints and plummeting investment.

European and global leaders have shown collective responsibility in tackling the crisis, and have agreed on key measures to support the resilience of the international financial system and the institutions that govern it.

However, BUSINESSEUROPE is concerned that the crisis will have a significant knock-on effect on future access to capital, lending standards and financial innovation. Broad access to finance is an essential component of a dynamic, innovative and adaptable economy, and will need to be a permanent concern of policy-makers in the coming years.

Financial markets should be regulated in a smart way, so that productive investment and entrepreneurship is not stifled but encouraged. Investors who are willing to take sensible risks against appropriate remuneration should be allowed to do so for the greater benefit of growth and job creation.

2 Demographic ageing and public debt

The urgent need to address the looming demographic challenge has been reinforced by the effect of the crisis, which has considerably worsened an already bleak outlook for public finances. In 2010, public deficits are expected to be in excess of 7% of GDP and public indebtedness to reach around 80% of GDP.

Europe needs to act swiftly with the necessary reforms in order to avoid putting an unbearable burden on future generations. Europe's working-age population will already start to shrink around the turn of this decade, resulting in the loss of more than 2 million potential workers by 2020 (see chart 2). This will have far-reaching consequences for the functioning of European labour markets and the sustainability of social systems.

These trends put increasing focus on the need to modernise the public sector, to reduce governments' long-term liabilities through health care and public pension reforms while promoting higher labour participation, a sound immigration policy and above all higher productivity growth.

It is also essential in this context that Member States remain credibly committed to balancing their budgets. This emphasises the importance of an effective fiscal framework, based on appropriate incentives and controls to ensure a steady return to fiscal discipline. Member States should abide by the rules of the Stability and Growth Pact, and ensure that national, regional and local institutional settings are conducive to fiscal rectitude.

Chart 1

Sharp fall in corporate credit ratings
Source: Credit Agricole based on Moody's

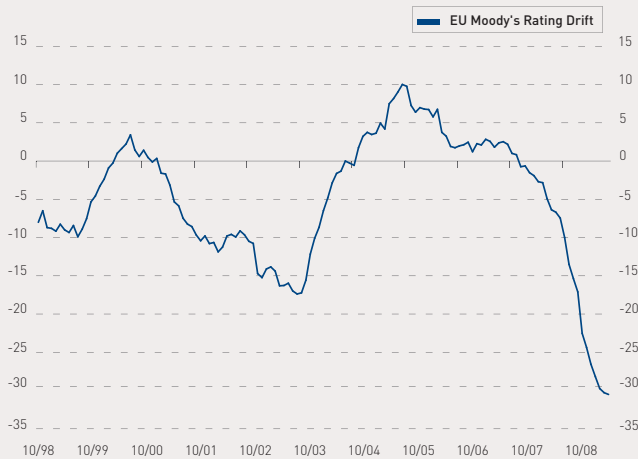
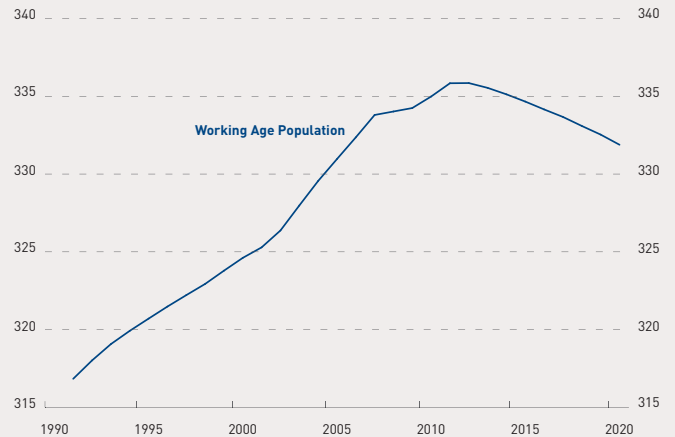


Chart 2

The EU's demographic challenge
Source: Eurostat, BUSINESSEUROPE



3 Emerging markets and the new global order

Emerging markets - particularly China, India, Brazil and Russia (the BRIC countries) - have gained tremendous weight in the global economy in recent years and this trend is likely to become even more marked in coming years. The combined GDP of the BRIC countries - measured in Purchasing Power Parity - overtook that of both the US and EU economies in 2008 and is set to increase further (see chart 3).

The rise of the BRIC countries creates enormous trade, investment and growth opportunities for an open economy like that of the EU, but also poses a multitude of challenges on issues ranging from industrial competitiveness, to energy and food security, intellectual property, climate change and global financial stability.

Future EU policy orientations will need to fully reflect this new world economic order: first, by developing more clearly articulated external policies and by reinforcing the EU's voice in the world; and second, by ensuring that domestic policies are conducive to global competitiveness and openness, as a precondition for sustainable growth.

4 Energy and environmental sustainability

The fourth key challenge in the years ahead is the need to accelerate transformation of the European energy system and move to a low-carbon and resource-efficient economy.

The extent of these challenges will require significant changes in consumption and production patterns, but also represents an opportunity for development. Between 1990 and 2005, the EU energy-producing sector reduced its greenhouse gas emissions by 11% and manufacturing industry sectors reduced theirs by 13%. These sectors will further reduce their emissions by at least 21% between 2005 and 2020 through the EU Emission Trading Scheme (ETS). If the EU moves to an objective of reducing carbon emissions by 30% in 2020 on the basis of a balanced international agreement, all parts of European society will need to be fully mobilised to achieve this goal.

International coordination and constant awareness of competitiveness issues are therefore vital to maintain a strong industrial base in Europe and, through this, to provide viable answers to the global climate change and energy security challenge. Mutually reinforcing environmental and industrial strategies are essential to meet the EU's economic and environmental goals.

Chart 3
The rising power of emerging economies
Source: IMF, BUSINESSEUROPE

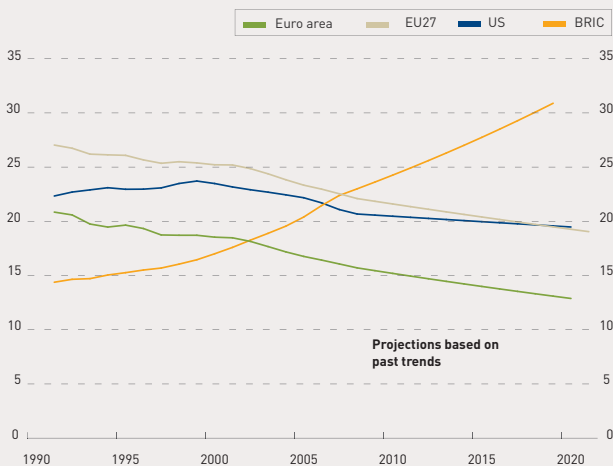
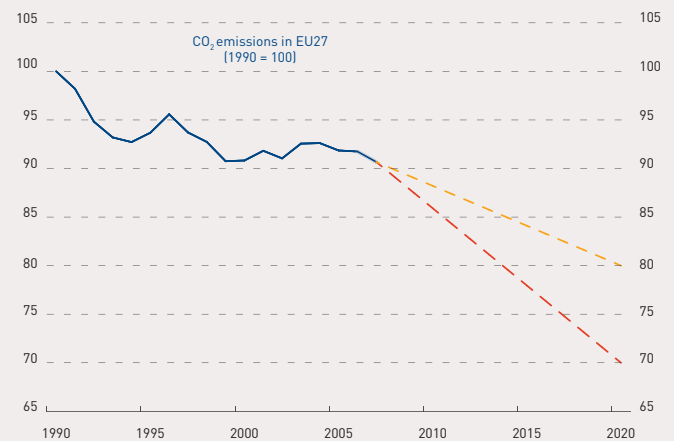


Chart 4
CO₂ emissions: an ambitious target
Source: Eurostat, BUSINESSEUROPE



THE PATH TO EU SUCCESS

Economic, social and environmental sustainability rely on solid foundations of economic growth. This is more valid today than it has ever been in the EU's history.

The overarching priority for European decision-makers in coming years will be to reinforce these foundations and put them at the heart of the EU's sustainable development strategy.

By doing so, Europe will not only be able to reconcile rising prosperity with intergenerational solidarity, but will also project its strength in the international arena and show leadership in setting global standards and rules.

In a world where companies, talents and capital are increasingly mobile, the EU's success is inextricably linked to competitiveness and openness. Its future achievements or failures will therefore need to be assessed against its economic performance in an evolving global environment.

At the very least, the EU should seek to maintain its share in industrialised nations' combined GDP at a constant level in the coming years. Moreover, it should upgrade its target employment rate among those of working age from 70% to 75% to compensate for demographic pressures, and reconfirm its commitment to increase spending on R&D to 3% of the EU's combined GDP. Differentiated targets across Member States will be vital to bolster political ownership and incentives to deliver on ambitious national objectives.

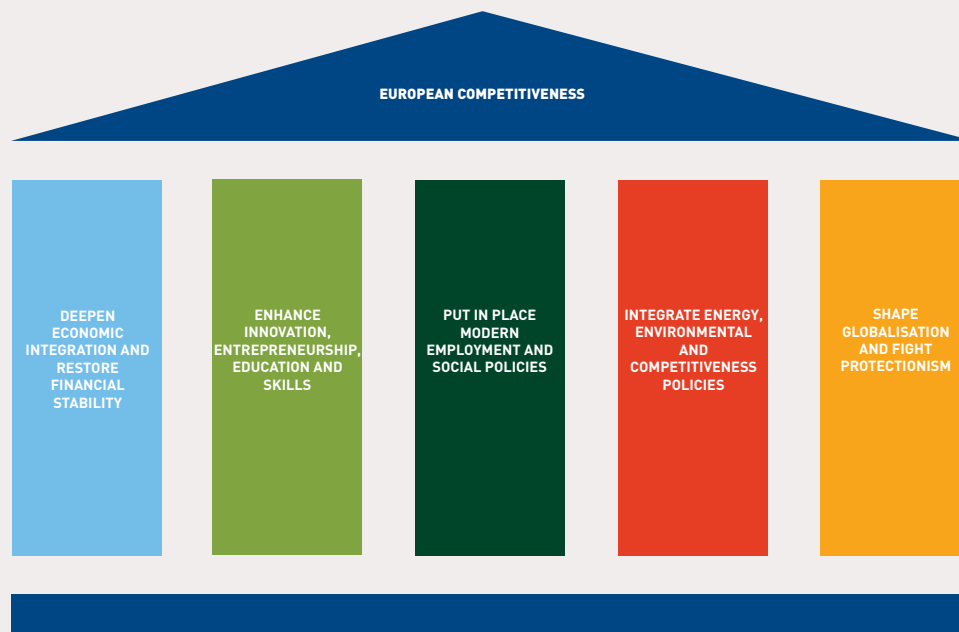
A sound macroeconomic environment will be guaranteed by firmly anchoring inflation at 2% and by strong commitments to fight public deficits and prevent unsustainable current account positions.

Modernisation of public services to respond to today's environmental, societal and energy challenges must remain at the centre of the EU and national policy agendas. Better cooperation between the public and the private sector through partnerships can help meet those challenges and cope with the drastic constraints on public finances.

To deliver results, the EU will also need to organise itself better, reinforcing its capacity to coordinate its actions - and those of its member states - around common objectives. Efforts should be concentrated in particular on areas where the EU's role and added value is undeniable, and where a pooling of Community and national policies can create substantial economic and political leverage.

BUSINESSEUROPE suggests grouping the EU's future policy orientations around five mutually reinforcing 'pillars':

Chart 5
Five pillars for the EU's future competitiveness



1 Reinforcing EU policies around five pillars

Pillar I: deepening economic integration and restoring financial stability

The EU Single Market must be put back at the centre of EU's strategy to boost pan-European growth. A better functioning Single Market is key to the recovery.

The current economic crisis highlights the need to stick even more to the Single Market principles and to resist economic protectionism at national, EU and global levels

Well-functioning and smartly regulated financial markets will play an especially important role to sustain the recovery in the years ahead. Reforms of financial markets will need to reinforce cross-border supervision and crisis management practices, improve incentive structures and prudential rules, and reduce more generally the pro-cyclicality of the financial system.

A fine balance needs to be found in order to durably reinforce financial stability, and at the same time, reward sound risk-taking inherent in entrepreneurial activities, innovation, trade, long-term investment and human capital development. These are vital in the process of economic growth.

Improvements are needed in numerous other areas to increase the potential benefits of the single market for companies, consumers and citizens.

Particular efforts will be needed to complete the internal market for services and transposition of the Services Directive; to ensure proper implementation of the new legislative package for goods, to increase the mobility of people and knowledge, to improve enforcement of EU legislation at member-state level and to step up coordination between national regulators and market supervisors.

The single currency is another cornerstone of the EU's future economic success. The euro has greatly benefited companies and citizens over the last decade by delivering stability, moderate inflation, low interest rates and has more recently provided a shield against the most severe effects of financial market and exchange rate turbulence.

To increase its benefits, current and future members of the euro area will need to strengthen their collective responsibility as well as their individual commitments to fiscal discipline, structural reforms, sound and sustainable competitiveness and strong representation at the international level. Reinforced governance of the euro area will help to foster deeper market integration in the wider EU and an enhanced role for the euro as an anchor of global economic and financial stability.

Pillar II: enhancing innovation, entrepreneurship, education and skills

The EU's capacity to prosper in the face of heightened global competition and a rapidly ageing society will increasingly depend on its ability to innovate and ensure a sufficiently strong skills base. Innovation is also a key element for addressing the major challenges facing society today, particularly those linked to health, energy, climate and mobility.

BUSINESSEUROPE calls for greater coherence in policies aimed at fostering a more knowledge-based and entrepreneurial society, and developing the workplaces of the future. This will make it possible to generate important synergies between these policy areas, in order to unleash EU's large untapped potential for higher productivity growth, and hence for higher income levels and a more resilient economy.

It is crucial to provide citizens with the right and attractive conditions that encourage them to start their own business and grow its success over time. Rapidly implementing the principles of the Small Business Act for Europe and providing for regular progress assessments are indispensable to develop EU's entrepreneurial potential for the recovery. In particular lowering administrative and tax burdens and improving access to finance remain essential.

The EU must reinvigorate its innovation strategy. The existing R&D action line must be strengthened by increasing the size and scope of EU initiatives and by improving the governance structures aiming to promote the coordination of national policies. New elements to incorporate in the strategy include stimulating a broader supply of venture capital through establishment of a genuine European market for it, and fostering sustained demand for innovative products and services, while defining framework conditions that facilitate large-scale innovation investment by suppliers to meet that demand. Ensuring cost-efficient protection of intellectual and industrial property rights is also of essence.

Under the 2004-2009 Barroso Commission, the need to develop such a broad-based strategy has been recognised. It is essential now to implement this fresh vision on a large scale.

Pillar III: putting modern employment and social policies in place

European social systems have cushioned the worst impact of the financial and economic crisis on workers and citizens. However, with the return of high unemployment and a severely deteriorated outlook for public finances, the EU's capacity to provide protection against risks and combine economic growth with social progress will only be sustained by intensifying reform efforts. Joint progress must be achieved in increasing employment levels, productivity growth and the financial sustainability of European social systems.

Member states must implement the principles of flexicurity – combining the flexibility employers need to adapt their workforces to meet changing demands with security for workers by supporting them between jobs and providing skills training. As part of this, social protection systems should be modernised to promote mobility and attract more people into the labour market. Non-wage labour costs must also be contained to encourage job creation. Tax and benefit systems should also be reformed to ensure that working is economically advantageous by decreasing benefit dependency and encouraging active searching for work while providing adequate income support for those who remain outside the labour market.

Finally, combining employment and productivity growth will also require a substantial increase in the supply of skilled workers on European labour markets. Modernised education and training systems and well-designed immigration policies are crucial building blocks to support high sustainable growth in the years ahead.

Pillar IV: integrating energy, environmental and competitiveness policies

A truly integrated European policy approach to address the challenges of energy security, competitiveness and climate change in an effective way has yet to be developed. Correctly framed policies can provide new opportunities for technologies, business development and job creation.

On the energy supply side, more EU action is needed to promote green technologies and sound regulatory frameworks, and in the external relations arena, to improve the diversity and security of Europe's energy sources. It is vital to keep all energy options open, including nuclear.

The EU's climate change strategy should give top priority to improving energy efficiency and to ensuring that all sectors contribute to protecting the environment. Maintaining and enhancing the competitiveness of EU industry will be crucial to guarantee the necessary investments to protect the environment, and should be supported by EU climate policies, especially in the absence of an international agreement with equivalent burdens for industries outside Europe.

Climate change is a global issue. The EU must take all appropriate initiatives to ensure that other industrialised regions commit to similar efforts to those undertaken by the EU and to secure the engagement of industrialising countries, taking into account the principle of common but differentiated responsibilities for fighting climate change.

Pillar V: shaping globalisation and fighting protectionism

In a more challenging and uncertain global environment, Europe must set the pace in international policy discussions, fighting protectionism at home and abroad, and contributing to a balanced and sustainable development of the global economy.

At the level of the European Single Market, this requires close coordination among Member States strict and more efficient enforcement of Single Market rules in particular state aid and competition rules to avoid protectionist measures that would lead to market distortions. Financial protectionism must also be resisted forcefully as it inflicts long-lasting damage on financial and economic integration.

The EU's future economic agenda must include action on the international stage to ensure broad-based market access for trade and investment, improved global regulation and enforcement cooperation, financial stability and strong climate change commitments. This must be assured by integrating the major emerging economies into rules-based agreements and institutions.

Key elements of a trade and competitiveness strategy include the conclusion of multilateral WTO trade negotiations and bilateral trade agreements to open up markets for EU companies, a tougher approach towards key emerging economies – in particular Brazil, Russia, India and China – over the protection of intellectual property rights, opening procurement markets, securing access to raw materials, providing non-discriminatory treatment and effective protection for EU investment, removing market-access barriers, and eliminating unfair subsidies and export restrictions.

Regulatory cooperation with key trading partners such as the US and Japan must be developed to deepen economic and trade relations. EU trade supporting policies such customs and export regulations must be substantially improved to strengthen Europe's international competitiveness.

Finally, Europe must play an active role in reinforcing the international financial system, its institutions and their capacity to alleviate global economic imbalances.

2 Boosting Europe's means of delivery

To have a measurable impact on the ground, the EU will need to make better use of the Community instruments at its disposal.

Lessons from the Lisbon Strategy

By setting a common objective of boosting EU's capacity for growth, and by extending the scope of national policy coordination, the vision set out in the Lisbon strategy in 2000 and refined during the welcome 2005 mid-term review represented a turning point in European policy-making.

But over the years, the swift transformation of the global economy has not been matched by adequate changes to EU policies or by the pace of national reforms. The Lisbon strategy has suffered from a clear delivery gap, which can be traced back to two fundamental and related weaknesses:

- 1 A majority of member states have demonstrated a lack of commitment to implement agreed reforms. One key problem has been the failure of the Lisbon strategy to stir political interest and public awareness at the national level and to devise strong peer pressure instruments at EU level.
- 2 EU policies have too often overlooked competitiveness goals and policy-makers have failed to build strong links between actions at EU level and the reforms recommended at national level. The structure of the EU budget is inadequate to support growth and jobs objectives, and the EU's international voice has not matched its economic size and importance.

If the EU is to respond effectively to the complexity of today's global environment, it must address these weaknesses and improve its means of delivery.

Making better use of EU legislation and the EU budget

The whole credibility of the EU's growth strategy relies on the Commission's ability to honour in its own policies the core objective of strengthening the competitiveness of the European economy.

The EU's legislative programme will need to become substantially more conducive to competitiveness and avoid counter-productive initiatives.

We call on the European Commission to continue its commitment to better regulation, to reduce administrative burdens of all kind, to ensure respect for the principles of subsidiarity and proportionality in any new legislation, and to subject new proposals to a comprehensive systematic assessment of their impact, including on global competitiveness.

We also call for a major overhaul of the EU budget to better reflect European ambitions. Funding should be targeted on a few selected objectives where the EU added value is undeniable and where the highest cross-border spillovers can be achieved.

While there is at present no justification to increase the EU budget significantly above 1% of EU GNI, a substantial reallocation of financial resources from the Common Agricultural Policy to competitiveness programmes, in particular research and innovation, is imperative.

In addition, the leverage effect of the EU budget needs to be enhanced. This can be achieved by further developing existing financial instruments in coordination with the European Investment Bank Group and developing more efficient public-private partnerships.

Raising the profile of EU policies at national level

The EU's policy agenda will only be successful if it generates greater political interest at national level and develops the necessary incentives for governments to deliver on agreed commitments. Beyond the need for EU institutions to demonstrate leadership in implementing growth-enhancing policies, a change of culture is required at national level to foster 'local' ownership of those policies.

Benchmarking national initiatives are vital to foster 'policy learning' across member states, increase the pressure on under-performers and avoid a piecemeal approach to implementing the necessary reforms. The Lisbon assessment methodology framework recently developed by the Council and the Commission makes it possible to identify reform needs and implementation efforts across Member States. These tools should be better exploited in the future.

Further steps are needed to increase the visibility of European policies and recommendations at national level. To raise political ownership, Member States should be given sufficient leeway to define their own targets and refine them to reflect national political circumstances.

Involvement of sub-national authorities must also be strengthened where relevant and business better consulted throughout the process of evaluation.

Finally, an annual address by the president of the Commission in national parliaments, explaining the EU's objectives and policies, the importance of national contributions to the reform effort, and their European as well as global context, would do much to increase the EU's visibility and make it far more difficult for national governments to blame Europe for unpopular reforms.

For further information: **Economics Department**

Marc Stocker, Director and Joana Valente, Adviser

Tel +32 (0) 2 237 65 23 - **Fax** +32 (0) 2 231 14 45 - **E-mail** p.troisi@businesseurope.eu

BUSINESSEUROPE Av. DE CORTENBERGH 168 / BE - 1000 BRUSSELS

TEL +32 (0) 2 237 65 11 / E-MAIL MAIN@BUSINESSEUROPE.EU / WWW.BUSINESSEUROPE.EU

BUSINESSEUROPE



MEMBERS ARE 40 LEADING
NATIONAL BUSINESS FEDERATIONS
IN 34 EUROPEAN COUNTRIES

 Austria	 Belgium	 Bulgaria	 Croatia	 Cyprus	 Czech Republic
 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
 Slovak Republic	 Slovenia	 Spain	 Sweden	 Switzerland	 Switzerland
 The Netherlands	 Turkey	 Turkey	 United Kingdom		