SPEECH

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The recovery in Europe has been sound and certainly better than we could have expected previously, with growth averaging 3% and the unemployment rate dropping below 7% for the first time in more than 25 years.

It is clear that the labour market has been an important beneficiary but also a significant contributor to the recent economic revival. European companies have created more than 9 million new jobs since 2005, improving income prospects for European citizens. Although this upturn has been partly cyclical, signs of structural improvements do exist, such as the rising participation rate of persons older than 55 years to 44% *(average for 2006, DK: 61%)*, persistent wage moderation, and lower long-term unemployment.

However, the global environment has become significantly more challenging in recent months. First, the US sub-prime crisis has triggered a sharp slowdown in the economy on the other side of the Atlantic.

Secondly, the euro and – due to the fixed exchange rate regime – the Danish krone have appreciated sharply since mid-2007 due to a weakening of the US dollar and are confronted with inflexible exchange-rate regimes elsewhere in the world, especially in China.

Thirdly, global commodity prices are surging. In particular prices for energy and unprocessed food have risen substantially over the past months and a reversal of this trend is unlikely to materialise in the short term. The risk for companies is compounded by trade unions' excessive wage demands.

In addition to these short-term fluctuations, important structural and long-term shifts are ongoing in the world economy.

China has become the world's third largest economy but is still a long way behind the EU – which remains the number one – followed by the US. Taken together, the BRIC countries last year accounted for nearly half of the world's GDP growth. They are also

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becoming centres of research and innovation and are accumulating huge currency reserves which allow them to invest massively in Europe and other developed countries.

At the same time as the stars of new economic powers with young work forces are rising rapidly, Europe will have to adapt to unfavourable domestic demographics. Under current projections, the size of the EU's working-age population will fall by 16% or almost 50 million people by 2050, increasing the pressure on social security systems and leading to a severe shortage of skilled workers. In some member states, first signs of this scarcity are already being felt today.

In the face of these enormous challenges, important work needs to be done. Of course, monetary policy *(i.e. interest rates)* cannot be expected to provide an appropriate response to structural trends on a global level. The future strength of the EU economy can only be guaranteed through ambitious national reforms and a deepening of the European internal market.

In this regard, very different reform commitments across countries and areas have been observed in recent years. In our Reform Barometer published in December we have assessed most recent efforts in the 27 member states. We note that robust economic growth unfortunately does not translate into a speeding-up of reforms. Some countries like Germany were even at risk of diluting important elements of past reforms. In this respect, Denmark is a positive exception. Despite rather subdued GDP growth of 1.2% in 2007, reform progress has been sizeable and exceeded the EU average.

Reform efforts therefore need to be well focused in order to achieve maximal results. Future living standards will only be guaranteed if necessary reforms are implemented to boost productivity growth in Europe. The disappointing labour productivity growth of 1.5% even at the peak of the current business cycle is completely insufficient. This is the consequence of a lack of competition in key services sectors, a lack of R&D spending, a lack of policies encouraging SME dynamism, a lack of appropriate skills and a lack of adaptability in general.

In fact, enhancing the adaptability of European companies and workers through structural labour market reforms remains a major priority in most Member States. Do I have to mention here in Copenhagen that the flexicurity approach is key in this respect?

Where are we on this at EU level? BUSINESSEUROPE conducted a Joint Labour Market Analysis with the European Social Partners. The results and recommendations were presented to the Tripartite Social Summit in October and to the European Council in December 2007.

The agreement can be considered a milestone in the history of European Social Dialogue. For the first time, European social partners jointly acknowledge the need for labour market reform to face the challenges of population ageing, technological change and globalisation. The main goals must be to increase employment and to boost productivity growth. In order to meet these goals, we recommend that the reforms of

European labour markets should be based on the flexicurity approach. Flexicurity is key to modernise the European social model because it is about moving away from a job preservation mindset into a job creation mindset, helping workers to maximise their chances on the labour market and helping companies to face the challenge of global competition and the need to change.

Together with the trade unions, we have agreed that an effective flexicurity approach should consist of the following components: flexible labour law, effective active labour market policies, comprehensive lifelong learning and employment-friendly social protection systems. In addition, we accept the fact that an effective social dialogue according to the national custom will contribute to smooth functioning of labour markets.

Of course, there is no one-size-fits-all model for flexicurity. It is true that flexicurity has its roots in Denmark and has been a success for the Danish labour market. However, implementing flexicurity across the EU is not about exporting the Danish model but exporting its principles and concept. After that, Member States will have to find their own specific flexicurity policies, adapted to their socio-economic situation and institutional framework.

In addition, the flexicurity approach must be truly embedded in and considered an integral part of the Lisbon strategy. If it is not accompanied by the necessary reforms *(i.e. implement sound budgetary policies, increase investment in R&D and innovation)*, the flexicurity approach, on its own, will fail to help preserve the European social model and achieve the objectives of more and better jobs and higher productivity. This, in turn, is essential for Europe to respond to and benefit from globalisation.

In short, in a Europe with no internal borders and competing in a global economy, we need more efficient and dynamic labour markets. Structural changes in the economic environment and on our labour market are making mobility, adaptability and skills of European workers ever more important.

However, current levels of worker mobility in the EU are low. Workers are not inclined to move or change jobs. On average, almost 40% of European workers have been with the same employer for over 10 years. The average duration of employment in the same job is 10.6 years. This can not be considered a problem in itself, but it clearly shows the inflexibility of the labour market. In comparison, workers in the US keep the same job for 6.7 years in average. The question is therefore: what is importance to boost the dynamism of the economy, the companies and the workers? Denmark shows the highest level of job mobility with the lowest unemployment rate in the EU. The Danish flexicurity model, which supports mobility and reduces the risk of transitions on the labour markets, might be an important factor behind this.

However, workers not only need to be more "job mobile". Increasing geographical mobility is essential for the efficient use of EU labour since it will help tackle labour shortages, leading to a better match between labour demand and supply in the European Union. Currently, less than 2% of European citizens live in another Member State. If anything, this shows that cross-border mobility still remains restricted by a number of barriers – the most important and most difficult being the cultural one! – which need to be tackled urgently if we want to fully exploit the potential of the EU internal market.

Part of the solution also lies in reforming and modernising the provision of education and training in Europe. Investment in skills needs to be intensified. The existing mismatch of skills underlines this. Labour market projections indicate that demand for higher skill levels will increase as Europe seeks to leverage its competitive advantage in high quality production processes. Europe currently has 80 million low-skilled workers whereas by 2020 it is estimated that 50% of newly created jobs will require highly skilled workers. European industry will also increasingly rely on interdisciplinary work organisation. This requires increasing individuals' adaptability as well as raising the overall level of skills.

Effective lifelong learning strategies are an essential ingredient in the flexicurity approach. They contribute to providing a platform for a well functioning labour market and a broad skills base. Public authorities have to create the framework conditions necessary for a partnership-based structure of cooperation that closely addresses labour market needs. Enterprises can play a role in improving opportunities for lifelong learning and in helping individuals to take responsibility for their employability. In this respect, European Social Partners have played their role. In 2003, we concluded an agreement on a Framework for Action on Lifelong Learning. Further, we are currently reflecting on the possibility to negotiate an agreement on the integration of disadvantaged groups or to go further on the issue of lifelong learning. This is the right direction and we will continue to follow that route.

Finally, Europe needs to put in place the conditions and procedures that might increase Europe's attractiveness to highly skilled workers from non-EU countries. Failure to attract foreign workers with the right skills mix, which can vary from country to country, will hamper Europe's competitiveness and long-term economic growth. We have to create adequate avenues to facilitate legal migration, in particular of highly-skilled workers if we want to increase the size of Europe's working-age population, alleviate labour and skills shortages and boost European companies' ability to compete on the global stage. We support the proposal on immigration for the purposes of highly qualified employment, the so-called "blue card".

To conclude, it is clear that the status quo is no option. Firm and forward-looking action is necessary to correct structural weaknesses on European labour markets. However, time is running out. We cannot afford to wait until 2020. We therefore call on national governments to implement now the necessary economic and labour market reforms. We, in BUSINESSEUROPE and its member federations, will continue to promote flexicurity throughout Europe, including through different initiatives such as follow-up to the Joint Labour Market Analysis with the Trade Unions.