

**Mr Herman Van Rompuy**President  
European Council  
175 rue de la Loi  
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BELGIUM

19 March 2010

Dear President,

**European growth strategy**

The European Council on 25 and 26 March 2010 will discuss the strategy to pull the European Union out of the crisis and foster greater prosperity in the years to come.

Given its Go for Growth agenda for the EU in 2010-2014, BUSINESSEUROPE is keen to ensure that the overarching priority of the EU 2020 strategy is growth. Like the Commission, we believe that Europe can only succeed if it fosters innovation, develops entrepreneurship, improves education, defends open markets and puts in place an integrated industrial policy. However, the sense of urgency and focus needs to be reinforced in order to transform the Commission document into a real action plan.

Two elements will be essential to make things happen:

- the agenda pursued must coincide with the mandate of the current EU institutions in order to ensure accountability,
- doubling Europe's growth potential by 2014 must be added as the clear overall objective and first headline target, in order to avoid opposing smart, sustainable and inclusive growth.

Ahead of the EU Council meeting on 25 and 26 March 2010, BUSINESSEUROPE would also like to stress that three areas require urgent attention to restore the credibility of policy coordination in the European Union after the semi-failure of the Lisbon strategy.

**1. Sustainability of public finances and structural reforms**

The severity of fiscal imbalances and ways of addressing them in a consistent strategy is given insufficient attention in the Commission document. Without substantial consolidation efforts public debt could surpass 100% of GDP in coming years. This would heavily narrow governments' scope for action and hamper financial stability. It should be the primary task of the EU strategy to ensure a synchronised effort to support fiscal sustainability and growth at the same time.



To bring public debt in the EU back to the Maastricht limit of 60% of GDP by 2025, governments will have to sustain a structural primary balance of 2.8% of GDP (compared with minus 4.5% at present) and make reforms to double the EU's growth potential to 2%. The European Union must pursue a comprehensive agenda combining an exit strategy to cap public indebtedness with an entry strategy to support investment in future growth areas.

The European Council should ask the Commission to specify the parameters of this strategy:

- On the exit side, the EU strategy should foresee tighter fiscal rules and institutions, greater efficiency of public administrations and credible cost cutting measures, reforms of pension and healthcare systems, and a greater role for the private sector in the supply of public services and infrastructure.
- On the entry side, it should create the conditions for higher return on education and training, more and better targeted efforts in R&D and innovation, better prioritisation of infrastructure investments, and growth-enhancing tax reforms.

Fiscal sustainability is tightly connected with the health of the financial sector and the availability of credit for the recovery. Better access to finance must remain a priority in the EU's growth agenda.

## **2. Implementing flexicurity to reduce unemployment**

Flexicurity is central to achieve the EU priorities of smart, sustainable and inclusive growth. The target of 75% employment rate will only be met if all Member States pursue their efforts to facilitate job creation and to integrate more people in the labour market, including those countries which are already top performers.

Evidence shows that flexible labour markets improve the employment prospects of young people, women, older workers and the long-term unemployed. Tackling labour market rigidities will help to reduce youth unemployment, currently at 21.3% in the EU, as well as structural unemployment. This is absolutely crucial to meet to the challenge of demographic ageing. Furthermore, the transition towards a low-carbon economy can lead to new employment opportunities, but also implies huge production adaptation. Rather than diverting scarce resources to preserve jobs of the past, active labour market policies that guide workers towards new jobs and enable them to acquire new skills should be put in place.

Flexicurity enhances the skills of workers through investments in education and training and lifelong learning. These investments are a prerequisite for innovation. But they must go hand in hand with flexible employment contracts and production conditions in order to ensure that the full benefit from strengthened research, knowledge and innovation are reaped in Europe, rather than in other parts of the world.



The social partners are working on a joint contribution to the definition of a Post-2010 Lisbon agenda. BUSINESSEUROPE aims at reiterating their support to flexicurity, which was part of the joint analysis of European labour markets agreed with ETUC in 2007. It is eager to respond positively to the Commission's invitation to work on the second phase of the flexicurity agenda with the social partners.

### **3. A credible governance process**

The EU's pledge to exit from the crisis and support greater prosperity, job creation and economic stability on our continent will only be credible if structural impediments to growth are tackled at the national level.

Previous attempts to coordinate structural reforms in Europe have failed due to weak political ownership and accountability. Shortcomings in national implementation have undermined the credibility of the European Union to successfully coordinate national policies.

EU leaders now have a unique opportunity to put in place a more effective system of monitoring and benchmarking implementation of the agreed EU growth strategy into national policies. The Commission must not shy away from naming good performers and indicating where countries fall short of their commitments. Transparent evaluations must ensure that proposed reforms respond to the main growth bottlenecks in each Member State, rather than mirroring governments' legislative programmes.

European companies are prepared to play their role within the proposed EU growth strategy. However, entrepreneurs make their investment decisions in light of market developments. Enterprises will only be able to generate the desired growth and employment objectives, if the EU institutions stand firmly behind their commitment to enhance competitiveness, develop the Single Market, keep a strong industrial base in Europe and open up global markets to goods and services produced in Europe.

Yours sincerely,

*(original signed by)*

Philippe de Buck  
Director General

Jürgen R. Thumann  
President