GROWING OUT OF THE CRISIS
5 STEPS TO RESTORE CONFIDENCE
TACKLING STRUCTURALLY LOW GROWTH IN EUROPE

“Europe’s failure to focus on delivering long-term sustainable growth is impacting upon businesses, workers and households across our continent. Governments need to restore the trust and confidence of investors and consumers and unleash the energy and innovation of businesses who are the engine of economic success.”

Jürgen R. Thumann
President of BUSINESSEUROPE
OVER THE LAST 10 YEARS, ECONOMIC GROWTH IN EUROPE HAS AVERAGED AROUND JUST 1.25%, A YEAR, SIGNIFICANTLY BELOW OTHER G8 ECONOMIES.

The consequences of continuing low growth in Europe are increasingly widespread:

- Unemployment reached 11% in the Euro Area in April 2012, the highest rate suffered in the last 20 years. This means that 17.4 million Euro Area’s citizens are currently without a job.

- Youth unemployment is now over 22% in the EU, with a danger that over five million young people will add to the more than 10 million people who are officially long-term unemployed.

- The number of businesses in the EU fell by more than 680,000 in 2009 alone, impacting upon 7 million jobs.
REACHING THE OBJECTIVE OF AT LEAST DOUBLING EU’S GROWTH RATE TO 2.5%

Europe urgently needs to return to growth rates such as 2.5% attained in the late 1990s and early 2000s, and match US economic performance where per capita income is 50% higher than in Europe.

A minimum target should be to double Europe’s long-term annual growth rate from 1.25% to 2.5%. This would mean:
- A total of 1.4 million new jobs created every year, which based on productivity growth of 1.9%, would bring about full employment in Europe by 2020.
- Over €5000 extra annual income for an average household by 2020.
- An average additional reduction in the structural budget deficit in EU Member States of 5% by 2020.

Ahead of the European Council on June 28th and 29th 2012, this document sets out a five point plan of concrete actions that political leaders need to urgently take in order to enable businesses to restart European growth:

1. SAFEGUARD THE EURO
2. IMPROVE PUBLIC FINANCES AND STRUCTURAL REFORMS
3. PROMOTE PRIVATE INVESTMENT
4. UNLEASH THE SINGLE MARKET
5. EXPAND EU EXTERNAL TRADE

Public expenditure alone will never be able to plug the hole created by the current crisis. Companies are the real driver for long-term growth in any economy. There needs to be greater recognition of the impact of a clear, stable and attractive business environment, founded upon smart regulation, in enabling private sector investment, innovation and expansion.
“We need to strengthen the euro through immediate and concrete steps towards economic and political integration. This includes building a fiscal union in the euro area alongside integration of financial market supervision.”

Laurence Parisot, President of MEDEF, Mouvement des Entreprises de France
The establishment of the common currency is a key achievement of the European Union:

- The single currency has delivered unprecedented price stability, with Euro Area inflation averaging around 2% since the start of the monetary union, compared to an equivalent of 2.4% in the 6 years prior to the euro’s introduction.

- The boost in trade between Euro Area members as a result of the single currency is estimated to have been between 5% and 20%.

- In addition to long-term benefits to competition and growth, the single currency has eliminated exchange costs by €20 to 25 billion per year.

Leaders need to use all possible means to safeguard the euro. No plan for growth will have real force until the present uncertainties around the euro are resolved:

- **The ECB should continue to assist monetary and financial stability** by acting as a lender of last resort to the banking sector to support productive investment, and for a limited time until other means are in place, engaging in sovereign debt markets, to the extent it believes necessary to support the euro.

- The European Stability Mechanism should be developed into a politically independent European Monetary Fund open to all EU Member States. **Allowing the European Stability Mechanism (ESM) to lend directly to financial institutions is an option to be considered**, conditional upon the ESM having the necessary legal competence to impose strict conditions and the necessary means to do oversight.

- BUSINESSEUROPE supports the vision of greater integration of financial markets within Europe and calls on the EU leaders to swiftly and immediately take the necessary actions to safeguard the European banking sector, using both existing available tools and by considering other means. Increased financial market regulation needs to be taken forward in an inclusive way that allows all EU members to participate fully in the single market.

- **Greater fiscal integration in the Euro Area should be a long-term aspiration. Eurobonds** are not a means to solve the current problems, but the adoption of a scheme, provided it improves rules and incentives for fiscal discipline may be a long-term aspiration, conditional upon a transfer of significant budgetary authority from the national to the European level, and Euro Area economies showing greater convergence, and ensuring their public finance positions are in genuine adherence with the Maastricht criteria.
IMPROVE PUBLIC FINANCES AND STRUCTURAL REFORMS

“Fiscal consolidation is not the alternative, but the foundation for long-term growth and employment. Governments can help unleash business activity and kick-start growth by committing to credible plans to improve public finances and restore financial stability, and by implementing competitiveness enhancing structural reforms.”

Juan Rosell, President of CEOE, Confederation of Spanish Employers

FACTS

- EU member states have an average budget deficit of 4.5%, significantly above the 3% maximum limit agreed by EU members as part of the Stability and Growth Pact.
- EU governments spend over 10 times servicing debt than on funding research and development.
- Structural reforms could boost annual EU GDP by a total of 7% by 2020 and create 11 million jobs.

Country experiences show that structural reforms, when combined with necessary fiscal consolidation, can feed through to economic performance relatively quickly.

GERMANY

The experience in Germany in the last years shows that greater flexibility in working time, work organisation and wage setting, coupled with good basic education and lifelong learning really improve economic performance and reduce unemployment.

IRELAND

Through measures to reduce both public and private sector wage costs and increase workplace productivity, Ireland has reduced its unit labour costs by over 20% against the euro average since 2008. As a consequence, exports increased by over 4% in 2011 alone, and the current account deficit is expected to decrease by 2/3rds from its peak by the end of the year.

European business believes reforms to public expenditure and tax systems are priorities for Member States. Only when businesses and households are sure that governments have fully committed to putting their public finances on a sustainable path, will they have the confidence to invest, recruit workers and increase consumption.
The European Council needs to send a clear signal regarding the need for reform by adopting Commission country-specific recommendations which identify both key challenges and the need to step up reform implementation.

Priorities include:

- Put in place coherent and credible fiscal consolidation plans to meet targets agreed with the Commission to reduce budget deficits. The focus should be primarily on reducing government expenditure, with any tax reforms carefully designed to be growth-enhancing.

- Rapidly implement labour market reforms to reduce unemployment. This means reducing employers’ social security contributions and the tax burden on labour, and reforming employment protection legislation to stimulate hiring, as well as ensuring that wages are in line with productivity.

- Address rising youth unemployment, by putting labour market needs at the centre of education, including through improving the quality and image of apprenticeships, in order to make learning which combines both school and workplace based elements more widely used in Europe.

- Undertake product market reform to make it easier for firms and workers to enter markets, driving up competition, productivity and growth.
3  PROMOTE PRIVATE INVESTMENT

“Multi-national companies have a growing choice of locations across the world in which to build new plants. If Europe is to harness the benefits in terms of jobs that such investment brings, it needs to ensure it has a supportive business environment, including world-class infrastructure and communications networks.”

Henryka Bochniarz, President of PKPP, Polish Confederation of Private Employers Lewiatan

FACTS

- €1 trillion is needed by 2020 to develop trans-European networks on energy, transport and ICT.

- Less than 10% of the current EU budget is directly devoted to the essential long-term investment priorities of research and innovation, trans-European infrastructure networks, and lifelong learning.

- Over €55 billion of EU structural funds, which could be focussed on long-term investment, remain unspent.

- The supply of venture capital funds, essential for small and medium sized business growth, fell from €17 billion in 2000 to €3 billion in 2010.

- The proposed Financial Transaction Tax, by raising the cost of capital for investors, could reduce GDP by up to 1.76%.
Europe needs a stronger investment and competitiveness agenda to provide the stable economic and policy environment needed to build private sector trust and confidence and at the same time reduce legal obstacles and address the lack of capital market instruments for risk investment.

Leaders must:

- **Focus public expenditure at Member State level on supporting investment** in growth-enhancing areas such as skills, technology and infrastructure.

- Ensure the **new EU budget** has a much greater focus on key areas for European competitiveness such as education, research and development, innovation, trans-European infrastructure, and resource efficiency, with EU structural funds redirected to projects addressing structural weaknesses in order to deliver a clear impact on growth.

- **Increase the attractiveness to private sector investors of large scale long-term infrastructure projects** by introducing EU **project bonds**, increasing European Investment Bank capital to lever investment and ensure regulation encourages institutional investors such as insurance and pension funds.

- Swiftly adopt the Commission’s proposal for **venture capital funds** to enhance cross-border EU venture capital flows.

- **Withdraw proposals for a Financial Transactions Tax**, which threaten to raise the cost of capital and reduce the attractiveness of the EU as a location for financial services activity.
“We urgently need to complete the single market and extend the benefits it brings to all areas of our economy. But the single market is not primarily about introducing new legislation; existing rules must also be applied and enforced consistently across Europe”.

Lars Mikkelgaard-Jensen, President of DI, Confederation of Danish Industry

“The Single market adds €600 billion a year to our economy. Since 1992 it has helped create almost 3 million new jobs across the EU, and benefitted the broader European Economic Area. But we are far from unleashing its full growth potential”.

Giorgio Squinzi, President of Confindustria

**FACTS**

- A 1% increase in the **openness** of the EU economy results in an increase of 0.6% in **labour productivity** in the following year.

- Businesses need to comply with multiple different tender procedures across the EU each year in order to apply for **public procurement** contracts worth 18% of EU GDP.

- Companies spend around €289 million each year protecting their **patents** in different EU countries, with many companies deterred from innovating in the first place by such costs.

- In terms of **labour mobility**, just 0.1% of the EU workforce moves country in a given year for work.

- Industrial consumers’ electricity prices rose by 45% in the last decade. Developing an **energy market** which provides cost-competitive, secure and sustainable energy will become an increasingly important competitiveness factor.
RISING INDUSTRIAL ENERGY PRICES, 2004-2011

By completing the single market in key areas and reducing the administrative burden for companies through smarter regulation, we can add an estimated €800 billion to EU GDP. Action is needed in particular to:

- Create a true **digital single market**, an area that alone can contribute 4% to EU output by 2020.

- Simplify the way in which **public procurement** is carried with new EU sponsored knowledge centres providing advice, guidance and training to contracting authorities.

- Establish a **unitary patent and unified patent court** system to ensure cost-effectiveness, quality and legal certainty for all companies in Europe.

- Remove unnecessary **obstacles to labour mobility between EU countries**, particularly regarding recognition of qualifications and pension portability.

- Develop a comprehensive, predictable and affordable **EU climate and energy policy** for the post-2020 period to create an energy single market.
“Trade agreements can be significant growth drivers of the European economy. The EU needs to prioritise the launch of negotiations with the US and the conclusion of trade agreements with Canada, India, Mercosur and ASEAN countries in 2012-13.”

Ole Johansson, President of EK, Confederation of Finnish Industries

**FACTS**

- More than 80% of global growth is forecast to be generated outside of the EU in the coming years.

- Almost 30 million EU jobs (more than 10% of the EU workforce) are dependent upon export markets outside the EU.

- Whilst many members need to significantly improve their international competitiveness, an overall EU current account deficit in 2011 of just 0.3% illustrates the potential EU economies have to compete successfully in the global market.

- Completing trade agreements with major partner economies will both increase demand for EU products and improve competitiveness through increased openness, and could deliver over 2 million jobs and boost output by up to 1.5%.

**SOURCES OF GLOBAL GROWTH BY REGION 2011-2017**

Source: IMF
Europe needs to build a strong presence in expanding global markets by engaging in closer bilateral trade relationships with key trade partners.

The EU should:

- **Launch trade negotiations with the US.** A comprehensive package should cover trade in goods and services, investment, procurement, protection of intellectual property rights (IPR) and regulatory issues. Tariff elimination alone could increase trade by over €200 billion.

- Rapidly conclude ambitious trade deals with India, Mercosur and Canada and generate new business opportunities in Japan through the removal of non-tariff barriers and other restrictions to market access.

- Ensure that companies have access to *trade finance* at competitive prices by adjusting Capital Requirements Directive IV rules to take account of the low risk weight of trade finance and by allowing Export Credit Agencies to continue to provide short term export credits.
THROUGH ITS 41 MEMBER FEDERATIONS FROM 35 EUROPEAN COUNTRIES, BUSINESSEUROPE REPRESENTS MORE THAN 20 MILLION SMALL, MEDIUM AND LARGE COMPANIES EMPLOYING SOME 120 MILLION WORKERS.