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## Panel 2

## EUROPE'S ANSWER TO THE GLOBAL CHANGES IN THE DIVISION OF LABOUR

*Keynote Address*

**GÜNTER VERHEUGEN**

Vice President, Commissioner for Enterprise and Industry, European Commission, Brussels

Although I completely agree that the fall of the Iron Curtain inspires the picture of broken levees, I would put it more positively. Exactly two years after the largest enlargement in the history of the European Union, it might be more appropriate to speak about *broken chains*.

As a matter of fact, we are in a position to acknowledge that Europe has successfully addressed the major changes linked to the transition of [a number of] communist countries to democratic and market-oriented members of the European Union. It is a fundamental achievement in terms of politics, economics and civilisation, and has therefore strengthened the European Union.

I have to say, however, that we are not very good at selling our own successes. This is probably one of the major policy achievements in the history of the continent, and we should not allow that populist leaders in some countries use it to tell people that European integration is responsible for the loss of jobs and structural changes in our societies.

On the other hand, it is clear that a stronger European Union with an enlarged, integrated home market is in a better position to cope with the challenges of globalisation. It cannot be taken for granted that globalisation will lead to more growth and jobs for Europe in the future. For the time being it is obvious that we are not losers in global competition. We are winners. I am not sure whether we already have a win-win situation, but this has to be the objective. The objective has to be to create a

win-win situation for both sides, an objective that can only be reached if the European economies continue with vigorous modernisation. I will now present the strategy of the European Union, but let me outline first what globalisation means for the European economy.

It is impressive that more than fifty years of increasingly intense international economic integration around the world and in Europe have confirmed what economists have always taught: that increased trade and foreign direct investment promote prosperity and thereby also promote stability, democracy and peace.

History has demonstrated that those countries that try to cut themselves off from globalised markets lose out economically. Most of them are also politically unstable, without well functioning market mechanisms and a tendency to be undemocratic. Since World War II no country has prospered by closing off trade, but there are many, especially in Asia, that have grown rapidly by opening to the world economy.

If we accept the challenges posed by globalisation we will clearly benefit from it, but this is often not correctly perceived within public debates. I would therefore like to address this issue now from the angle of the European Union.

Globalisation has indeed also worked well for the people in Europe, including the less affluent who probably benefit the most from the availability of affordable imports. Conservative estimates for the European economy published in 2005 by the European Commission suggest that about one fifth of the increase in living standards in the EU 15 over the past fifteen years is the result of our integration into the world economy. And there is nothing in the historical records to suggest that this has come at the expense of higher levels of unemployment.

But we also have to acknowledge that in Europe specific sectors such as textiles and clothing and the low-skilled labour force have been negatively affect-

ed by globalised competition. As a result, many people in our high-wage countries see little or no benefit from globalisation. Public perceptions of rising international economic integration are often dominated by anxieties concerning job losses. Fears are running strong that increased import competition from low-wage countries puts too much pressure on local producers and workers and may result in factories being closed at home and economic activities being relocated abroad. This is a very serious political problem and, by the way, one of the most important ones that we discuss between the European Commission and member states.

We in the Commission are of course in an ideal position. We must not defend our position in election campaigns. I know the difference very well and I respect that. The problem is that the benefits of an open and globalised, integrated economy are visible at the regional, national, European levels, but the pain, the suffering is always local. And in particular European, and particularly German politicians, and very particularly regional German politicians, have a tendency to create the impression that they can help in such a case. Like a fire brigade they rush to the place where a factory might be in a crisis to create the impression that they can do something. Very often – even worse – they do something and it does not really help.

The message that we have is very different. Our message is: we have to accept the fact that the market economy is the rule of the game, and the rule of the market economy is *competition*, and if you want to survive in competition, you must be competitive. That is the reason why *competitiveness* is the keyword for the growth and employment strategy that we have in Europe. I will come back to its meaning in a minute.

The available indicators show that the concerns that I have just mentioned are in general exaggerated. The share of the new Member States in the foreign direct investment (FDI) outflows from the old Member States only amounts to 1.5 percent. Old Member States are primarily directing FDI flows toward other old Member States and the United States. But you can believe me that the average citizen in Germany is convinced that German industry is investing more in Poland than in Germany. That is what average citizens believe.

This demonstrates that low costs and taxes do not play dominant roles for the allocation of capital. It

indicates clearly that market size, human capital, skills as well as language and culture can play at least equally important roles. A Dutch study suggests that a mere 1 percent to 1.5 percent of the annual job destruction in recent years can be attributed to delocalisation, of which only a part relates to the new Member States. In Germany and Austria investment in the new ten members since the early nineties had only an estimated negative employment impact of between 0.3 percent and 0.7 percent, more than compensated by the fact that both countries, Germany and Austria, are the strongest beneficiaries from the open borders and the fact that neighbouring countries in Eastern and Central Europe are now integrated.

The Commission published a review this week in which we examine the situation, and the result is crystal, *crystal* clear: Enlargement was economically a success, in particular for Germany and Austria, and I expect – or I *request* – that political leaders in Germany and Austria tell it and sell it to the people. I mean, if political leaders in Germany and Austria do not tell the success story, but allow the impression to be created that European integration is responsible for economic problems, then of course we should not be surprised if opinion polls find that the majority of Germans and Austrians believe European integration is after all not such a good thing.

A recent review of existing literature on outsourcing and job destruction confirms our view, concluding that the impact of international outsourcing and delocalisation on employment has been small and, as I have said, has been compensated by better economic integration.

I also want to emphasise that the fear that tax competition would lead to a “race to the bottom” has not materialised, as illustrated by corporate tax revenues that have remained stable in both new and old member states. Notwithstanding that, the European Union as a central part of an increasingly changing and integrated world environment has to face serious economic challenges. The emergence of the “BRICs” – Brazil, Russia, India, China – and other countries as more and more important actors in international trade and investment constitutes a fundamental competitive challenge for the European Union as a whole. Therefore I will now explain our strategy to seize the opportunities of globalisation.

Last year, the European Commission proposed a bold revision of the way we conduct economic reforms in Europe to address the challenges posed by globalisation and demographic changes. We agreed to work together in a partnership between Member States and community level focusing on growth and jobs. The concept of our strategy, which is also called the Lisbon Agenda, lies in insuring Europe's competitiveness and decent environmental and social standards.

That also means the determination to carry out necessary reforms that take into account that economic growth will more and more depend on higher productivity due to the shrinking of the working-age population. The strategy for growth and jobs outlines an integrated framework of macroeconomic, microeconomic and employment guidelines.

The two main instruments to implement the new strategy are the Community Lisbon Programme, setting out what would be best done at community level, and the 25 national reform programmes. Each Member State's policy responds to the key challenges it faces. These instruments must work in tandem to achieve the best effect. And I would like to make you aware that the fact that we have got it, that we were able to bring our ducks in a row and to get 25 national reform plans, is indeed a major, major success, a very important step forward. This is the first time that we have such a policy in the European Union.

Much progress has been made with the Community Lisbon Programme. The Commission has already put forward proposals for most of the actions foreseen. Among its key actions, the Community Lisbon Programme includes initiatives to tackle the decisive cross-border impact of research and innovation and the fragmentation of European research efforts: the Seventh Framework Programme for Research, Technological Development and Demonstration, and the Competitiveness and Innovation Framework Programme.

The Commission has also set out concrete initiatives to improve the research and innovation environment in Europe. The Seventh Framework Programme introduced a new model of research support, joint technology initiatives in the form of public private partnerships, to back promising new research and the give European industry a head start in areas ranging from hydrogen- and fuel-cells, aeronautics

and air transport to innovative medicines and nano-electronics.

We now have twenty-five national reform programmes in place. Each national reform programme sets out to increase investment in research in order to provide more job opportunities for people of all ages, both sexes and all backgrounds, and to reduce administrative burdens on smaller and medium-sized enterprises. As part of the partnership, Member States are learning from each other's experiences. Everybody has something to offer and everybody has something to learn. This is a very interesting case. Whatever you take, you have at least one European Member State, one European region or one European company that is top. Top of the class, top of the world. At least one – always.

What does it mean? It means we can do everything, but not everywhere and not every time. Everybody has something to offer and everybody has something to learn. We can all draw inspiration from our European neighbours. If some neighbours try to keep the ball and play a separate game on their own, then we will all lose. We need a wider partnership among the twenty-five Member States, with the Commission acting as a catalyst and as a facilitator of reforms.

The title of the Commission's report to the Spring European Council says it all: *It is time to move up a gear*. Over the coming months we will work closely with the Member States to assist and monitor the implementation of the national programmes. The Member States and the Commission have committed to focus on four priority actions for growth and jobs:

- 1) More investment in knowledge, research and innovation. That's the key.
  - 2) Unlocking business potential, especially of small enterprises.
  - 3) Answers to ageing, and creating more employment, and
  - 4) A common European energy policy.
- 1) Europe's economic future depends on having the best educated and trained people, with the full range of skills required in a knowledge economy. Member States should allow universities access to complementary sources of funding, including private funding, and remove barriers to public-private partnerships with businesses. It is not

acceptable – and really against European pride, I must say – that in the ranking of universities world-wide we only find two European universities among the top ten. This is really something that hurts me. And the two are in the United Kingdom, of course: Oxford and Cambridge, and that hurts me as a German even more.

All Member States have now set research and development targets. If all these targets are reached, the European Union will have increased its overall share of R&D in GDP from 1.9 percent to approximately 2.6 percent in 2010, which is an important step. But definitely not enough. And we are still trying, together with the Austrian presidency, to convince our Member States that the 3 percent target must be met by 2010. And I have to say, even the 3 percent share of R&D spending is not enough to close the gap that is widening between us and the Americans and emerging markets.

- 2) All the research in the world will not create real wealth without open markets and healthy competition between business. It is often cumbersome to start a business in Europe. EU Member States have welcomed the Commission's proposal to have one-stop shops in place by 2007 and to cut the start-up time by half. In 2010 it should not take more than one week to set up a business. It is important to send out the signal that Europe is a place where it is easy to do business, and, by the way, a place where it is socially respected and accepted to do business.

I do not want to elaborate on this, but I have to say that one of the major problems we have in Europe is a lack of entrepreneurial spirit. If I compare the situation in the United States and Europe, I find that in the United States we have more than twice as many people ready to run a business than in Europe. One can say that is embedded in the genes of the Americans, but it also has something to do with the cultural and social background and the fact that entrepreneurship in Europe is not appreciated enough, so we need to improve that.

Better regulation at the national and European levels is a core element in strengthening the business environment of our economies. Further work is needed to continue to make progress in all areas of better regulation: simplification of legislation, impact assessments, repeals and withdrawals, codification, sector analyses, reduction of administrative burdens,

business involvement in smaller and medium-sized enterprises.

The next step will be to present a methodology to measure the cumulative effects of European and national regulations on the administrative costs of enterprises and then to reduce it step by step, setting quantity targets. At first there would be a 20 to 25 percent reduction which is realistic.

The new approach of the Commission is now widely appreciated and widely accepted, but I have to say that less regulation means definitely more responsibility for the stakeholders. Yesterday I announced that we will solve the problem of misleading labelling of sun-screen products, but we will not do it by regulation. In the past, the Commission would have said: "Ok, we will make a regulation". We will no longer do that. I told the industry that we have to solve that. There is a problem and here is a recommendation on how you can do it. And they will do it. You will see – they will do it.

On the other hand, it has to be noted that the Commission's better-regulation activities have already progressed well. Impact assessments have been required since January 2005 for all proposals on the priority list of the Commission's working programme. The Commission has completed over 120 impact assessments to date. They are a powerful tool and can ensure a comprehensive analysis of economic, social and environmental impacts, thus providing key insights into the policy-making process.

Last year, 68 regulatory proposals were withdrawn because they were not compatible with our strategy to support growth and create jobs. We follow the approach of Montesquieu, who stated that bad laws should be avoided, since they would weaken good laws. Furthermore, the Commission adopted a strategy for the simplification of the regulatory environment, which develops a methodology for streamlining and modernising the *Acquis Communautaire* and contains a series of commitments, the most ambitious of which is a rolling programme listing 220 basic legislative acts to be reviewed. Reviewed, and not simplified, only reviewed over the next three years.

- 3) Globalisation and demographic ageing call for an urgent improvement in the adaptability of workers and enterprises, in their capacity to anticipate, trigger and absorb change and restructuring, and to thrive in highly competitive markets. The Com-



mission is therefore insisting on more open and responsive labour markets in combination with policies to help workers to remain employed and to progress in work. This approach seeks to combine labour market flexibility and employment security in a life-cycle perspective.

As indicated a minute ago, the reallocation of resources due to increased globalisation competition may generate bridges, particularly in the labour markets. Workers have to acquire additional skills and/or to move between jobs, sectors, occupations and regions. There is no way to avoid this and we have to tell the truth: mobility and flexibility are absolutely needed, as change will be with us for the next decades. We cannot protect our citizens from change, we can only manage the change. Against this background, the European Union has recently created the European Globalisation Adjustment Fund in order to provide training for those people who are directly affected by the delocalisation of their enterprise. This also constitutes a contribution of the Commission to the European Social Model.

- 4) Finally, let me point out the key action of a common energy policy in Europe. Our main challenge is to ensure security of supply at competitive prices, while ensuring environmental sustainability. The energy questions of the 21st century require a common EU response. Therefore the European Commission has proposed a common approach in its Green Paper. It is our intention to further strengthen and deepen the internal energy market in order to promote competitiveness and security of supply. We will promote more competition in the electricity and gas markets. A wide set of measures will be taken to tackle insufficient market transparency and inadequate unbundling of network and supply activities.

Ladies and Gentlemen, I would like to say that in my view the economic stakeholders in Europe have a unique window of opportunity. You will not find in the near future another European Commission that is so determined to improve the business environment, that is so determined to improve the competitiveness of the European industries and that is so determined to defend the policy of open markets.

Contrary to conventional wisdom, especially in some Anglo-Saxon media, there is no backlash in Europe as far as protectionist practices are concerned. On the contrary, what we are experienc-

ing, in the first months of this year, is the strongest wave of mergers and acquisitions that we have ever seen in the history of the European Union. Thousands of actions and hundreds of billions of euros worth, and 99.9 percent of them go without political interference. There are a handful of cases where we have seen political interference. These were mostly related to the fact that the energy market is not completely liberalised, but the Commission took legal action and it is already clear that nobody in Europe is in a position to violate the principle of the freedom of movement of capital. We can and we will guarantee that. And I think there is no danger that protectionist practices will come back.

Rhetoric aside, even in some member states where the rhetoric is different, the policy goes in the same direction. So my view today is slightly more optimistic than it was last year when we started the new process, and I hope, I very much hope, that the partnership proposal that we have chosen will find positive reactions, not only in the political community but throughout the European business community.

Thank you very much for your attention.