

Coping with new European social economic challenges

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[Introduction]

Ladies and gentlemen,

Today, we have come together to talk about successful employment. About strategies to employ people. And about strategies to employ people in such a way that the work they are doing contributes to improving our society and our economy in a sustainable way.

My message is that in organising such employment and such an economy we have to respond to needs related to international, social, demographic and environmental processes. Without such a response sound economic growth will not be possible. And without a sound economic growth it will be impossible to maintain the European social economic model we have built up since World War II. The Lisbon strategy, of which we are talking today, is showing us the way to such growth.

[Current European Welfare States]

Let us first have a somewhat closer look at the current European Welfare States. These were built up largely during the recovery phase

after World War II. But the results are different. As for pensions, in some countries these are only provided to former employees. Whereas in other countries all citizens are receiving old age pensions.

The same applies to disability benefits. Some countries give disabled people about seventy percent of their former salary. Whereas other countries only provide an allowance at a minimum level. Nordic countries have made choices that differ from the Mediterranean countries.

Notwithstanding these differences, Europe has chosen for a sustainable standard of living. With high quality public services such as education, health care and safety. And with a social inclusive society, that takes care of relatively deprived groups in society.

Our challenge will be sustaining this model in the future. For we do not want to adopt the American model.

[Long-term sustainability]

I will now turn to the long-term sustainability of the European welfare states and the need to take urgent action. For it is my conviction that our current welfare state is threatened by processes which so far we have not been willing to acknowledge. Which is ashame. For if we *are* willing to acknowledge these processes their current threats can be turned into opportunities.

I'm referring to trends such as internationalisation, ageing and individualisation. Trends which are gradually increasing pressure on our European welfare states.

First, most European economies are suffering from adverse demographic developments. People are growing older. They are living longer and we are getting more older people as a percentage of our populations. Right now, about 17 percent of Europeans are older than 65. In 2050 this will be 30 percent (Source: The Economist, September 25th, 2004).

As a consequence there will be more retired people and the number of years in retirement will rise further in comparison to working years. In the Netherlands in the year 2000 on every retired person, 4 people were paying for needs such as health care. In 2040 it will be 2 people paying for 1 retired person. So the financial and economic burden through ageing will double within 40 years.

Secondly, international competition is growing. If we do not grasp opportunities this competition is offering – in terms of new and growing markets for our products - it will add to outside pressures. From the US, where labour productivity is rising faster than in Europe. And from countries such as India and China. Countries which are getting more innovative and which enjoy growing numbers of highly skilled technological workers. Countries that are setting themselves up as attractive business locations and are building up strong positions in the international economic arena. During the last 5

years, their Gross Domestic Product, has grown 4 to 8 percent per year.

As I said, we shouldn't see this as a threat, but as an opportunity. It will offer new markets. And it will trigger us to develop knowledge, to share knowledge and to apply knowledge.

Important drivers of productivity growth are R&D and (technological) innovation. They accounted for (at least) 40 per cent of labour productivity growth in the Netherlands in the 1990s. For instance: innovation leads to new production and business methods which increase the output per employee. For this is an important way to increase our labour productivity.

Thirdly the number of hours worked per employee has been reduced significantly in many of the old EU-15 Member States. We have probably reached the limit of that, given the fact that we face increased competition from both the new Member States and other parts of the world. Right now, in the US on average people are working 1,800 hours per year. Compare this to a European country like Germany, where people are only working 1450 hours per year. And then we understand why economic growth has lagged behind since 1970.

Furthermore, flexibility of working time is relatively low. I predict that these excesses will be tackled in the coming years, by changed

government policies but especially driven by companies. Companies will – in my view – increasingly demand a change towards more flexible working time arrangements. I only mention Siemens in Germany. And they will more and more bargain with their own employees about the conditions that have to be met for them not to transfer production abroad.

Working longer with more people and in more efficient way. In its economic policies, the Dutch Government is introducing these instruments. Not without meeting resistance from society. Especially as working longer is concerned. But this resistance has to be taken for granted. For if we continue closing our eyes for the developments I mentioned, we will suffer much more in the future than we will suffer now.

On the European level, Lisbon is showing us the way. I know wanting to be the most innovative region in the world by 2010, sounds ambitious. But without ambition we will not be able to compete on the global level.

[Conclusion]

Working with more people; working in smarter, more efficient ways; and working more hours is the only solution to prevent a reduction of prosperity and a decay of our European Welfare states. Through stimulating knowledge development and innovation, the Lisbon strategy can help us realise the goal of working more productively. But it will not be enough. Citizens and politicians will also have to realise that the price of leisure must be raised. If we do not pay now

by working with more people and during a longer time in our lives, a reduction in European standards of living will prove inevitable.

Thank you very much.