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Address by the President of the European Council Herman Van Rompuy to the Youth Employment Conference in Milan

After similar events in Berlin and Paris, this conference in Milan is an important step to take stock of progress achieved, exchange views on best practices and discuss the way ahead. Let me start with some facts:

Despite all efforts and signs of improvement, total unemployment remains at around 12% in the Euro Area and 11% in the Union as a whole: unacceptably high;

More than one young European in five on the labour market cannot find a job;

But there are wide disparities. In some of our Member states more than one young job-seeker in two cannot find a job, whereas in others youth unemployment is below 10%.

Youth unemployment erodes the basis for future growth; we risk a lost generation; it risks to pave the way to a long economic stagnation. Without a skilled workforce, Europe's place in the world economy of tomorrow is at risk.

Why? Knowledge and human capital are the engines of growth in the 21st century. Average potential growth in the Euro area hovered around 1.5% right before the crisis but it has dropped threefold since, to 0.5% in 2013 because of lower employment and lower investment. We have to work on both levels for higher economic growth; creating jobs and filling the investment gap. Compare this to the US, where the potential growth is today above its 2005-09 level. These estimates are worrying, but it is up to us all to make these numbers lie.

This is why we have already taken initiatives together. The June 2013 EC endorsed the Youth Guarantee Scheme. In Europe, all young people under 25 should receive a good quality offer of employment, continued education or an apprenticeship or traineeship, within 4 months of leaving school or losing a job. EU financial support is already available. I am happy to see that all 28 Member governments have adopted their Youth Guarantee plan and have submitted them to the Commission. And indeed, 25% of the Youth Employment Initiative money has been committed.

But this is not enough. To fight unemployment, we must more forcefully implement the policies that address both its structural and its cyclical factors.

Three remarks on the structural factors.

First, there is a strong need to shift taxes away from labour. Potentially, here lies the single most important boost to employment right now. That is why the European Council and the Commission have repeatedly asked for this. The tax wedge in the euro area is among the highest in the world. If you want to explain why expanding companies do not hire more or sooner, you do not have to search any further.

Second: the rules governing labour markets need to be changed. The economies with more flexibility in the labour market were the ones that have weathered the crisis best in terms of employment. And flexibility does not mean simply cutting wages or jobs. Labour market reforms can give firms the tools to adapt working time to demand at reasonable costs, in line with our social models.

Third: we must overcome the growing divide on the labour market between "insiders" and "outsiders". Between those who are protected, and those with the temporary, unprotected jobs – mainly women, young people and unskilled migrant workers. This duality in labour markets explains the steep rise in unemployment in some countries; when the crisis hit, the burden fell first and foremost on unprotected workers. I want to praise Prime Minister Matteo Renzi for the reforms he has initiated in this respect.

This brings me to the cyclical factors pushing up unemployment. In recent weeks, economic data confirmed that the economic recovery is weak and inflation remains exceptionally low. We are close to an unprecedented stagnating nominal GDP in the Euro-area. Supporting the recovery requires action both on the supply and on the demand sides. We need to step up the structural reforms indispensable to raise productivity and growth potential, for instance by improving the business environment and opening up sheltered sectors. At the Union's level, we have to develop further an energy union, a single digital market and innovation via our EU budget.

At the same time, we need to raise investment. Investment fell strongly in the euro area at the start of the crisis and has not yet recovered to its long-term average. Member states suffering from an investment gap should consider addressing it without undermining public finances. Structural funds have to be used to the full. And as a Union, we should speed up projects with EU-wide relevance, notably in transport, energy and digital networks. The 300 billion euro of new private and public investment over three years, as proposed by incoming Commission President Juncker, is a good proposal. This plan should be specified and be given top priority.

Let me conclude. Fighting unemployment, particularly youth unemployment, is the highest priority for the European Union. Our future prosperity depends to a large extent on our capacity to address this challenge today. Thank you.
