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European productivity
and competitiveness

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Brussels, 13 December 2002

OPINION

of the

European Economic and Social Committee

on the

Communication from the Commission to the Council and the European Parliament on Productivity: the key to Competitiveness of European Economies and Enterprises
(COM(2002) 262 final)

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On 24 May 2002 the Commission decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the

> *Communication from the Commission to the Council and the European Parliament – Productivity: the key to competitiveness of European economies and enterprises* (COM(2002) 262 final).

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 27 November 2002. The rapporteurs were **Mr Morgan** and then **Mrs Sirkeinen**[1]. The co-rapporteur was **Mr Ehnmark.**

At its 395th plenary session (meeting of 11 December 2002) the Committee adopted the following opinion by 71 votes to one with seven abstentions:

1. Summary

1.1 The Commission Communication[2], in a review of developments outlined in the Lisbon strategy, shows that productivity growth in the EU has been slow and is slowing down in relation to that in the US. The EESC recognises that the prospects for the EU to become the world's most competitive region must include reaching productivity gains comparable with the US over a number of years. The Communication is welcome since it sets the productivity objective in a wider perspective and relates it to the particular challenge of sustainable development.

1.2 Measuring and explaining productivity and related issues is an imprecise science with many uncertainties. In particular, productivity is influenced by numerous factors, where the relation to productivity growth can be complex. Many important factors are acknowledged in the Lisbon strategy but the EESC wishes to widen the scope of the debate to some other important issues affecting productivity.

1.3 The EESC has formulated some key actions for productivity growth in the EU. The Committee emphasises that these actions must be developed with a view to optimal productivity gains, but also taking into account all three pillars of sustainable development as well as the social and cultural heritage of Europe. The actions discussed fall under five broad headings:

– R&D and innovation,
– introducing new technologies, in particular ICT (Information and Communication Technologies),
– human resource development,
– management and working place organisation, and
– market issues.

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1 **Mrs Ulla Sirkeinen** replaced **Mr Peter Morgan** when the latter's term of office ended.

2 COM(2002) 262 final

1.4 Productivity, and increased productivity is mainly a result of decisions and developments in individual companies. This activity should by all means, and at all levels - individual, company, local, national, EU - be spurred and encouraged. Healthy competition in the market place is, in particular, a necessary framework for good productivity growth.

1.5 The EESC directs some recommendations to EU decisionmakers and the social partners. The most important step towards better productivity growth in the EU is to fully implement the Lisbon strategy. Other recommendations are:

– to the Commission to develop the analysis outlined in the communication and review productivity developments in the annual follow-up of Lisbon;
– to the Commission to urgently analyse the effects of enlargement on EU productivity and put in place methods for spreading good practice information on productivity;
– to Member States to develop the Luxembourg process for active labour market policies;
– to the social partners at relevant levels to develop policies and consider arrangements to stimulate productivity as well as to follow up arrangements for education and training;
– to EU institutions that efforts towards simplification of legislation are essential for better productivity.

1.6 Given the importance of productivity for competitiveness, economic growth, employment and sustainable development in general, the EESC will direct special attention to it in its future work, including arranging a conference to assess the advancement of the Lisbon strategy, including productivity, every second year.

2. The role of productivity in the perspective of the Lisbon strategy

2.1 The Lisbon strategy has set a very ambitious objective for the economic, industrial, social and environmental development of the European Union. The key words about the Union becoming the most competitive area in the world have caught the imagination. However, already after two years, it is very obvious that the process is not advancing as well as was hoped. In a number of areas, the actions necessary to reach the Lisbon target are far from being sufficiently advanced and implemented[3].

2.2 The Lisbon objectives are expressed in relative terms compared to the competitiveness of other countries in the world. This means that developments in other countries will influence the assessment of the actions that have to be taken in order to make the Union the most competitive area in the world by the year 2010.

2.3 Being competitive includes, in particular, being productive, but competitiveness and productivity are different issues. While productivity is clearly defined, competitiveness is wider and

3 CES 1030/2002

open to interpretation. Competitiveness can be seen as a combination of competitive prices, achieved by growing productivity, and competitive non-cost characteristics. Growth in productivity comes from more output from a given input of labour, capital and other resources. Economic growth depends, as stated by the Commission, on the accumulation of human and physical capital, the growth of the active labour force and on the efficiency with which they are used.

2.4 The issue of productivity has become increasingly focused during the l990's, in view of the surprisingly strong productivity development in the United States. Over a decade, the US economy seems to have managed to increase the rate of growth in productivity while productivity growth in the European Union has decreased after 1995 from an already lower growth rate. Recent statistics, released in November 2002, indicate that productivity per hour in the US has continued to grow even during the present economic slow-down. This underscores the fact that the EU has to achieve corresponding growth rates, and when possible superior growth levels, if the Union is to become "the world's most competitive region" at the end of this decade. This is indeed a big challenge.

2.5. Moreover, the problem of the Union is not only weak productivity growth at present, but an insufficient amount of hours worked. In view of the problematic demographic development in the EU, there is an even more pressing need for strong productivity growth in order to secure economic growth and sustained social welfare.

2.6 On the other hand, the issue of productivity cannot, and should not, be seen only in terms of its contribution to overall economic growth and competitiveness. The European Commission now has presented a Communication on productivity and is strongly arguing that productivity gains must be seen in a wider context. They contribute essentially to the development of a European society with high economic growth, sustained welfare for all, a high level of social inclusion, and high levels of environmental protection.

2.7 The Commission deserves compliments for its ambition to direct attention to the key question of productivity while setting productivity in a wider context. The fact that the communication is lacking more precise recommendations does not dilute this appreciation.

2.8 The Lisbon strategy did not particularly discuss the issues of productivity; they were embedded in the overall context of competitiveness. But the strategy includes most factors determining productivity growth and strategic actions on them.

2.9 Implementing the Lisbon strategy in full is a prerequisite for a sufficient and sustained raise in productivity, economic growth and more and better employment.

3. Measuring productivity – an art with many uncertainties

3.1 A number of scientific studies have been made on how to measure productivity. Productivity is measured as economic output against different input factors - labour, capital and other resources. The US is clearly performing better on labour and capital productivity. On the other hand,

as to the essential indicator of sustainable development, ecoproductivity or resource productivity, the EU may outperform the US.

3.2 Productivity growth can be measured per worker – as the European Commission does – or per hour, which the US' statistics does. The results vary considerably depending on the method chosen. The US has an even greater lead over the EU economies in GDP per person employed because of much higher levels of annual hours worked per person in work (TUC statistical survey for period 1997 - 2002). Measuring productivity only against one input factor, usually labour, at the level of a single economic sector or a company gives very limited information and must be correctly interpreted. In any case it is crucial to have reliable data available.

3.3 Moreover, the measurement of GDP does not take account of any deterioration of natural resources or pollution, except when costs have accrued from the repair of damage. Some countries, like Finland, include in their National Accounts use of natural resources in volume terms. There are no internationally agreed methods available to measure this in value terms.

3.4 In particular there are problems in measuring the productivity of services, both public and private. The Commission rightly refers to this. This problem is of great importance because of the big and growing share of services in the economies. In addition to this, much more attention should be directed to the question of efficiency of the public sector as a whole.

3.5 The usual methods of measuring productivity do not give clear answers to the influence of different underlying factors on productivity growth. These factors are numerous and their relation to productivity growth can be complicated and cannot be explained in simple manners even if widely studied.

3.6 In the US, studies on productivity have especially focused on the factors behind the very rapid gains during the second half of the 1990's. A couple of significant features seem to be generally acknowledged. One of them, perhaps the single most important, is the massive introduction of ICT technologies, and the coupled massive training of the workforce in ICT applications. Some observers have indicated that more than one fourth of the US productivity gains can be explained by the ICT factor[4].

3.7 Other key factors are the introduction of other advanced technologies in a more general sense, the availability of venture capital, the strong support for entrepreneurship and innovations, good management techniques, and – also in general – human resource development.

4. Key productivity factors in the EU perspective

4.1 Productivity is influenced by numerous factors of varying importance. In this Opinion only some, seen as the most important, can be discussed.

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4 Economic report of the US President, January 2001

4.2 Productivity increases rely on practical decisions and acts in enterprises and other workplaces. Nothing can substitute these. Public policies can increase the potential and create a supportive framework for productivity growth. Such policies and decisions fall under different mandates – partly that of the Union, partly of Member States or regions, and sometimes the social partners. Many are included in the Lisbon strategy. National budget restrictions may influence the potential of national policies in support of productivity growth, like R&D financing.

4.3 The Commission Communication on productivity focuses on a limited number of factors, particularly ICT, innovation and entrepreneurship, human resource development, and to some extent R&D. This approach is logical but means that the discussion can easily be too narrow.

4.4 Issues such as level of investments, workplace organisation, participation policies, the creation of innovation-stimulating working milieus, new forms for university-enterprise cooperation, new forms for making available risk capital should be part of a wider approach towards productivity growth in the European Union.

4.5 The EESC recommends that initiatives to shape policies towards better productivity growth in the EU include factors such as those mentioned above.

5. Increasing productivity in the EU

5.1 The following is an attempt to formulate some key policies to contribute to productivity growth. These policies must be developed with a view to optimal productivity gains, but also taking into account all three pillars in the policies for sustainable development as well as the economic and social heritage of the EU area. On the other hand productivity growth also contributes, directly and indirectly, to the achievement of sustainable development.

5.2 The actions fall under five broad headings: R&D and innovation; introducing new technologies, in particular ICT; human resource development; management and workplace organisation; and market issues. These areas are strongly interconnected.

5.3 R&D and innovation

5.3.1 Establish long-term R&D policies in cooperation with enterprises and the public sector, together with support for the development of basic applications. The knowledge of researchers can be used when formulating efficient policies and activities for better productivity.

5.3.2 Good results can be obtained by linking research closely to practical needs. One example is the Finnish productivity programme with 13 projects developed in collaboration by business, the public sector and researchers. The projects include developing practical instruments for productivity developments projects, like methods for analysis, indicators, teaching materials and wage models.

5.3.3 Shape an innovation-friendly climate in the work-place: there exists an important potential for every-day innovation in working life, based on continuing improvements and active participation by the employees. Innovations of working life itself are needed.

5.3.4 Centres of excellence are not easy to create, but when successful they attract skilled people and high-tech entrepreneurs forming a virtuous circle of innovation and productivity. The EU should moreover consider incentive programmes for attracting highly skilled workers from other countries, for instance in the form of exchange programmes.

5.3.5 The Commission has taken note of the Council decision to recommend a big increase in resources for R&D, particularly in the private sector. The EESC welcomes the decision and wants to underline the responsibility of Member State governments to take their part of this important long-term commitment and not dilute it even in times of stringent national budgets. The EESC, moreover, would like to stress that the framework programme for R&D must be closely connected to the development of competitive new technologies.

5.3.6 Present policies for the training of new researchers seem completely inadequate in relation to the needs that will occur in view of the total Lisbon strategy. New initiatives are necessary for safeguarding the supply of researchers in both public and private sector.

5.4 **Introducing new technologies**

5.4.1 Stimulate the introduction of advanced technologies in production, in both private and public sectors. According to the Commission and several other sources, new technologies, in particular ICT technologies, offer a big potential for enhanced productivity in all sectors. It is important to further study this question in depth.

5.4.2 The introduction of new technologies usually requires the adaptation of skills and work re-organisation. Sometimes jobs are reduced while new ones are created elsewhere in the economy. Acceptance of these changes by the employees and willingness to adjust, need to be addressed by long-term policies, including inter alia worker involvement, safety nets, in-house training, active labour market policies, etc.

5.4.3 Implement fully the e-Europe initiative including actions for more broadband, E-Government, telecommunications infrastructure and security.

5.4.4 Small and medium-sized enterprises often find it difficult to finance the introduction of new technologies. Proper advice should be organised and, when necessary, support in order to facilitate the use of innovative financing methods.

5.5 **Human resources development**

5.5.1 Human resources development is one of the fundamental factors in any policy for productivity, and includes a number of actions:

5.5.2 **Education and training in ICT technologies**

- Provide wide opportunities for life-long education and training – inter alia explore the possibility of using tax incentives, such as tax deductions on savings for future training.

- Provide compensatory education for adults that have inadequate initial education and training.

- Support more active participation of universities/colleges and technical institutes in advanced further training of employees.

5.5.3 Establish entrepreneur-oriented training opportunities for students in higher education and in upper secondary education.

5.6 **Management and working place organisation**

5.6.1 The crucial challenge for management of companies and other organisations on their way towards better productivity is how to ensure the adaptability of the organisation and in the workplace.

5.6.2 Stimulate productivity gains in the workplaces by various available methods, including understandings and agreements on productivity between employer and employees.

5.6.3 Study workplace effects of an increasing focus on productivity, and develop where necessary tools for handling negative effects.

5.6.4 Tripartite agreements can play an important role, particularly in the field of education and research. Governments will have to be active in creating support systems, for instance with regard to tax and other incentives.

5.6.5 Develop qualified training opportunities in management of productivity policies in particular for managers of SMEs.

5.7 **Market issues**

5.7.1 Establish well-functioning labour markets, without obstacles for the mobility of the employees. One crucial question here is better arrangements for the recognition of professional qualifications across the EU.

5.7.2 A flexible labour market is seen by many, based on the US and other experiences, as an important element of better productivity growth. Others stress that security of employment is not only in line with the European social model but also enhances productivity by supporting accumulation of knowledge in the enterprises.

5.7.3 Public support on a national as well as EU level should be acceptable where market forces do not provide sufficient incentives. R&D-work and risk financing are such cases. Efficient forms of providing risk finance for start-ups and small and medium-sized enterprises are needed. Public funding could preferably be channelled together with or through private finance sources with the necessary knowledge and expertise.

5.7.4 Healthy competition in the marketplace is a necessary framework for good productivity growth. A heavy responsibility is set on the shoulders of the Commission to promote and maintain effective competition policies across the EU.

5.7.5 Encourage networking between enterprises. Experiences from many regions, for example northern Italy, show how specialisation and networking can give considerable productive strength.

5.7.6 Possibilities to increase productivity in the services sector, both private and public, should be studied and relevant policies developed. It is vital, in accordance with the Lisbon strategy, to finalise the internal market for services. Introducing elements of competition in the provision of public services would increase their productivity growth, while equal access, high quality, availability and affordability of services must be safeguarded.

6. Policy recommendations to the Union

6.1 Outlining key factors for strengthening productivity in the EU is not difficult. A number of these factors are already included in the Lisbon strategy. The real problem is to generate synergy effects and a sustained high productivity growth. Enterprises and their employees play the key roles. They can be supported by public policies. The EESC directs the following recommendations to the official decision makers in the EU and the social partners at relevant levels.

6.2 The EESC underlines that the most important step towards better productivity growth in the EU is to fully implement the Lisbon Strategy.

6.3 The EESC recommends that the European Commission, on the basis of the present communication and the comments that this will initiate, should develop further its methodology for analysing, benchmarking and reporting on productivity developments in order to stimulate actions for productivity growth. The scope should also be widened to include analysis of public sector efficiency.

6.4 The EESC proposes that the Commission initiates or supports further study of the different factors and mechanisms underlying productivity growth. In particular the issues of eco-productivity and the role of ICT as well as other qualitative aspects of productivity need further examination. In addition, the problem of including costs of deterioration of natural resources and pollution into National Accounts and GDP calls for research and methodology development.

6.5 The EESC recommends that the issues of productivity, as well as sustainable development, are made an integral part of the annual follow-up of the total Lisbon strategy.

6.6 The EESC has set out clear and detailed messages on simplification of EU legislation. Strengthened efforts towards simplification as well as good governance in general are essential for better productivity in all of the economy.

6.7 The EESC asks the Commission urgently to analyse the effects of enlargement on future EU-wide productivity growth. Productivity developments in the candidate countries are a challenge but also seem to offer big potential gains. At accession the productivity level of the EU will fall, but the growth potential will increase considerably. A critical point is the timing of the possible inclusion of the new member states into the EMU.

6.8 The EESC proposes that the Commission develops an efficient method of collecting and spreading information on good/best policy practices for better productivity growth.

6.9 The EESC sees it as important to develop further the Luxembourg process for active labour market policies.

6.10 The EESC recognises that the social partners at local and national levels have an important role to play in planning, implementing and generally supporting policies for increased productivity.

6.11 The EESC recommends that the social partners consider various forms of understandings or agreements in order to stimulate productivity. The EESC has taken note of the work programme agreed on within the social dialogue, and welcomes the opportunity this will give the social partners also to highlight issues concerning productivity growth and its implications for the European societies.

6.12 The EESC emphasises the importance of follow-up in concrete terms of the common opinion between the social partners on European level concerning life-long learning for employees.

6.13 The EESC itself will:

- direct particular attention to the developments concerning productivity when giving its Opinion on the Lisbon Strategy follow-up at the spring Summit,
- arrange every second year a Conference on the Lisbon strategy and
- when necessary, prepare own-initiative Opinions on productivity.

Brussels, 11 December 2002

The President of the	The Secretary-General of the

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