ETUC PROPOSES A REFORM OF EUROPE'S MACRO-ECONOMIC POLICY FRAMEWORK TO ACHIEVE HIGH GROWTH AND MORE AND BETTER JOBS

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Says ETUC General Secretary John Monks: "The European Union will fail to relaunch the Lisbon Strategy if it continues to refuse to implement active macro-economic policies that bring aggregate demand back up in line with aggregate supply. The ETUC calls upon the Spring Council to break with the Brussels/Washington consensus and to reform Europe's macro-economic framework. Securing a strong recovery will open up perspectives to increase Europe's growth potential to 3% and to create around 12 million new jobs over the next five years."

Europe is facing continuing depressed growth. It is stumbling from one setback in the recovery to the next one. In doing so, Europe is losing workers' confidence and nurturing a 'no vote' on the European Constitution. This is a high price to pay for the refusal to use active monetary and fiscal policies. This has to end.

The Spring Council should address Europe's real problem. Europe's problem is not that there is a lack of supply. Europe is not growing enough because there is too little aggregate demand. And this is keeping the European economy trapped in a vicious circle of low growth and low investment.

With profitability high and finance costs low, what are now lacking are adequate demand prospects to break the vicious circle and trigger high investment dynamics.

Once investments do take off, Europe will be in a completely different ball game. High investment means building the economy's capital stock (machines, office equipment, information networks). In turn, this makes it possible to maintain high growth without fear of new inflationary pressures. An annual investment growth of 7-8% (compared with 1% at present) will raise the economy's potential growth rate by 0.2-0.3% <u>each</u> year. By 2008/2010, a potential annual growth rate of 3% can thus be achieved.

This also means that Europe can <u>grow</u> out, instead of trying to <u>save</u> itself out of its deficits and public debts.

This is the real growth strategy that the European Union should be pursuing, not the artificial discussion that focuses on Economic Europe while arguing that there's too much Social Europe.

The ETUC calls upon the European Spring Council to reform Europe's macro-economic policy framework and to give it a 'kick-start' by:

- 'Lisbonising' the Stability and Growth Pact by considering Europe's innovation gap as an 'exceptional circumstance' warranting a temporary relaxation for those Member States investing in the Lisbon priorities of research, training and active labour market policies. Ensuring European coordination and follow-up of these 'national plans for recovery and innovation'.
- Strengthening economic governance in the euro area by drawing up a single euro-area budget.
- Opening an in-depth discussion with the ECB on its mandate of pursuing stability and growth, and signalling that it should be as active in setting interest rates when inflation is going down as when inflation is going up.
- Reinforcing the existing Macro-Economic Dialogue (the so-called Cologne Process) and linking the process with the Tripartite Summit of social partners. Organising joint Ecfin/Employment Councils with hearings with the ECB and the social partners.

Attachments:

- Table I: Comparison between the European Commission's proposals to raise growth potential and the ETUC's macro-economic policy proposal.
- Table II: Comparison between the growth and jobs record of the late nineties and the new benchmarks of the renewed Lisbon Strategy.
- Background note: 'Macro-economic flesh for the skeleton of the internal market: Rediscovering macro-economic policies for Europe'.

Table I: Comparison between the European Commission's proposals to raise growth potential and the ETUC's macro-economic policy proposal

Commission's policy proposals	**Impact on annual potential growth**	**Impact on GDP levels**
Labour market reform, including wage moderation	temporary	No data. Commission mentions increase in employment rate by 1.5%
Internal market for services	temporary	600,000 jobs
Increase in average education levels by one year	0.3-0.5%	
Investing in R&D		1.7% by 2010

ETUC macro-economic policy proposal	Impact on annual potential growth	
Reform of macro-economic policy framework	0.2-0.3 % **each year** or 1-1.5% higher annual potential growth by 2010	

Note : The Commission's reform proposals and the ETUC's macro-policy proposal are not to be seen as mutually exclusive. In reforming its macro-policy regime, Europe should choose to invest in the knowledge society. Reform and macro policy can then be mutually supportive.

Table II: Comparison between the growth and jobs record of the late nineties and the new benchmarks of the renewed Lisbon Strategy

	Figures from latter half of the nineties	Commission's relaunch of Lisbon	Initial Lisbon objectives
Job growth	11 million new jobs	(at least) 6 million new jobs	70% employment rate. 25 million new jobs are required to achieve this
Economic growth	2.7%	Extra increase in GDP level of 3% by 2010 or 0.5% extra annual growth	Target of 3% annual growth

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