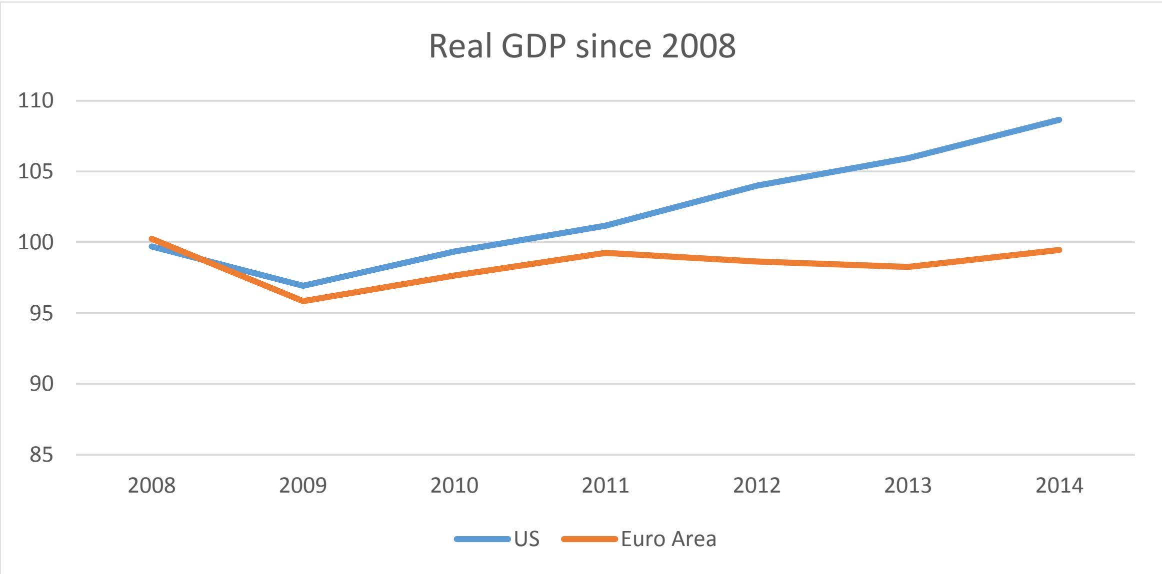
ANNEX 1 – ETUC's Priorities for Annual Growth Survey 2015

Estimating the effects of a European Investment Plan: up to 11 million new jobs could be created

A comparison with the situation in the US provides a clear picture of the failure of the European austerity and deregulation strategy. Whereas US GDP is now some 8% above the pre-crisis level, European GDP has barely recovered and is still around its pre-crisis level (see graph). Unlike the EU, where austerity and internal wage devaluation provoked a double dip recession, the US managed to avoid the same fate.

The very different employment performance in both regions is further illustration of Europe's failing strategy to address the crisis. In the US, job destruction stopped in the first quarter of 2010 and since then 7 million jobs were added to the economy until the first quarter of 2014. By comparison, in Europe - particularly the Euro Area - employment reached a first trough in the second quarter of 2010 and increased slowly, by 0,5 million, over the next year. From the third quarter of 2011, however, job destruction in the Euro Area started again and 1.8 million jobs have been destroyed up to the first quarter of 2014. As at August 2014, the Euro Area's seasonable adjusted employment rate was 11.5% and for the EU28 it was 10.1%.

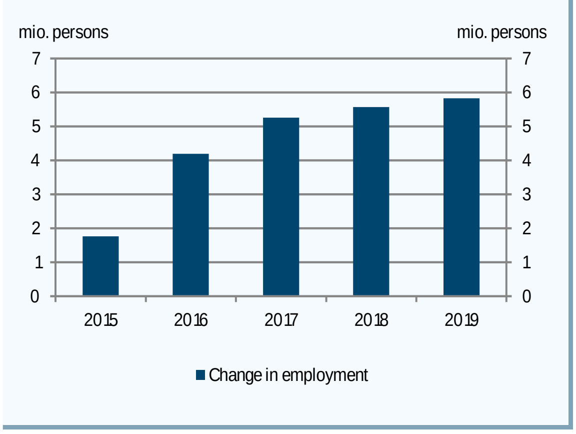


To start repairing the damage, the ETUC has proposed a major European Investment Plan, which would inject 2% of GDP as additional investment in European economies, over a 10 year period.

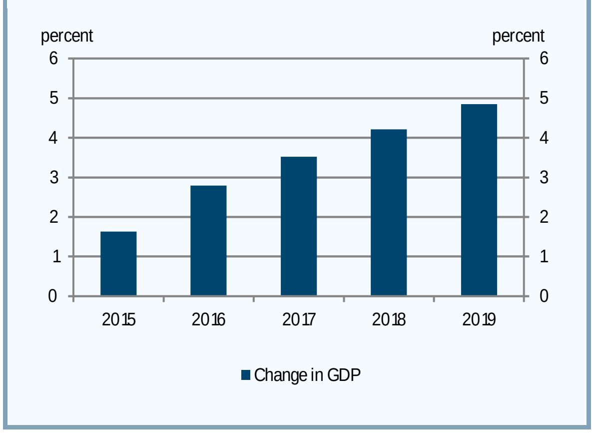
A simulation carried out with the Heimdal econometric model from the Danish based Economic Council of the Labour Movement (ECLM) illustrates the potential effects of such a plan. The simulation is of a joint re-launch of public investment by 11 Member States[1], raising the level of public investments by 1.5% of GDP from 2015 until 2019. Member States experiencing greater economic difficulties would increase investment even more, by 3% of GDP over the same period. The funds to finance these investments are collected at the EU level

[1] Spain, France, Germany, Belgium, Finland, Czech Republic, Sweden, UK, Denmark, Poland, Belgium

Graph 1.A Effect on employment in EU27



Graph 1.B. Effect on GDP in EU27



The result of the simulation is that by 2019, the number of jobs will have increased by 6 million and the level of economic activity in the EU 27[2] will be 5% higher than would otherwise have been the case.

These positive results are explained by the fact that a joint investment initiative by Member States is much more powerful than individual action. Europe is, after all, a relatively closed economy with Member States mainly trading amongst themselves. Investment effort by one members state will, through the import channel, support the economy of others while, vice versa, its own economy will be supported by the export demand generated by the investment push by other Member States. Finally, if this initiative were to be extended to the whole of the European Union (not just the 11 Member States simulate here), one could reasonably hope to create up to 11 million new jobs in Europe.

[2] The simulation was performed prior to Croatia's accession to the EU.