Annual Growth Survey 2015: Europe must have a new start

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ANNUAL GROWTH SURVEY 2015: EUROPE MUST HAVE A NEW START

The ETUC's priorities for the 2015 Annual Growth Survey

Since the publication of the first Annual Growth Survey (AGS) in January 2011, the EU has essentially pursued a coordinated policy of fiscal austerity, and wage and social deregulation. The ETUC has systematically called on European policy-makers to change course, warning against the negative effects of such policies. It has also warned of the contradictory nature of the Commission's European Semester policy recommendations and that the focus on austerity, even if couched as 'growth-friendly fiscal consolidation', would hamper Europe's economic recovery and predominate over social priorities. This focus on austerity also hampers the EU's transition towards a greener economy.

In advance of the publication of the fifth AGS (2015), Europe's economic, employment and social situation demonstrates that the ETUC has been correct in its assessment.

The state of the European Union: stalling recovery, looming deflation and persistently high unemployment confirms the failure of EU austerity policy

Five years after the outbreak of the 2009 financial crisis, the ETUC is forced to observe that:

- The economic recovery in the Euro Area, which was all too weak to start with, has evaporated in the second quarter of 2014, with economic activity stagnating again (zero growth). There are even those[1] who take the view that the Euro Area economy has never recovered since going into recession in 2011, implying that the recession in the Euro Area has now lasted three years. Meanwhile, growth forecasts are being revised downwards once again, with very meagre growth rates for 2015 and 2016, although several member states outside the Euro Area (UK, Poland, Sweden) seem to be enjoying somewhat better prospects.

- The European Central Bank (ECB) has failed to respect the price stability target it pledged to pursue. Inflation in the Euro Area is now well below its target (below but close to 2%), and with an inflation rate of just 0.4% too close to a situation of deflation. Eight member states (of which 6 are in the Euro Area) were already experiencing deflation in August 2014.

- Even the President of the ECB is now forced to admit that the recovery is not on track, that longer-term inflation expectations are no longer anchored and that we need demand side policy, in particular fiscal policy to relaunch the economy.

- Individual Member States have become prisoners of the dynamics of competitive wage deflation. The structural deregulation that was imposed or introduced in Greece, Portugal and Spain is now working to put intense pressure on France and Italy. However, if the latter were to introduce the same

[1] *Business Cycle Dating Committee of the Center for Economic Policy Research)*

agenda of structural reform, then demand in the internal market would suffer a major blow and the economy would definitely be pushed into deflation.

- Along with economic recovery itself, Europe's longed for 'job-rich recovery' has failed to materialise: 25 million people, including 5 million under the age of 25, remain out of work. The EU employment rate (20-64 year olds) continues to hover around 68.4%, making the Europe 2020 target of raising the employment rate for men and women to 75% seem increasingly unattainable. Although unemployment rates have started creeping downwards, the slow pace of reduction and the poor economic outlook suggest that it could take a long time, perhaps even a decade or so, before unemployment returns to its pre-crisis levels.

- One in four Europeans are "at risk of poverty" and the EU2020 target of lifting 20 million people out of poverty will not be met. The most striking increase in poverty has been among the working age population: 'in-work poverty' is becoming a structural feature of the European labour market and in 50% of cases taking up a job is not enough to lift people out of poverty[2]. Underemployment, precarious and low-paid jobs, downward pressure on wages and the decentralisation of collective bargaining have all contributed to this state of affairs. Additionally, reductions in social protection coverage and social transfers to households at the bottom of the income distribution scale is an important factor behind the increase in general poverty rates.

- Structural reforms have been unbalanced, focusing to a large extent on labour market reforms targeting the supply side including the weakening of collective bargaining and lowering of wages, and the reduction of social benefits. Though the origins of the crisis are to be found in structural problems associated with the financial and banking sectors, action to address these issues remains unsatisfactory. The euro has been saved, but the markets have only been calmed rather than tamed. Member States remain at their mercy and small and medium-sized enterprises continue to suffer the negative effects of the lack of access to finance.

- Encouraged by the Commission, many Member States have zealously implemented reforms reducing employment protection legislation. The aim of these reforms is to increase labour market flexibility on the premise that this will boost job creation, despite the lack of evidence of the link between such reforms and lower unemployment. Indeed, the ILO has recently highlighted major flaws in the analysis supporting this view, which led it to warn of the risk of policy-makers making "hasty and ill-informed reforms on sensitive political issues with far-reaching economic and social consequences"[3].

- While some policy-makers suggest that we are starting to see the signs that these reforms are having positive effects on the labour markets in some countries, many of the jobs that are being created raise serious concerns about their quality and longer-term sustainability. Temporary contracts accounted for more than half of the growth in employment in the year to the first quarter of 2014. The quality of the work available for many workers is deteriorating and precarious employment relationships, such as zero hours contracts and false self-employment, are on the rise, as is underemployment in the form of involuntary part-time work and over-qualification.

[2] *Employment & Social Developments in Europe 2013, European Commission*

[3] Deregulating labour markets: how robust is the analysis of recent IMF working papers, *ILO, 2014*
http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_238796.pdf

- Despite the Council's recognition that for labour market reforms to be successful, close interaction with Social Partners is a requisite, all too often Governments have acted without properly consulting and involving the social partners. The involvement of the national social partners, particularly trade unions, in the European Semester process remains wholly inadequate.

- The divergence between national economies and their labour market and social situations is increasing, as well as divergences within countries themselves. While some Member States are doing relatively well, others are lagging well behind. This increasing divergence, resulting in greater inequality, social instability and exclusion, if not addressed could seriously undermine the European project.

The Commission continues to attribute responsibility for Europe's poor economic performance and the deterioration in the employment and social situation to the legacy of the crisis and the lack of structural reforms by Member States[4]. However, it is exactly the insistent pursuit of incorrect policy responses that has derailed economic recovery, exacerbated unemployment and led to increased poverty.

Europe's policy-makers can no longer afford to deny the risks and dangers of their twin policy of austerity and deregulation and continue to use the alibi that structural reforms are by definition successful and that workers simply need to be more patient until they deliver positive results. With double digit unemployment rates and deflation looming, such denial of reality is no longer an option, or Europeans will continue to be scarred by mass unemployment, high levels of poverty and increasing inequality for the foreseeable future.

The 2015 AGS must set a new course for Europe

The ETUC notes the shift in tone in Jean-Claude Juncker's speech before the European Parliament in July. In particular, the proposal to urgently devise an additional European investment programme of 300 billion euros within the first three months of the new Commission, and the reference to establishing a wage floor in each Member State, are interesting.

Nevertheless, the 300 billion euros referred to is far below the ETUC's estimates of the level of investment needed5. We await the concrete details of Mr Juncker's 'Jobs, Growth and Investment Package' to see whether it has the potential to deliver real results, or whether, like the 2012 Compact for Growth and Jobs, it will be found lacking.

The ETUC, therefore, urges the incoming Commission to transform words and promises into real, effective and adequate action. To do so, the following measures need to be undertaken:

- To tackle the problem of the lack of aggregate demand, the role of public investments needs to be urgently upgraded. Besides strengthening economic structures and longer-term growth potential, public investment draws in private investment by re-launching aggregate demand and re-establishing positive demand perspectives for private business[6]. The ETUC's proposal for investment of 2% of GDP over a longer period of time remains valid and should

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[4] *The Commission's LABREF Database reveals that some 3500 labour market reforms have been carried out since 1999*

[5] *A new path for Europe: ETUC plan for investment, sustainable growth and quality jobs -* *http://www.etuc.org/documents/new-path-europe-etuc-plan-investment-sustainable-growth-and-quality-jobs#.VDJi_crj1BM*

[6] *The IMF's World Economic Output 2014 also highlights the long and short term economic benefits of increasing public infrastructure investments:* *http://www.imf.org/external/pubs/ft/weo/2014/02/*

be the basis for the new investment plan that the incoming Commission is in the process of drawing up (Annex 1).

- To move ahead with the European investment plan and to relaunch public investments, an in-depth discussion, including the social partners, on ways to introduce more and sufficient flexibility into the Stability Pact is needed. For example, a golden rule allowing Member States to run a structural deficit that equals their public investment efforts in % of GDP in specific circumstances, would be helpful.

- To ensure that the European investment plan is one that will work for all of us, in particular also those countries finding themselves in most difficulty, the financial markets' monopoly in deciding which Member States have access to finance and at what cost needs to be stopped. The ECB's role of providing, in cooperation with the EIB, finance for productive investment must also be discussed. Besides 'credit easing' (the ECB printing money at zero interest rate for the banking sector), 'investment easing' (the ECB providing finance to the EIB or a special European fund to be invested in the future of Europe) should also be seriously considered.

- To avoid the trap of deflation, structural reforms that pit workers against each other so as to squeeze their wages and working conditions even further downwards, need to stop (Annex 2).

- To support a process of self-sustained growth, the role of fair wages as an engine for growth needs to be recognised. Collective bargaining practice and its coverage must be promoted as well as a collectively bargained wage floors or a statutory minimum wage in those countries where trade unions consider it necessary.

- To address poverty and also support demand, European households need guarantees of decent incomes. Guaranteed minimum incomes could be a way forward. In the meantime, social protection benefits and pensions should be at least maintained, and preferably raised and indexed, to ensure that people have a decent standard of living (Annex 3).

- To invest in the training and education of the workforce, develop the 'learning society' and, in general, support the process of innovation and the shift towards a low-carbon and green economy, policy-makers should no longer view workers with stable employment contracts as being privileged and overprotected 'insiders' and as the root cause of precarious work practices. Policy-makers should opt for addressing labour market segmentation by a policy of "levelling up" the protection embedded in temporary contracts. The spirit (as well as the letter) of the European Social Acquis should become the focus of European policy against precarious work practices, for example the Directive on Fixed-Term Work, which is intended to ensure that fixed-term contracts are the exception and do not become the rule. It is a key mistake to think that access to training and development of innovative work practices will be improved by making all labour contracts precarious, since the reality is quite the contrary (Annex 4).

- To make the quality of jobs a priority, the European Employment Strategy needs to be revived. Many of the objectives set out in the Employment Guidelines, notably promoting job quality, remain valid but have become victims of the dominance of economic priorities. The review of the Employment Guidelines and the Europe 2020 Strategy mid-term review, provide an opportunity for an honest evaluation of the results of the past four years and to set in place corrective measures that will lead to smart, sustainable and inclusive growth by adopting a structural reform agenda that works. All proposed EU economic governance measures must be assessed for their impact on employment and job quality. Proposals aimed at product and services reform may have substantial impacts on employment and job quality in the targeted sectors. Where negative effects can be foreseen, these should only be pursued if measures to mitigate and offset them are also included in the reform proposals.

- To support women's, young people's and other vulnerable workers' full participation in the labour market the quality, not just the quantity, of employment must be assured. Further efforts to eradicate pay gaps, notably the gender pay gap, and remove barriers to the labour market are needed. The European Semester should support this. Gender equality must be effectively mainstreamed in all EU policies, including the Europe 2020 Strategy. The ETUC welcomes the Employment and Social Affairs ministers' June 2014 Conclusions on 'Women and the economy', particularly the call for a pillar on gender equality within the Europe 2020 governance framework[7]. Employment services and the Youth Guarantee, which is currently the victim of poor take up and implementation, must be properly funded to facilitate young people's transition into the labour market.

- To secure a strong and robust financial basis for our social security systems, policies that shift the tax burden away from labour should take care not to endanger social benefits themselves. They should also steer away from taxes with regressive effects such as consumption taxes and focus instead on taxes on capital, wealth, energy and natural resources. Quality, affordable and accessible public services (including proper care infrastructure), and adequate redistribution mechanisms and social transfers can also help to counter inequalities. Social investment should not be seen as a cost for competitiveness but as a long term contribution to an inclusive society (Annex 5).

The ETUC is more than ever convinced that Europe needs a fundamental change of course. The slowdown in economic recovery and the poor outlook for the employment and social situation support this view. When Jean-Claude Juncker presented his political guidelines for the next European Commission in July 2014, he gave Europe’s workers and citizens a glimmer of hope that there would be ‘A New Start for Europe’. The next AGS will be the first test of whether the Juncker Commission can begin laying the foundations for a new start and for rebuilding the trust and confidence of Europe’s workers and citizens.

The 2015 AGS should set Europe on that new course by giving priority to a robust and ambitious multi-annual European investment plan, by trading in the agenda of structural deregulation for an agenda that promotes quality jobs, and by recognising the role of wages as an engine for demand, investment and jobs. This can only be done if “The promotion of employment, improved living and working conditions, proper social protection, dialogue between management and labour, the development of human resources with a view to lasting high employment and the combating of exclusion are the common objectives of the EU and its Member States in the social and employment fields”, as set out in Article 151 TFEU, form the cornerstone of a new start for Europe.

[7] *Employment, Social Policy, Health and Consumer Affairs Council Conclusions on 'Women and the economy', 19 June 2014 paragraph 28: http://www.consilium.europa.eu/meetings?lang=en&id=d218e541-cd5c-45c4-90c9-138a801c68c7*

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