

## The ETUC's Priorities for the 2014 Annual Growth Survey

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### Key messages

- **Europe's major challenge is to transform what could be the end of a recession into a robust process of self-sustained growth, with mutually strengthening investment, demand and job creation adding to growth dynamics**
- **To achieve this, the strategy of austerity and structural deregulation needs major change**
- **Fiscal austerity must be relaxed further and both nominal as well as structural deficit targets must correspond to the state and intensity of the business cycle**
- **The EU must stop putting systematic pressure on Member States to engage in the wage race to the bottom**
- **The creation of quality jobs must become an effective part of the EU's job-creation and employment strategy**
- **The EU needs a major European recovery plan, injecting 2% of GDP into the economy, for sustainable growth and job creation, tackling economic and unemployment imbalances, and to address social, industrial and environmental challenges**

### **Austerity's legacy – record unemployment, rising poverty and a more divergent Europe**

Europe is paying too high a price for austerity: over 26 million people unemployed, skyrocketing youth and long term unemployment, one million jobs lost in the Euro Area over the past six months, a double dip recession with activity contracting for six successive quarters, rising poverty and inequality, and growing divergence between Member States and socio-economic groups. Meanwhile, public deficits remain high and public debt ratios continue to climb.

It is against this background that the European Commission will publish the 2014 Annual Growth Survey (AGS), setting out the EU's priorities for growth and jobs for the coming year. The nascent economic recovery has bolstered those who argue that Europe is on the right track and must stay the course. However, the ETUC's key message is that without a major departure from the twin strategy of austerity and structural deregulation, Europe risks spiralling back into recession or, at best, will experience a recovery that is so weak that it is unable to significantly reduce unemployment levels.

### **The state of the economy and employment**

#### ***A fragile and divided recovery***

The ETUC warns that if policy makers return to a strategy of fixing unrealistic deficit targets, the fledgling recovery will evaporate as it did in 2011. The improvement in economic performance, based on the temporary relaxation of austerity, is fragile and the structural forces pulling down demand dynamics remain (private sector debt overhang, weak bank balance sheets, housing stock overhang).

It is also a 'divided' recovery as the economic situation in the Euro Area remains polarised and unbalanced. Behind the Euro Area average hides the fact that whereas some economies returned to growth in the second quarter of 2013, others continue to be mired in recession with weak growth prospects for 2014 and while registering unemployment rates as high as 27%.

Austerity is still on the cards and it is still overly ambitious. Whereas the European Semester extends the deadlines for some Member States to reach a nominal deficit of 3% of GDP, it still imposes impressive targets in terms of reduction of structural deficits for 2014 and subsequent years. The austerity this implies for the 2014 budgets ranges from 0.8% of GDP (France), over 1% of GDP (Poland) and up to 1.9% of GDP (Spain). If implemented, these fiscal austerity plans will derail recovery and will do so exactly in those countries that most need to re-launch economic activity. Moreover, these short term budget requirements will deprive many regions in Europe of the investment crucially needed to speed up the pace of transition towards a low-carbon and resource efficient economy.

### ***A 'jobless' or poor jobs recovery***

Despite recent indications that the unemployment situation may be stabilising, the prospects of a significant reversal in the record high unemployment rates remains dim. Even taking account of the time lag between economic recovery and improvement in the unemployment situation, the outlook is very poor with forecasts predicting that unemployment rates will remain at their current high levels throughout 2014.

There is ample evidence of the deterioration in Europe's employment and social situation (see for example the EU Employment and Social Situation Quarterly Review, October 2013). Precarious work has increased further during the crisis while standard work (permanent and full-time employment) has declined. The number of workers in involuntary temporary and part-time work and those whose wages are not enough to assure them a decent standard of living continues to grow. Long-term unemployment has reached an all-time high and is becoming increasingly structural. The employment and social situation is also characterised by major divergences between the Member States with young people, non-nationals and the low-skilled being particularly hard hit. The danger is that these trends will continue into 2014 and beyond. The ETUC rejects an approach where workers' rights must be traded for jobs.

### **An unbalanced European Semester: all about structural reforms, little about positive demand management**

The European Semester – including the Country Specific Recommendations, the Stability and Convergence Programs and the Macro Economic Imbalances Procedure – does not provide appropriate policy advice and coordination in the domains of fiscal policy, structural reforms of labour markets and wages. Although the Semester is intended to support Member States in fulfilling their commitments under the Europe 2020 Strategy, including its targets for higher employment and poverty reduction, these targets are looking increasingly unattainable. This underlines the need to rebalance economic governance by strengthening the social aspects. The recent Communication on Strengthening the Social Dimension of Economic and Monetary Union (EMU) at least acknowledges this major failing in the economic governance process.

In exchange for substituting nominal deficit targets with structural ones, the Commission recommends that Member States speed up and intensify structural reforms. With a few exceptions, this implies a deregulation of labour law and labour market institutions in particular, and/or reforms of pension schemes. If implemented, these recommendations will further the spread of precarious work practices, worsen inequalities, increase insecurity for workers and, thereby, reduce aggregate demand dynamics and weaken or stall the much hoped for recovery.

The 2012 and 2013 Annual Growth Surveys rightly set tackling the unemployment and social consequences of the crisis as a key priority for economic policy coordination. However, in the last two years 4 million more people have swelled the ranks of the unemployed and poverty and social exclusion have continued to rise, with recent stark warnings that 15-25 million more people across Europe could be living in poverty by 2025. The continued deterioration in the employment and the social situation illustrates that, despite having the right social targets, the current policy approach is not delivering.

Many Member States have already pursued labour market reforms, focusing to a large extent on weakening employment protection legislation and collective bargaining, with little or no assessment of the social impact of these reforms. In addition to the more common forms of atypical work, other types of non-standard employment relationship are being created or have seen a sharp increase in their use (e.g. zero-hour contracts and employee shareholder status (UK), youth contract (Greece), service contracts (Germany, Poland), agreements on work performed outside the employment relationship (Slovakia) and the three year training contract (Spain)). Many of these new forms of contractual relationships are being created with the sole purpose of circumventing workers' employment conditions and rights as set out in collective agreements and/or legislation and permitting unscrupulous employers to compete unfairly.

The Commission's recommendation to shift from labour taxation to environmental taxation is presented without due attention to the effect this shift could have on social redistribution or on social protection systems. Additionally, there is regards for the role other forms of taxation such as taxes on corporate income and on excessive wealth can play in the European Semester. Despite the recognition of the positive role of social protection schemes as automatic stabilisers, these are being systematically undermined by austerity policies, at the very moment when they are most needed.

The Semester continues to be biased towards interventions and reforms that promote downwards wage flexibility. In 2013, eight Member States (excluding the four programme countries) received policy advice to weaken wage formation institutions. Member States are formally being played out against each other, with reforms in one country being used as an argument to push for even more intrusive reforms in another. Meanwhile, at the insistence of the ECB, a new and narrow wage standard is in the process of being established in which nominal wages are linked to productivity only, not to productivity and inflation.

The 2013 AGS acknowledged the significant amount of reform that has taken place in public administration in recent years. Crucially, many of these reform have been imposed with little or no social dialogue. The AGS failed, however, to acknowledge the turmoil being created by short-term policies aimed solely at quantitative cuts, rather than improving the quality of services. Such arbitrary cuts threaten to undermine the quality of public services and workers' morale. We fail to see any logic in governments across Europe cutting 50,000 jobs from tax administration, when there is a clear consensus in support of increased action to tackle tax fraud.

### **The next European Semester must steer Europe on another course**

Europe needs to transform the fragile signs of recovery into a robust process of self-sustaining growth, with a resulting increase in investment, demand and sustainable and quality job creation adding to growth dynamics. To do so, the European Policy Semester cannot content itself with changing things in the margin. The twin strategy of austerity and structural deregulation needs major, not cosmetic change. Instead of new rounds of fiscal cuts, the straightjacket of fiscal austerity needs to be relaxed further. There must be an end to austerity in 2014. Deficit targets for the post 2014 period, whether nominal or structural, need to be in line with the state and intensity of the business cycle. If the economy is weak, fiscal consolidation ambitions should be modest so as not to trigger a 'triple dip'.

Instead of adopting a 'wait and see' attitude, hoping that the recovery will actually materialise and turn into a robust process of growth in all Member States, policy needs to take matters into its own hands. We need a major European recovery and employment creation plan, injecting 2 % of GDP into the economy, particularly in those Member States experiencing sky-high unemployment levels. Increased investment is essential if we are to achieve the necessary social investment in human capital, education, health and other public services, as identified in the Social Investment Package. It is also essential for addressing societal challenges such as climate change, the scarcity of natural resources and high energy prices.

The ETUC shares the objective of better coordination in the field of employment and social policies as outlined in the Communication on deepening the social dimension of the EMU but emphasises that this must be applied to all the member states. The introduction of key social indicators, intended to serve as a "scoreboard" within the European semester, would be a step forward, however these should not serve merely as another analytical tool. Many indicators are already utilised in the employment and social fields, but are powerless against the priority given to economic issues within the governance framework. What is needed is for these social indicators to be placed on an equal footing with the economic ones, in order to have a real impact on economic policies.

European policy should promote collectively bargained wages rather than putting systematic pressure on Member States to engage in the wage race to the bottom. The ETUC will be vigilant that the European Commission does not use its new powers, derived from the fact that Spain and Slovenia are the first countries to have been declared as being in a state of excessive macroeconomic imbalance, to intrude in these countries' wage bargaining and formation systems. A cut in their minimum wage or any further deregulation of wages will install deflation and make workers pay for the mistake of the banks. Any moves in that direction will further erode the little trust they still have in the cause of European integration and will be sharply condemned by the ETUC.

European policy should also actively promote decent work and the creation of quality jobs. Precarious jobs will make for a precarious recovery. Growth will only be self-sustaining if the jobs that are created are 'good' jobs which provide workers with decent wages and conditions and security. The EU's commitments on gender equality must not be neglected and must be clearly integrated into the European Semester. Although many CSRs are aimed at increasing female participation in the labour market, more needs to be done to improve the quality of female employment, tackle gender segregation and eliminate barriers which still profoundly hinder women's access and progression in the labour market. The CSRs must also be consistent, for example specific measures are required to tackle the gender pay gap in all Member States.

Any process to modernise public administration should focus on improving the quality of services rather than on cutting "red tape" or making arbitrary cuts in jobs and services. This can only be achieved through a proper process of social dialogue. There is now a substantial body of research, commissioned by both DG Employment and the International Labour Organisation, which exposes the breakdown of social dialogue in the public services and the unilateral imposition of poorer pay and conditions. The Commission must recognise the clear messages coming from this research and take them into account in drafting the next Annual Growth Survey.

The European Union must respect workers' fundamental rights, including the right for their trade unions to collectively negotiate on their behalf. Despite constant references to the importance of social dialogue and the need to strengthen it, in practice the Commission and many member states are undermining the social dialogue and continuing to infringe the autonomy of the social partners. This practices must stop.

The ETUC has consistently called for the effective involvement of the national and European social partners at all stages of the European Semester. This must go beyond mere information and consultation. Some progress has been made at the European level but the involvement of the majority of the national social partners remains wholly inadequate. The social partners' views (joint or individual) must be taken into account and given visibility, within the AGS and National Reform Programmes and the Country Specific Recommendations.