

# Annual Growth Survey 2016 - for a Europe that works for workers and citizens

## European Social Partners Consultation: the ETUC's priorities for the AGS 2016

### Introduction

1. This document sets out the European trade union movement's views and priorities for the 2016 Annual Growth Survey and the European Semester. It builds on the comments expressed in the consultation meeting between the European Commission and the European social partners on 23 September 2015.
2. The economic crisis and its ongoing effects have undoubtedly had profound and diverging impacts on European economies, labour markets and the social environment, as well as exacerbating existing problems. The Commission analysis of the situation and challenges is often accurate, however there is a general reluctance to acknowledge that many of the policy decisions pursued have slowed the recovery and contributed to the current employment and social crisis.
3. In his State of the Union<sup>1</sup> address to the European Parliament on 9 September 2015, President Juncker acknowledged that the crisis is not over but has merely been put on pause. While economic recovery is continuing, it remains fragile and too weak to be able to withstand negative shocks already appearing on the horizon (emerging market crisis, slowing world trade). Investment remains weak and while the unemployment and social situation are showing some signs of improvement, job quality is a key concern and inequality and poverty levels are unacceptable.
4. The ETUC notes the Commission's intention to maintain continuity in its approach with the next AGS. The focus on investment as a key priority in the 2015 AGS was a welcome step in the right direction. The ETUC has been calling for a New Path for Europe<sup>2</sup> with an ambitious European investment programme for sustainable growth and quality jobs for several years. The Investment Plan for Europe ('Juncker Investment Plan') partially responds to this. However, the current measures fall short of the level of commitment needed as identified in the ETUC's own proposals and further efforts are needed.
5. The ETUC continues to be highly critical of the Commission's policy of so-called 'growth friendly fiscal consolidation' and the unbalanced structural reform agenda. Continued austerity, even if couched as fiscal consolidation, is likely to undermine the investment efforts and hamper recovery. A proper assessment of the outcomes of the structural reforms pursued so far shows that they have significantly contributed to undermining the European social model, and with it, citizens' faith in the European project.

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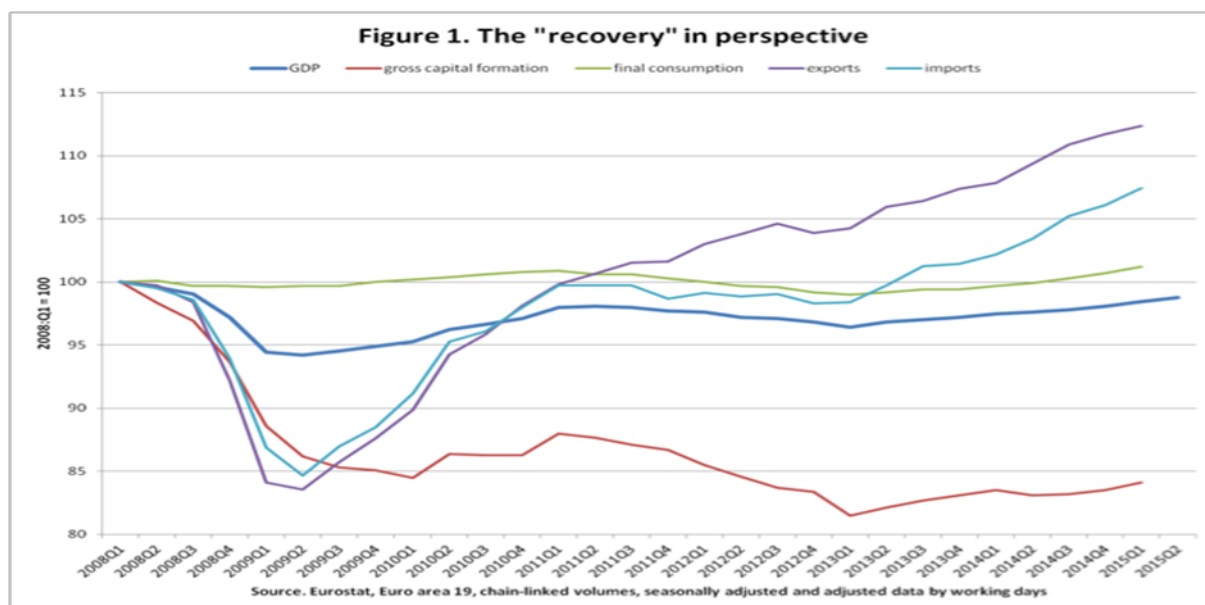
<sup>1</sup> [State of the Union 2015: Time for Honesty, Unity and Solidarity](#)

<sup>2</sup> [A new path for Europe: ETUC plan for investment, sustainable growth and quality jobs](#)

## Safeguarding the recovery and transforming it into a 'structural recovery'

### The recovery remains fragile but competitiveness is not the problem

6. The European economy has been growing again since the middle of 2013 but the pattern of recovery, particularly in the euro area, remains disappointing. Economic recovery is proceeding at a snail's pace: seven years after the financial crisis, the level of economic activity still has not recovered to its pre-crisis level (see graph below). This is not normal: a Great Recession should be followed by a Great Recovery, not by a Great Stagnation as is the case in the eurozone.
7. While consumption demand has been stagnating all these years, exports have saved the day as export demand has been the single force driving the recovery. This puts into serious question the idea that Member States are suffering from a lack of competitiveness. If this were the case, exports would not have shown such dynamism nor would the Euro Area show a record high surplus on trade with the rest of the world, a surplus that has now reached a record high of 3.5% of Euro area GDP (1.9% of EU 28 GDP).
8. Meanwhile, investment has collapsed and is showing no or only weak signs of recovery, and this despite the fact that over the past years almost everything, from wages over labour law to unemployment benefits, has been subjected to – sometimes brutal - structural reforms. This casts doubts over the other part of the European conventional wisdom that structural reforms will relaunch the economy by restarting business investment.



9. Moreover, downside risks to the recovery have once again appeared on the horizon, risks that result directly from the policy choices Europe has been pursuing:
  - with an annual surplus on external trade of 3.5% of GDP, the euro area is taking year after year more than 300 billion euro of aggregate demand out of the world economy, thus contributing to global imbalances. The turmoil that is now hitting the emerging markets (economic activity short circuited because the build-up of debt has become excessive, serial rounds of currency depreciation) cannot be seen as entirely disconnected from European policy choices. Europe, the euro area in particular, cannot continue to freeload its problems on the rest of the world;

- many European economies continue to operate on the edge of deflation. Structural reforms, especially of wage formation and collective bargaining systems, carry a high responsibility as they have produced a scenario where internal euro area rebalancing has pushed wage dynamics - particularly in the crisis countries - into deflationary territory, thus producing wage cost dynamics for the average euro area that are much below the ECB's price stability target.
10. It should be noted that growth in a majority of European Member States and in Europe as a whole is 'wage led'. By depressing aggregate demand, a fall in the share of wages in GDP tends to drag economic activity down while an increase in the labour share pushes the economy up. Simulations find that a coordinated increase in the wage share of EU15 countries over the next five years could increase real GDP by 1.5 to 3.15%<sup>3</sup>.

### The need for an enhanced Investment Plan

11. Europe needs a much stronger recovery but also a recovery that becomes structural by developing its own momentum and strength. To achieve this, an enhanced investment plan and a reform agenda that makes the creation of quality jobs the priority is urgently needed.
12. Although the Investment Plan for Europe is a start, it falls short of the ETUC's demand for an investment programme of 2% of EU GDP per year for the next 10 years. Also absent from the Investment Plan is a recognition of the need to support public investment, as the focus is principally on leveraging private funds. High-quality public services support economic growth. Public investment should also be boosted in services such as education, health, social services, housing and public transport, as well as investment in the public sector workers who are responsible for delivering these services, not least the public employment services that are critical to helping people back into work.
13. To derive the maximum benefits, the Investment Plan needs to be truly 'European'. To bring added value and address the divergent economic and employment situations in Member States, there needs to be a pan-European approach to investment projects and Member States and regions that were hardest hit by the crisis and those with fewer internal resources should be prioritised for investment.
14. The current Investment Plan needs to be closely monitored to see whether it results in additional investment or simply finances investment projects that would have been implemented anyway. Projects must also be monitored to see whether they meet the overall objectives, notably that they should be of high societal and economic value contributing to EU policy objectives. Particular attention should be given to financing projects which invest in human capital<sup>4</sup>, as well as those which support the transition to a greener economy.

### A policy agenda for quality jobs and a fairer society

15. Quality job creation should be a key priority of the AGS 2016 and orientate the Country Specific Recommendations. Precarious jobs and rising inequalities will create a precarious recovery. Greater attention must be given to the creation of well paid jobs, with stable employment contracts which will drive forward aggregate

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<sup>3</sup> [Wage led Growth in the EU15 Member States, Onaran & Obst, FEPS, 2015](#)

<sup>4</sup> The ILO has estimated that earmarking 5% of total investment for improvement of skills would add an additional 100 000 jobs to estimated 2 million jobs that the Investment Plan could generate with the right design and allocation. See [An Employment Oriented Investment Strategy for Europe, ILO January 2015](#)

demand (including business investment), thus also supporting a stronger and self-sustained recovery.

16. The employment situation in the Europe remains critical, even if recent statistics appear to be encouraging. In addition to merely creating jobs, the challenge is to ensure that the jobs being created are quality ones which allow people to have a decent standard of living and contribute to their well-being, and support a robust economy.
17. The ETUC notes with interest that the introduction of a 8.5 euro minimum wage in Germany at the beginning of 2015 did not lead to job losses, as predicted by some. Instead job creation dynamics continued to keep up and unemployment fell over the first half of the year at an even higher pace than before. The impact of the minimum wage has not been job destruction but higher wages for those workers that need them most and a shrinking low pay sector with its precarious work contracts<sup>5</sup>.
18. Globalisation, technological innovation and change, demographic trends and the transition to a greener economy are having a profound impact on the labour market. Labour markets must adapt to meet these challenges with policies that grasp the opportunities presented while leaving no one behind. The ETUC remains prepared to support policies which will lead to positive results for workers, businesses and society at large. However, it will continue to oppose an unbalanced reform agenda which places the burden of making European economies more competitive mainly on the shoulders of workers.
19. Policy decisions regarding the type of reforms which will deliver a competitive and productive economy fuelled by quality jobs and a well-skilled workforce, and which provide social progress for all, must be based on a proper and effective analysis of the impact, including the social impact, of the reforms to date. Many of the labour market reforms intended to boost competitiveness and job creation have had little impact on increasing productivity or greater inclusion and will constrain economic growth in the long term.
20. Structural reforms and labour market policies should be negotiated with trade unions and respect social partners' agreements. Member States that have pursued these reforms in consultation and negotiation with the social partners have had more positive outcomes, but in too many cases reforms have been imposed without any or adequate social dialogue and irrespective of the negative consequences for workers and the most vulnerable members of society.
21. Structural reform policy aimed at achieving highly flexible labour markets does not create new (net) jobs. There is little or no convincing evidence to be found in the international literature showing that a flexible labour market would improve jobs or unemployment performance. Nor are flexible labour markets good for innovation or productivity. Recent IMF research finds no link between labour market (de)regulation and innovation<sup>6</sup>.
22. Instead of pursuing disorganised decentralisation of wage bargaining, systems of coordinated wage bargaining, which have proved to produce good outcomes for jobs, need to be restored and promoted. Investment in active labour market policies promoting training and skills is urgent and necessary.
23. The problems of a dual labour market (inequality and discrimination, human capital depreciation and lack of incentives for innovation) need to be solved by improving

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<sup>5</sup> <http://www.socialeurope.eu/2015/09/the-german-minimum-wage-is-not-a-job-killer>

<sup>6</sup> [World Economic Outlook, Chapter 3, IMF April 2015](#)

the rights and conditions of atypical workers, not by deregulating labour protection and the rights of all workers, thus downgrading stable jobs into precarious ones.

24. Skills development is key to higher growth but reducing the gaps between different levels of protection between permanent and temporary employment forms by making all workers less secure, will not address the challenges of increasing productivity and having a better-skilled workforce. The OECD's report *In it Together: Why Less Inequality Benefits All*<sup>7</sup> also highlights the increasing share of non-standard employment as an important driver of income inequality and a constraint to long-term economic growth.
25. The ETUC will never accept that precariousness becomes the new 'norm' and we will remind President Juncker of his commitment at the ETUC's 13th Congress, to create a society that we can all share, including a European pillar of social rights<sup>8</sup>.

#### The return of the flexicurity model

26. The ETUC notes the renewed enthusiasm for a 'European' flexicurity model. For many workers across Europe, it would seem that while they are expected to embrace flexibility in good times and bad, security can only be a fair weather friend. The experience of many workers has been that while being told, and too often forced, to trade job security for flexibility in exchange for employment/labour market security (investment in active labour market policies, lifelong learning and modern social security systems), in reality there is often little available in the way of compensatory security measures.
27. Even worse, over the crisis years, flexicurity in practice has meant lower job security as well as lower labour market security with unemployment benefit systems being eroded and falling active labour market expenditure per capita. With the continued focus on fiscal 'consolidation' and based on past evidence, the ETUC is sceptical that Member States will provide the level of investment needed to deliver genuine security for workers.

#### Social situation and inequality

28. Poverty and inequality are at unacceptable levels in Europe, affecting both people in work and those excluded from the labour market. This is not an inevitable consequence of the crisis but due to policy decisions that favoured austerity and unfair tax policies which result in poorer people disproportionately paying more while those with the broadest shoulders continue to evade tax. In its report *A Europe for the Many, Not the Few*<sup>9</sup> Oxfam rightly points out "Poverty in the EU is not an issue of scarcity, but a problem of how resources – income and wealth – are shared."
29. It is a sad indictment that in 21st century Europe, having a job is no longer a guaranteed route out of poverty or the best tool for ensuring social inclusion. The most notable increase in poverty is among working age people, including those who have a job. In its *Employment Outlook 2015*, the OECD issues the stark warning that time is running out to prevent millions of workers from being left trapped at the bottom of the economic ladder, "stuck in chronic unemployment or cycling between unemployment and low-paid jobs".<sup>10</sup>

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<sup>7</sup> [In It Together: Why Less Inequality Benefits All, 21 May 2015](#)

<sup>8</sup> L'Europe sociale, réformes et solidarité / Discours du Président Juncker pour la Confédération européenne des syndicats, 13ème Congrès (French) [http://europa.eu/rapid/press-release\\_SPEECH-15-5741\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-15-5741_en.htm); video (English) <http://ec.europa.eu/avservices/video/player.cfm?ref=1109287>

<sup>9</sup> [A Europe for the Many, Not the Few, Oxfam 9 September 2015](#)

<sup>10</sup> [OECD Employment Outlook 2015 Editorial](#)



## Education and Training

30. Europe needs a well-educated and skilled workforce to achieve its economic potential. However, educational reforms should not only be seen in the context of labour market needs but also in the wider context of societal needs. Reform measures focusing on skills should prioritise both raising the level of knowledge, skills and competences and filling the growing gap between the low-skilled and the high-skilled. This is necessary not only for economic growth, but to support social progress and inclusion.
31. In attempting to reduce public spending, a majority of Member States implemented short-sighted cuts in education funding hampering quality education, putting pressure on pay and working conditions, teachers' professional development and increasing precarious contractual arrangements for teachers and education employees. While investment in education is now growing, the level of education funding is disastrous when compared to the pre-crisis situation. A broader investment strategy should cover the full cycle of education and training, encompassing all sectors of lifelong learning, work-based and workplace learning, formal and non-formal learning.
32. Skills, competences and knowledge development must go hand in hand with active involvement of social partners, and taking account of the need to anticipate change. Where social partners have been involved within the European Semester consultations, the education and training reforms carried out have proved successful.
33. Teachers and education staff bear the biggest responsibility for educational outcomes. They have the necessary competence and expertise for designing educational curricula and this should be respected. The involvement of social partners in the design of VET will help to ensure that labour market needs are adequately taken into account. Cooperation between companies, workers' representatives and vocational education and training institutions should be enhanced specifically with regards to quality apprenticeships, work-based and workplace learning. Curricula development should be based on the quality teaching and learning outcomes approach, in relation to societal and employability needs.

## Labour mobility

34. The free movement of workers is a fundamental EU right, which workers should be able to exercise freely and fairly. Labour mobility is increasingly being promoted as a mechanism for economic adjustment. Whilst labour mobility can provide a short-term fix for high levels of employment in a Member State or region, the ETUC insists that the medium to long-term consequences must be taken into account.
35. The ETUC welcomes President Juncker's express commitment to address social dumping and his defence of the principle of equal work for equal pay at the same workplace. The ETUC insists on equal treatment and right-based labour mobility policies, as well as respect for collective agreements. Many of the Member States worst affected by the crisis have experienced massive outflows of young, often highly qualified, people. The impact of this 'brain drain' is already apparent in some countries which are already experiencing skills shortages in certain sectors. Such high levels of migration will also have a lasting negative impact on these Member States' social systems, particularly social security and pensions, and healthcare.

## The refugee situation

36. European leaders must address the massive increase in refugees by encouraging solidarity and unity, as well as addressing concerns about Member States' ability to

manage the situation. A key aspect of this will be taking adequate measures to help refugees settle, including ensuring that public services are sufficiently resourced and early anticipation of the requirements to facilitate their smooth transition to the labour market.

37. As part of ensuring a smooth labour market transition, existing competences and skills need to be established. Social partners within a European platform of dialogue on migration with the Commission can also play a key role in facilitating the integration of migrants, notably into the labour market. Social partnership can also help to activate paths for the recognition of competences.
38. There is a risk that many asylum-seekers will fall into an irregular situation which may in turn lead to irregular employment with disruptive effects on the labour market. Measures should be taken, including establishing a coordinated plan for humanitarian visas to prevent a surge in undeclared work which could undermine the smooth integration of asylum-seekers and refugees.

### **Strengthening economic and social governance**

39. The ETUC stresses that social partners have a key role to play to help achieve a coordination of economic policy based on an in-depth and comprehensive approach instead of a number of unbalanced rules. It also stresses that consultation of the social partners is not merely about listening to our views, but ensuring that these are taken on board in a balanced manner in policy decisions and subsequent recommendations, so that the interests of workers and employers, as well as the general interest, are fairly reflected.
40. The Five Presidents' Report outlines proposals for a more integrated European Semester with a more distinct 'Euro Area' semester process. In this context, the ETUC proposes that high-level discussions should be organised between the social partners and the euro group of finance ministers. Additionally, if informal meetings of euro zone labour ministers are organised, the ETUC and the other European social partners should be involved as full participants.
41. The ETUC is encouraged by the increased attention being given to the social dimension of economic governance by the Commission and welcomes the Luxembourg Presidency's decision to focus on this issue at the Informal EPSCO in July 2015. A majority of Member States recognised the need to strengthen the social dimension, acknowledging that social imbalances can have negative impacts and need to be addressed.
42. Concrete steps must be taken to ensure that social issues are properly integrated into the EU's governance framework. This should ensure that the negative impacts are taken into account and policies corrected in advance or appropriate mitigating measures taken to prevent the deterioration of the employment and social situation. The Commission has already expressed its intention to develop social benchmarks which could be used to guide Country Specific Recommendations. These should be developed in full consultation with the European social partners.

### **Involvement of the social partners in the European Semester process**

43. The ETUC welcomes the European Commission's efforts to relaunch the social dialogue. Social partners should be consulted on all the issues which "directly or indirectly" impact on employment and labour markets, as agreed with EU-level employers in our 'Joint Declaration on the involvement of the Social Partners in

Economic Governance<sup>11</sup>. Social dialogue is still under strain in various Member States. Support for capacity building for social partners and to foster strong industrial relations should remain a priority in order to achieve an effective social dialogue at all levels. The ETUC is also committed to fostering internal coordination between European, national and sectoral level trade unions in order to improve our capacity to respond to the various stages of the European Semester process.

44. The ongoing efforts of the Commission and the Employment Committee (EMCO) to consult the European social partners at key stages of the European Semester are appreciated. Despite the constraints imposed by the Semester timetable, the streamlined approach piloted in 2015 is an improvement, providing a better opportunity for the ETUC and its members to provide views on the Country Reports and subsequent Country Specific Recommendations.
45. The situation at national level remains unsatisfactory. The ETUC acknowledges the deployment of the Commission's European Semester Officers in the Member States, which it is hoped will improve information flows and the accuracy of the information presented in the Country Reports. A consistent approach should be ensured, as well as avoiding duplication between the process at national and European level. During national consultation meetings, the specific role of the social partners as labour market actors and experts should be recognised.
46. The ETUC supports the stronger involvement of the European and national parliaments in economic governance and the Semester process. It is important that the European and national parliaments are also aware of the social partners' positions and organise a structured dialogue to enable this. The European Parliament should invite the European social partners to take part in the discussions with the Commission regarding the Annual Growth Survey and in the discussions with national parliaments regarding the European Semester during European Parliamentary Week.

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<sup>11</sup> <https://www.etuc.org/declaration-european-social-partners>