



European Trade Union Confederation (ETUC)  
Confédération européenne des syndicats (CES)

## **ETUC resolution on a European Recovery Programme**

### **Saving jobs from depression and deflation, defending wages, collective bargaining and pensions**

- 1. The Commission's Economic Recovery Plan: A good start, but questions still remain, while Member States have given it a lukewarm reception.** On 26 November 2008, the Commission brought forward its proposals to relaunch the economy. The key proposal is to organise a demand side stimulus of €200 billion, or 1.5% of GDP, with Member States putting in the main part of the effort (1.2%), and with the Commission describing 10 areas in which priority action is to be taken. The intention to stimulate demand is to be welcomed: it is urgently needed to prevent the economy from entering into a prolonged recession.

At the same time, there are shortcomings. The logic of the Stability and Growth Pact and the 3% deficit still continues to dominate thinking, so that the proposed action to boost demand by 1.2% of European GDP is to be undertaken essentially by Member States which have the fiscal room to do so. However, with the exception of Germany and the Scandinavian countries, there are not many Member States in such a position. Will Germany and the Scandinavian countries take it upon themselves to function as the locomotive for the entire European economy?

Another shortcoming is the imbalanced approach to wage formation. Wage formation systems in countries with inflation and competitiveness problems are under attack, whereas the opposite case, in which wage developments are lagging far behind productivity developments, is simply being ignored. More fundamentally, it is not coherent to deregulate labour markets when it is financial markets which need strong re-regulation.

Moreover, the reaction of some Member States and some ministers has been disappointing. Particularly discouraging was the report from the Economic and Financial Affairs (Ecofin) Council. Even if the Commission's plan is far from perfect, it nevertheless represents a first step forward.

The Commission's Recovery Plan therefore has to be developed further. This resolution, describing an outline of a more coherent European Recovery Plan, provides the basis on which to intervene with the Commission and the Council, as well as at the extraordinary Tripartite Social Summit on 9 December for which the European social partners have been calling.

The ETUC resolution is based on the following key principles:

- It is now crystal clear that markets do not solve everything and that, especially in present circumstances, we need a visible public hand to steer the economy and organise solidarity in our society, including strong public services.
  - The ETUC plan also starts from the principle that a strong European dimension is indispensable. European-wide coordination is necessary to prevent isolated national action plans from reverting to 'beggar-thy-neighbour' or 'free-rider' policies. European action is also crucial to ensure funding of the European Recovery plan by providing a broader access to global capital markets at more affordable interest rates and by bringing tax competition under control, thereby strengthening the tax revenue base of Member States.
- 2. The economy is going into a downwards tailspin.** The financial crisis is now spilling over into the real economy. Due to a general lack of credit, overall demand is collapsing. The economy is already in recession and expected to remain so over the next four quarters or so. While the process of banks and households off-loading their debt burdens will continue in coming years, the prospect is one of protracted depressed growth. All of this will feed back into the financial sector crisis.
  - 3. Interest rate cuts and automatic stabilisers are not enough.** The ECB has finally started to cut interest rates and there also seems to be some consensus that public deficits should be allowed to increase in line with the unfolding crisis. This pragmatic approach is certainly to be welcomed. However, this is not enough.

Interest rate cuts are long overdue and are coming too late to help the economy through a rough 2009. Automatic stabilisers can only cushion part of the blow to economic activity, they cannot turn the economy around.

- 4. To avoid negative expectations from becoming entrenched, urgent discretionary fiscal policy action is necessary.** If the crisis is left to unfold itself, it will intensify. Massive employment restructuring and rising unemployment will feed into even more pessimistic expectations. This, in turn, this will accelerate the fall in demand, with disinflation eventually turning into deflation. This can not be allowed to happen. To ward off the recessionary tide that is sweeping in, demand side policy needs to move and it needs to move fast.
  
- 5. Europe needs to mobilise the power of acting together.** Although policy instruments to influence the demand side are mainly in the hands of national governments, Europe does have a key role to play. A coordinated and joint fiscal stimulus will have a double effect compared with Member States acting in isolation from each other. A European Sovereign Investment Fund, issuing European bonds, will provide Member States with access to worldwide savings at lower rates of interest. Europe is also to make it clear that all of the different forms of flexibility<sup>1</sup> provided for by the 2005 reform of the Stability Pact are to be used.
  
- 6. A stimulus plan of 2% of GDP to invest in people, innovation and sustainable development.** The European Recovery plan is to be based on two principles:

*Emergency action in the very short term to keep the economy from collapsing* – To keep the economy going, a rapid and massive deployment of labour market policies of the order of 1% of GDP is necessary. The aim is both to provide more security for workers in general as well as to get money to those who need it most. Depending on Member States' labour market characteristics, this 1% of GDP 'investment in people' programme may take different forms:

<sup>1</sup> In exceptional circumstances such as a prolonged period of low growth, the reformed Stability and Growth Pact allows deficits to increase and even to increase above the 3% threshold. The other element of flexibility introduced in 2005 in the Pact is to allow additional deviations from the Stability Pact discipline if Member States undertake structural reforms having an impact on public finances. The proposal to invest 2% of GDP in people and the environment should be considered as such a structural reform investment.

- a. **strengthening unemployment benefits systems** – In those Member States where unemployment benefits, eligibility and duration are relatively low, priority should go to a structural strengthening of benefit systems;
- b. **increasing security for the most flexible workers** – The crisis once again reveals that labour markets in Europe are already highly flexible: from the moment economic activity stalls, this is immediately followed by a massive restructuring of employment. However, the security dimension is lacking. In particular, workers with short-term employment contracts, such as agency workers and fixed-term workers, are being severely hit by the economic slowdown. At the same time, workers on such contracts tend not to benefit from full social security rights and only have little access to company training measures. It is only fair that these workers are compensated for the huge flexibility they are showing by giving them additional unemployment benefits in the form of a one-off payment. This can also be considered an 'employment' bonus which the unemployed people concerned could use to finance their search for a new job;
- c. **supporting internal flexicurity** – By keeping existing workers hired during the downturn, internal flexicurity provides businesses the benefit of disposing of skilled and trained workers when the next upturn arrives. These models of internal flexicurity are promoted, on the one hand, by robust job protection systems and, on the other hand, by social security financing 'technical' unemployment. In this case, workers keep the job and work part of the time with part-time wages being topped up by unemployment benefits. Member States wishing to do so can devote (part of) the 1% of labour market policy investment aimed at developing or strengthening internal flexicurity;
- d. **investing in skills and lifelong learning** – Unemployment benefit systems should be complemented by programme aimed at retraining and improving the skills base of unemployed people. In this way, periods of unemployment are used as an opportunity to improve the human capital basis of the economy, thereby avoiding the bottlenecks which typically arise when the economy recovers;
- e. **job programme to boost employment in the social economy sector** – Besides training for the unemployed, another way to keep them in touch with the labour market and avoid the depreciation of human capital is to set up job programme. The jobs created through these government-

sponsored programme are to respond to social needs for which there would be otherwise little attention, such as in the elderly care sector, for childcare facilities or neighbourhood workers;

- f. **enlarging the European Globalisation Fund** – To these national level actions, a European level action should be added. The existing Globalisation Fund should be enlarged and turned into a fund to assist and help all workers suffering from the prospect of job losses, irrespective whether the threat to their jobs comes from globalisation or from the ongoing crisis in our economy. More resources should be made available and the involvement of social partners should be structurally assured.

*Investing in a New Green Deal to turn the economy back around.* Member States should use the breathing space offered by the 'investment in people' to set up additional investment plans. These should kick in no later than mid 2009.

If well targeted, such an investment programme will not only help the economy to overcome the depression, it will also strengthen the economy's long-term growth potential. There is an opportunity here to combine the battle against the economic and financial crisis with an agenda of investing in the development of new industries, rational and sustainable energies, European networks and social housing. Practically, fiscal policy should aim to increase investments by another 1% of GDP, thereby bringing the total recovery effort to 2% of GDP.

- 7. Preventing the domino of deflationary wages from falling.** The 'real economy' (growth and jobs) is not the only domino to fall. With the economic crisis spreading in Europe, there is a danger that wage developments may even become so low that price stability is threatened from the downwards side. If disinflation turns into deflation, this will make matters even worse. To take out an additional guarantee against deflation and to prevent the domino of a downwards wage spiral from falling, the Commission should base itself on the existing Lisbon integrated guidelines<sup>2</sup> in order to propose a new policy process: Member States, together with the national social partners, should be invited to formulate policies establishing or strengthening a downwards floor in wages with wage dynamics to be in line with trend inflation and trend productivity increases.

<sup>2</sup> The European integrated guidelines advise Member States to pursue wage developments 'in line with price stability and the increase in trend productivity'. This does not cover zero or negative wage growth.

This implies, among other things, making sure that:

- each country establishes a wage floor at the bottom end of the labour market, taking competition on the basis of 'poverty' wages out of the market;
- collectively bargained agreements have a wide coverage;
- the hierarchy of collective bargaining agreements is in general respected;
- wages and working conditions, as laid out in collective agreements and/or labour law, are respected and implemented in practice.

A wide scale of instruments exists to do so, such as statutory minimum wages, minimum incomes in social security schemes, support for wider trade union affiliation, legal extension of collective bargaining agreements, public procurement to promote collective bargaining agreements. It remains the responsibility of national social partners themselves to decide which instruments are most in line with the national tradition of collective bargaining.

- 8. Distributive justice, tax policy and sustainable public finances.** Rising inequalities and excessive debt burdens are closely linked. Over the past decades, capital incomes (company profits, house rents, more value on asset prices) and remuneration of the highest income earners have soared, whereas real wage growth for ordinary workers has almost stagnated. To keep demand and the economy going despite the accumulation of wealth in the hands of the top earners, households were forced to indebt themselves. This model of 'debt and asset price bubble' driven growth is not sustainable and is now shifting into reverse gear. Households and banks are now deleveraging from excessively high debt levels and this risks depressing growth for years to come.

To avoid this process of debt deflation resulting into a prolonged depression, tax policy needs to engage in redistribution, shifting income gains from capital and wealth back to middle class workers and households. Given the level of economic integration and tax competition in Europe, this implies a European agenda including tax coordination, attacking tax havens zero or near zero taxes, flat tax regimes and addressing issues such as a minimum rate of taxation and a harmonised tax basis for corporate profits, capital gains taxes and taxes on high fortunes.

At the same time, European tax policy coordination also allows to address the question of the sustainability of public finances. To

prevent the process of debt deflation from ruining our economies and societies, the public sector will need to steer the economy and intervene much more and public deficits and debt will increase. To maintain the sustainability of public finances, including the commitment to pay decent pensions, new tax resources will be necessary and these can be found with those incomes and fortunes which until now have highly profited from casino capitalism. It should also be recalled that public consumption and investment are far more effective in getting demand back into the economy than tax cuts which are very likely to leak away into higher savings.

**9. Coherent industrial policy and sustainable development is needed as well.** The financial crisis and the crisis in the real economy are also raising the specific question of the role and future of industry in Europe

European industry makes up 20% of GDP and provides 40 million direct jobs. The financial and economic crisis is now threatening these as never before, along with millions more jobs dependent on the core industries. European environmental standards are also among the toughest in the world – to the extent that they are bench-marking future global action. European firms trading in international markets already feel strong competitive pressures as a result of EU environmental regulation, as well as many other pressures. However, on the plus side European R&D, technological innovation and the response of firms to environmental standards, to deal with climate change and other issues have created a new dynamic.

The Commission has recognised part of this new dynamic for a transition to a lower carbon economy, by emphasizing clean technology and systems and green products. Consumers are already demanding these in any event and will increasingly select the cleanest; therefore the pressure for transition is rising. The ETUC has won a commitment from the French Presidency to establish a Social Partners' Consultative Committee on Climate Change. If we must keep the warming of the planet to within 2 degrees centigrade by 2050, as the EU has agreed, then such a concerted approach is essential to make the transition. This would discuss how difficult measures should be implemented, including those affecting employment, for example. Europe has an obligation to make a difference here, as our nations are responsible for putting a very large part of atmospheric CO<sub>2</sub> where it now is. Others, like China and India have now overtaken us in emissions, but we all suffer. We can help them and at the same time help ourselves.

Consequently, the ETUC supports strongly the 'green cars' initiative, the European energy efficiency in buildings programme and the 'factories of the future' for R&D; so as to achieve the 2 degree goal we must create both sustainable production and consumption. The ETUC sees the elements of a clean technology revolution underway, which must be maintained in a situation of credit shortage. This, together with other measures, can help to guarantee existing jobs, meet tough environmental standards and provide a whole new range of exports, especially relevant for the metal and other manufacturing sectors. We can already see that those economies which seize the leadership in green technology are most likely to be among the first to emerge from the global crisis as well as help to save the planet. Out of the crisis, a new vision can come, making up part of the 'Green New Deal' as a package worthy of the 21<sup>st</sup> century.

- 10. The re-regulation of financial markets must be accelerated and ensure that the crisis never happens again.** The financial crisis threatens heavily the real economy. Complementary to a fast implementation of a European Recovery Programme to support the real economy the European Action Plan on Financial services as well the modernisation of company law and corporate governance has to be concretised and implemented immediately. The ETUC as well as UNI Europa have made concrete proposals for more effective regulation of financial markets (see ETUC position paper, October 2008 and UNI Europa demands, May 2008). The European Union must act together and speak with one voice in the framework of the G20 at the international level in order to put the financial sector back at the service of the real economy. We need reforms which fundamentally change the structure and the incentives of the financial architecture. The declaration of the G20 leaders acknowledges that there are regulatory gaps in the global finance system and a road map to review global financial regulation has been set up with a timeline for action by March 2009 and a number of key issues to be addressed. However, other major issues raised by the international trade union Movement are not taken on board as public accountability of central banks, protection of pension schemes, international taxation and limits to speculative trading. Moreover, there is no acknowledgment of the need to involve trade unions and the International Labour Organisation (ILO) in the ongoing negotiations. ETUC will continue to act together with the International Trade Union Confederation (ITUC), the Trade Union Advisory Committee (TUAC) to the Organisation for Economic Co-operation and Development (OECD) and the Global Unions and reiterates its support of the 'Washington Declaration'.

**11. Ensure workers get a fair deal and upgrading workers rights.** Finally, it should be underlined that the economic crisis must not lead to a weakening of the position of labour. To combat effectively the economic crisis and further labour market segmentation, an upgrading of workers rights is the right response. Collective bargaining institutions have to be strengthened to ensure a floor to nominal wages. ETUC therefore calls on Europe to fight for workers' rights, for fair and decent wages, for stable jobs and for strong collective bargaining practice, independent of and not subordinated to judges and the European Court of Justice.

An avalanche of restructuring plans is being announced in many companies, and agency work and fixed-term work are also reducing fast as a result of the crisis. Instead of structural reforms promoting 'easy firing' and longer working hours (WTD), we now need reforms providing companies with the incentive to develop policies, such as further internal training and internal functional flexibility, which promote stable jobs. In addition, workers' participation rights have to be strengthened (as for European Works Councils) to manage change and to improve working conditions as well as productivity.