



## **ETUC RESPONSE TO THE SECOND RESTRUCTURING FORUM (18th July 2006, Brussels)**

**Background:** The ETUC was asked to react on a speech given by Mrs. Lenia Samuel (Commission), summarizing the main instruments the Commission has its disposal in order to accompany restructuring.

### **ETUC's Response**

There's much in Mrs. Samuel's speech the ETUC can agree with. In particular, we certainly support the messages on the importance of social dialogue and the sectoral dimension of industrial policy making. However, you did not come to Brussels in the midst of summer to hear everyone agree with everyone. So I will focus on four issues where the ETUC tends to stress different aspects.

A first issue concerns flexicurity. Flexicurity has always been part of the process of European employment guidelines. I now notice from the speech but also from the general policy discussion in Europe that the theme of flexicurity is now being separated from the European Employment guidelines and is being seen as a policy domain or process on its own. Here, I would like to warn against overestimating the the importance and benefits of flexibility.

To start with, European labour markets are, on average, much more flexible than is generally being thought of. This becomes clear when we look at an indicator such as the 'job turnover rate', an indicator which describes to what extent the process of 'creative destruction' is taking place in an economy. The fact is that differences in the rates of job turnover are not so much outspoken between countries, in particular between Europe and the US, with the latter being though of as a very 'flexible' labour market. This means that restructuring is indeed going on in Europe and that business on average, and given a time horizon of a couple of months, is not that much hampered by regulations protecting jobs.

Secondly, there is an important internal paradox in the present debate on flexicurity. On the one hand, everyone is underlining the importance of protecting the worker by investing in human capital. On the other hand, we know that markets fail exactly on this dimension of providing sufficient training to the workforce. And one aspect of this market failure is the fact that firms have no incentive whatsoever to uphold and upgrade the skills of their workforce if they know that they can get rid of their staff at any moment without much financial cost in case the firm encounters difficulties.

On flexicurity, let me add that the ETUC is and remains committed to engage in a discussion on this with other social partners and in the context of the European social summits in coming months. But, as you can understand from my previous critical remarks, we expect this to be a realistic discussion, focussing on the benefits but also on the costs of flexicurity.

A second major issue which needs to be mentioned but is often simply being forgotten about in today's policy discussions is the role of macro economic policy making. It is all very well to argue that globalisation and restructuring is working to 'free' up labour resources. But the basic fact remains that, for things to work out properly, new and productive jobs need to be available. And such jobs will not be available to a sufficient extent if macro economic policy is holding the level of aggregate demand below a level that ensures full utilisation of labour resources. Restructuring is part of the process of 'creative destruction'. But this process is much hampered if macro economic policies are misguided and are always fighting an inflationary danger that has already disappeared while forgetting about the need to support and stabilise the real economy.

Thirdly, there is the issue of the European Social Model. The defence of the social model is indeed mentioned in Mrs Samuel's speech. But I think we should take a more ambitious approach. Policy makers should again become aware of the fact that the European social model is an important factor for productivity. Yes, the European social model and the workers' rights this implies are a constraint for business. But constraints can and should also be thought of as 'beneficial constraints'. The economic function of the European social model is to build a level playing field in the European labour market so that firms are driven to compete with each other, not on the basis of low wages and poor working conditions, but on the basis of innovation and productivity. And, as we all know, we need more innovation and productivity if we want to address global competition in a sustainable way.

To conclude, let me link up with the main subject of today's conference which is the sectoral dimension of industrial policy. The ETUC indeed supports this new focus of industrial policy on sectors and forward looking view this implies. However, we think one should go further. We should not only try and help existing sectors. Another fundamental dimension of industrial policy is to identify those activities and sectors where future demand will develop itself. This is for example what our main competitor, the US is doing. US industrial policy systematically tries to identify these sectors and activities, and then tries to develop these, not only by investing a lot in research and development and creating the technology but also using public expenditures as a way to introduce innovation in the economy, thereby creating the market for new products and services. This is the next step European industrial policy should be taking.

Ronald Janssen  
Advisor ETUC  
18<sup>th</sup> July 2006