

# **Delivering the Lisbon goals: The role of macro economic policy making**

## **ETUC demands and perspectives for the Lisbon mid-term review**

Reiner Hoffmann  
Deputy General Secretary of the  
European Trade Union Confederation

Welcome

Let me start with a quotation:

“The Union has today set itself a **new strategic goal** for the next decade: to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth and with more and better jobs and greater social cohesion. Achieving this goal requires an **overall strategy** aimed at:

- preparing for the transition to a knowledge-based economy and society by making better policies for the information society and R&D, as well as by stepping up the process of structural reform for competitiveness and innovation and by completing the internal market;
- modernising the European social model, investing in people and combating social exclusion;
- sustaining healthy economic and favourable growth prospects by applying an appropriate macro-economic policy mix”

*Conclusion of the European Council on 23-24 March 2000*

The ETUC welcomed the Lisbon strategy when the heads of governments and states took the decision five years ago in March 2000.

More specifically we supported the balanced and integrated approach between economic, social and environmental policies. And

we welcomed the political commitment to full employment and to more and better jobs.

Ladies and gentlemen  
Dear colleagues

However, despite disappointments Lisbon is not a picture of gloom, as some like to paint. There has been progress in employment. The employment rate rose from 62,5% in 1999 to 64.3% in 2003. And a number of Member States have met or are close to the interim target of 67% by this year.

Some progress has been made! But as we all know, we are far away from meeting the key objectives and we have to ask ourselves and to analyse more seriously the reasons of this failure. I'm convinced that our conference will offer some analysis and some answers to crucial questions. And I would like to take the opportunity to thank all speakers and moderators from yesterday and from today. Thanks to ETUC and ETUI colleagues.

In a couple of days the Spring Council will seek to relaunch the Lisbon strategy. There is no doubt that a revitalisation of the strategy is necessary. The crucial question is in which direction we will move over the next five years to become the most competitive knowledge based society with more and better jobs, social cohesion and a sustainable environment.

At the beginning of last month, on the 2<sup>nd</sup> February, the Commission adopted a communication to the spring European Council with the title: "Working together for growth and jobs – a new start for the Lisbon strategy", which mentioned a number of issues that are of high importance to trade unions:

- Increase and improve investment in Research and Development
- Invest more in modern infrastructure

- The need for a common consolidated corporate tax base as well as the Community Patent
- Providing high quality services of general interest to all citizens

In this respect we welcome that the Commission will take into consideration our concerns on the operation of the country of origin provisions and the possible impact to social dumping! We agree that better regulation is needed; the Bolkestein directive is not at all an example for better regulation!

If it comes to better regulation we need better impact assessments, but not only on competitiveness, also on social and environmental impacts!

Dear Colleagues,  
Ladies and gentlemen

For me there is no problem if we focus more on sustainable growth in order to create more and better jobs. And there is no problem if we make all efforts to improve the competitiveness of firms and companies as long as we can keep the three pillars – the economy, the social and the environmental pillar - in balance!

Europe cannot compete in the global economy on the basis of lower wages, longer working hours and deteriorating working conditions. If we go down that road, then any economic result will be short lived. To be really competitive in the long run means that we need to continue along the “high road” of high quality, high qualifications and high wages with a motivated, skilled, healthy and secure work force. And this in turn implies good social protection, developed systems of collective bargaining and an adequate regulation of

labour markets that prevent employers from going for a 'quick fix' without paying attention for the consequences of unlimited flexibility on the medium run. In short, the direction between Social and Economic Europe is not a one-way street.

Dear Colleagues,  
Ladies and gentlemen

If I say we can subscribe to a lot of elements in the Commission's Communication, I have also to make clear that we are missing a number of important elements and the text gives too much space for different conclusions and different interpretations. I will not go into detail, but let me stress two aspects:

(1) The target of an employment rate of 70% by 2010 is not being mentioned anymore. The new objective is now to create 'at least' 6 million extra jobs, which is a long way off the 22 (or even 25) million jobs that would need to be created for the 70% employment rate to be achieved. The '6 million job figure' also stands in stark contrast with the fact that the EU 15, in the latter half of the nineties created no less than 11 million jobs, almost twice the figure the Commission is now putting forward.

(2) The initial objective of a 3% annual growth target is now reworded into an additional boost of the level of GDP (not the annual growth rates of GDP!) by 3% by 2010. This implies bringing the (potential) annual growth rate up from 2% now to 2.5%. Again, this is not very spectacular compared to the latter half of the nineties when the economy was growing at an annual average of 2.7%, and this without much of a 'structural reform' agenda!

Dear Colleagues,

Ladies and gentlemen

When we listen to European policy makers, we hear the message that Europe's economy is not performing because its labour markets are still too rigid! They believe that we need reform, more reform and even more reform if Europe is to return to growth. Less state, less (not better) regulation, less protection and more pure free markets is needed according to them.

This can not be the new approach of the Commission, therefore I urge the Commission to make their perspective on the future of the Lisbon strategy crystal clear in order to avoid any misunderstandings! As the Kok report stated: Greater focus is required to build a better understanding of why Lisbon is relevant to every person and citizen in Europe. Workers will not understand if it is all about more business friendly governance without taking peoples fears into consideration.

We have been hearing the mantra of reform for years. In fact, when we look at recent European policy making, we observe that Europe has made reform after reform. If we look to the inventory of reforms that have been made over the past ten years in Europe the list is impressive. We have built the single market,  
we have introduced competition in network industries,  
we have cut public subsidies,  
we have engaged in free trade,  
we have launched the single currency,  
we have reformed labour markets.

Every single action was supposed to raise the growth and employment in Europe. So, judging from this list, Europe should by

now be the fastest growing region in the world. This obviously is not the case! The pressing question is why? Why have structural reforms not delivered? Why have they not produced better results in terms of jobs and growth? Before rushing into new reforms, this fundamental question needs to be answered.

The objective of this conference is to address the question how to get Europe's economic policies right. How can we get Europe back on the road of high growth? How can we create more and better jobs? What kind of economic policy can achieve all this without falling into the trap of weakening or even deconstructing the European Social Model?

We believe an important part (- not the only part -) of the answer has to do with macro economic policy making. In other words, all of these reforms improve the supply side of the economy. Economics however are about supply and demand. In other words, if we improve the supply side without at the same time ensuring that aggregate demand is in line with this, then the whole process becomes blocked. Then structural reforms do not deliver. And instead of higher growth and jobs we get lower and lower inflation.

Macro economic policy making is about balancing aggregate supply and demand. However, active use of these policies to support growth and demand has become a taboo in Europe. In the Maastricht model, fiscal and monetary policy makers are not there to support growth while keeping inflation low. They are there to keep inflation down at all costs at all times and nothing more. Over the past few years we have seen the ravages of this 'wait and see attitude'. The European economy is the only economy in the world that wasn't able to stage a convincing recovery after the 2001 slowdown. All other economies have done so and have digested the

slowdown. Europe is the only region that, five years after the slowdown is still waiting to recover in full. **This has to change.**

### **ETUC demands and perspectives: Strengthening the Lisbon strategy by better implementation and a clear commitment to the economic, social and environmental objectives**

For the ETUC, it is clear that the Commission's proposals for the mid-term review can be supported only partly. Further clarifications as well as corrections are needed. The ETUC calls upon all 25 European leaders to provide the necessary improvements at the upcoming Spring Council.

#### **Keep the Lisbon objectives and the balance**

1. Re-establish confidence in the Lisbon agenda. Reassure European workers and citizens that economic, social and environmental Europe are at the core of Europe's policies! That Social and Green Europe are a force for productivity and innovation, not simply a burden for business!
2. Re-affirm Europe's commitment to full employment. Maintain the objective of a high employment rate in total, for women and for older workers (70/60/50) in the medium term.

#### **Strengthen the link of pro active macro-economic policies**

3. Ensure that the reform of the Stability and Growth Pact are not limited to avoiding a fiscal contraction in a downturn. Also make sure that they provide countries a sufficient dose of macro-economic reactivity. Do so by 'Lisbonising' the pact and by considering Europe's innovation gap as an 'exceptional

circumstance' warranting a temporary deviation from the Stability Pact and the 3% for those Member States investing in the Lisbon priorities of research, training and active labour market policies.

4. Strengthen economic governance in the euro area. Improve fiscal policy by focussing on the euro area's average deficit and providing Europe with the necessary budget. Use the macro economic dialogue for an in-depth discussion with the ECB on its mandate (price stability and growth), its inflation target and its monetary policy strategy.
5. Define European rules for the corporate tax base and install minimum tax rates to avoid competitive tax dumping.
6. Acknowledge that wage policies autonomously set up by the social partners with real wage developments consistent with productivity growth will strengthen domestic demand and can contribute to economic growth.

### **Strengthen Social Europe as a force for productivity and innovation**

7. Take the Social Policy Agenda on board of the Lisbon action plan to make the social dimension visible. Address workers' fears concerning restructuring and delocalisation by strengthening workers participation. Assure the use of all instruments (legislation, social dialogue, Open Method of Coordination and the Structural Funds) to fight for social cohesion and prevent social dumping



8. Clarify that modernising social protection is about strengthening, not weakening the system of solidarity. State clearly that unemployment benefit reforms should also be about 'making job search affordable' and that 'making work pay' should be done by providing decent wages.
  
9. Redraft significantly the Bolkestein directive to avoid that a free market of services becomes synonymous with social dumping. Also make sure that a single market for services does not threaten services of general interest.