ETUC Resolution on the European Semester 2014
ETUC Key Messages for the European Council

Adopted at the Executive Committee 11-12 March 2014

Key Messages

To ensure a full recovery, Europe needs structural investments, fair pay and decent working conditions for all workers. The ETUC therefore calls on the Spring European Council to adopt a new direction as, without a radical shift in policy, the European Semester 2014 will do nothing to secure a sustainable recovery.

Although Europe faces economic stagnation and mass unemployment for the foreseeable future, the main policy signal that the Annual Growth Survey (AGS) 2014 sends out for the current European Semester is, essentially, one of 'business as usual'.

Europe needs structural investment, rather than structural reforms which further erode workers' rights. A major European investment programme, as proposed by the ETUC, investing 2% of European GDP over a period of ten years is urgently required to deliver a modern economy in a global marketplace and to address economic and social divergence in Europe.

Europe needs to see wages as a source for growth and as a pillar of price stability. Getting workers across Europe to compete against each other does not work. Wages and collective bargaining systems must be restored to steer European economies away from the debt deflation trap. Robust increases in real wages are required to put the economy on a strong growth trajectory and to increase purchasing power.

Europe needs to respect and promote autonomous collective bargaining by social partners as the best instrument for designing labour market reforms and fixing wages. The decision on how to organise wage bargaining is a national competence and reforms to strengthen wage formation and bargaining systems can only be undertaken through negotiations with social partners and after in-depth social dialogue at a national level. Social partners must be fully involved in the all stages of the European Semester process and their views taken into account.

Europe needs to promote quality jobs for all workers as the means to address labour market segmentation. Precarious contracts and working practices will only lead to a precarious labour market and increase poverty among the workers even further.

Europe needs to invest in its workforce. Well-skilled workers are essential if Europe is to meet the challenges of globalisation. However, despite consensus that investment in education, lifelong learning, skills and training are crucial, the reality is that many Member States, as well as many companies, are reducing spending and making reforms with little attention to the impact on the quality of education and training.

Europe needs social investment. Social protection systems must not merely be reduced to instruments of adjustment in the context of fiscal consolidation. This weakens their function as automatic stabilisers and their key role in poverty reduction and contributing to aggregate demand.

Introduction

‘Business as usual’ is the main policy signal that the Annual Growth Survey sends out to Member States regarding the coordination of their macro-economic, budgetary and structural policies in the 2014 European Semester cycle. It advises them to “stay the course” of austerity and push ahead with “bold” and “ambitious” structural reforms that trigger downwards pressure on wages and introduce even more flexibility in European labour markets already characterised by too much precariousness.

This is a dead end road. Getting workers across Europe to compete against each other by depressing their wages does not work. Europe, as a relatively closed marketplace, can hardly steal jobs from itself and so wage depression in one Member State will be at the expense of export markets of others. European policy makers should also be extremely wary of wage depression spilling over into strong deflation, thus increasing the real burden of debt and squeezing even more demand, activity and jobs out of the economy.

Austerity is still firmly on the agenda

Faced with record high unemployment rates and a fragile and weak recovery, the AGS 2014’s key recommendation on economic policy is to “stay the course of the growth friendly differentiated fiscal consolidation strategy”. The continuation of this policy of coordinated austerity, risks substantially weakening the recovery as Member States continue to simultaneously reduce their deficits.

Despite some welcome language on the need to tackle aggressive tax planning and tax havens, the Commission continues to promote an ideological bias against public expenditure and taxation, calling on Member States to favour “expenditure-led consolidation”. For those Member States that have some room for fiscal stimulus, the Commission recommends tax cuts and reductions of social security contributions, as some of the measures that should be used to stimulate investment. This ignores the fact that some of the economies that have been most successful in weathering the crisis have relatively high tax rates and utilise that revenue to invest in their economies and the provision of efficient and modern public services.

There is a disturbing neglect of the fact that certain Member States are struggling with a severe growth unfriendly macroeconomic policy mix. Indeed, those Member States that are most in need of an economic expansionary policy are forced to implement the most severe contractionary policy, with France, Belgium and Portugal facing an additional consolidation effort of 2% of GDP and Spain, Slovenia and Ireland an effort of 5% of GDP. However, monetary policy cannot react to these fiscal cuts and their negative effect on the economy by cutting short term interest rates further since these are already at the zero bound and cannot become negative. What complicates matters even more is that long term interest rates are still at levels as high as 4 to 5% in these Member States which is much higher than nominal growth rates. In this way, incentives for investment and, therefore, economic recovery itself, are seriously hampered. In short, these Member States are facing both the negative impact of fiscal cuts as well as finance conditions that work to depress investment.

By advocating cuts in social security contributions, the Commission is in effect encouraging Member States to further undermine the already weakened automatic stabilisers that were so crucial at the onset of the crisis. The ETUC welcomed the Commission’s approach in its Social Investment Package which illustrated that social policy adds a real value to society and people, which cannot be quantified simply by looking at levels of expenditure. It is regrettable that in the AGS, the Commission fails to take account of its own policy advice.

Social protection schemes are important tools to prevent poverty, particularly now when poverty is rising in Europe. They are not, however, only safety nets for those in need of assistance but also play an important role in maintaining aggregate demand. They are a means of providing purchasing power to those who are most in need, who in turn contribute to the economy through their consumption.

Education, training, research and innovation are key if Europe's workers are to be equipped with the skills and competences required in an increasingly globalised economy. The Commission recognises this and recommends that Member States prioritise funding in these areas. In a framework of deepened economic governance and continuing fiscal consolidation, it is hard to see where Member States should find the financial resources to support these four priorities. The ETUC proposes that investment in education, training, research and development should be excluded from the calculation of public deficit and debt within the Growth and Stability Pact.

More structural reform of wages: a recipe for deflation

On top of contractionary macroeconomic policies comes contractionary wage policy. Five years into the crisis, real wage developments have lagged behind trends in productivity in 16 Member States and this number is expected to increase to 20 in the next two years (2008-2015 period). In a multitude of countries, the gap between real wage dynamics and productivity over the entire 2008 - 2015 period will reach as high as 8 to 17%. This concerns Greece, Spain, Romania, Ireland, Cyprus, Latvia, Poland and Portugal, among others.

Additionally, the Euro Area is characterised by absolute wage depression, both in real and in nominal terms. For the Euro Area as a whole, growth in real wages has been zero since 2011 and this is expected to continue into 2014. In 11 of the 18 Euro Area Member States real wages will actually fall in 2014.

The Commission's response to these wage issues is inadequate and ambiguous. While calling for "further reform efforts to ensure wage developments in line with productivity, thus supporting competitiveness and aggregate demand", the Commission conveniently ignores the fact that if wages have come down, this is as a result of the structural reforms policy that the Commission has itself been promoting.

Moreover, the AGS 2014 fails to specify whether real or nominal wages should follow productivity. This distinction is crucial. In the former case, nominal wages reflect both productivity and inflation. In the latter, however, nominal wages are limited to productivity developments only without incorporating any increases in price levels, not even those that are consistent with the ECB's own target of price stability. This makes the latter formula a direct recipe to trigger a competitive wage spiral.

The ETUC deeply regrets the Commission's complete silence on this issue. In doing so, it leaves the initiative to powerful players such as the ECB and ECOFIN, enabling them to put their interpretation of how wages should evolve. In practice, it will be 'business as usual'. Member States will continue to be under pressure to deregulate wage formation systems so as to ensure the implementation of this strange formula where nominal wages are strictly limited to productivity and ignore inflation.

More structural reform of labour markets: precarious jobs will make a precarious recovery

The ETUC has called for major investment leading to sustainable and quality job creation in Europe - with nearly 16 million short-term unemployed there is no lack of potential supply to meet this extra demand. In our view, such investment is the best way to prevent cyclical unemployment from becoming structural.

Despite some indications that the unemployment situation is finally stabilising, Europe is staring down the barrel of a lost decade, with predictions that it will take at least that long before unemployment levels return to the pre-crisis levels. While the AGS recognises the seriousness of the situation, yet again, the Commission fails to deliver the policy recommendations that will lead to an improvement that will benefit all Europeans.

It is premature to speak of the crisis being over while unemployment continues to affect over 26.5 million people across Europe. Worse, it portrays a blasé attitude to the plight of Europe's poor and the 8 million extra people that are now at-risk-of- poverty since the onset of the crisis.

The Commission's recently published Employment and Social Developments in Europe 2013 and the ILO's Global Employment Trends 2014[1] confirm the ongoing difficulties in the European labour market. Despite the fragile signs of economic recovery, the employment and social situation is likely to remain depressed for some time to come. Growing inequalities pose a risk to social cohesion and, as the IMF has also pointed out in a recent paper[2], can be a drag on economic growth and jeopardise its sustainability.

The AGS continues to push structural labour market reforms as the panacea that will 'eventually' deliver results. The ETUC is especially struck by the ongoing attempt at EU level to redefine high cyclical unemployment as becoming 'structural'. Policy documents systematically focus on the skills' mismatch and firms where production is constrained due to a perceived lack of skilled labour, while ignoring the much greater number of firms that point to a lack of customer demand as the reason they are not producing more.

"Promoting job quality." Europe must restore the missing link of the European Employment Strategy

Promoting job quality, as set out in the Employment Guidelines[3], must become the driving force behind Europe's Employment Strategy, and the European Semester should be used as a vehicle to ensure this.

Employment Guideline 7 aims at 'Increasing labour market participation of women and men, reducing structural unemployment and promoting job quality'. This last dimension is, however, conspicuous by its absence in the AGS, the JER and the Scoreboard of employment and social indicators. The AGS 2014 focuses solely on the need to increase labour market participation and boost the quantity of jobs, but totally ignores the qualitative dimension. There is no shortage of references to the need for "quality" in other respects (policy making in public administration, consolidation programmes, public expenditure etc.) but not a single reference to quality jobs.

The Commission hails the "important measures" that Member States have taken to reform labour markets and enhance their resilience. During the crisis, huge and disproportionate efforts have been demanded of European workers. Too often, the policy approaches pursued have been unbalanced and the experience of ETUC members in several Member States is that labour market reforms have intensified job destruction, lowered lower wages, increased precariousness and worsened working conditions and the quality of employment in general.

Labour market segmentation poses a serious threat to the efficient functioning of European labour markets. Precarious work characterised by job insecurity, low wages, poor working conditions and little or no employment protection, continues to increase. Europe should not be striving to compete on the basis of precarious jobs and low wages but on the solid foundation of a well-skilled labour force and on innovation and quality. Rather than pressing for weaker employment protection legislation and even more flexibility for all workers, promoting job quality should be at the fore of EU employment

[1] http://www.ilo.org/global/research/global-reports/global-employment-trends/2014/WCMS_233953/lang--fr/index.htm

[2] Redistribution, Inequality and Growth, IMF Discussion Note February 2014, SDN/14/02

[3] *2010/707/EU: Council Decision of 21 October 2010 on guidelines for the employment policies of the Member States* *http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32010D0707:EN:NOT*

policy to combat an increasingly precarious workforce and rising inequalities. These elements, which are key aspects of the European social model, are essential if Europe is to realise its full potential and enhance its competitiveness.

Education and training reforms implemented by Member States have often merely amounted to reductions in public expenditure, without any clear impact in terms of improved quality or efficiency. Additionally, transition mechanisms such as apprenticeships, dual systems and traineeships have not been effective enough and suffer from poor implementation by most Member States. The Commission should set clear standards and achievable objectives in the CSRs and monitor such reforms in terms of quality assurance, working conditions and concrete support for employment.

More support is needed for young people, but other workers must not be neglected

The Commission's Youth Employment Package was a positive first step towards beginning to address the dire situation that millions of young Europeans are currently experiencing. Nevertheless, the measures and resources proposed are inadequate to tackle the major problems of youth unemployment, inactivity, precariousness and increasing inequalities in access to education, welfare and social security that have significantly worsened due to the austerity measures implemented across Europe.

Six billion euros have been allocated towards the implementation of the Youth Guarantee but the ILO estimates[4] that 21 billion euros is required for its full implementation in the EU. Implementation at the national level is extremely patchy, jeopardising the objective of easing the transition of young people into the labour market. The weak recovery is failing to deliver enough new jobs and those that are created are increasingly precarious in nature.

In view of the particularly dramatic situation regarding youth unemployment levels, it is understandable that much of the focus has been on addressing this issue. However, the situation of other groups, notably women, older workers and migrants, in the labour market, and the barriers they experience, must not be neglected. Lifelong learning and continuous workplace training should be supported by concrete actions, in order to strengthen policies aimed at preventing unemployment and supporting anticipation of change.

The AGS correctly recognises that if workers are to be expected to have longer and more fulfilling working lives, adequate skills, lifelong learning, enabling working environments, and addressing gender pay and pensions' gaps will be key. Recent figures show that the European gender pay gap is now stagnating at around 16%, representing 59 days where women in Europe work for free. Yet again, however, the Commission's appreciation of the challenges does not translate into relevant policy recommendations for example, in 2013, only one country received a recommendation regarding tackling the gender pay gap although this problems affect all the Member States.

There have been many CSRs recommending raising retirement ages, without properly linking this to the possibilities people have in reality to work longer. Ensuring that their work does not adversely affect peoples' health and safety is an essential element of creating an enabling working environment, but we currently face the prospect that the EU will not have in place another Health and Safety Strategy before 2016. Similarly, a general statement about adequate skills and lifelong learning to enable people to work longer is something of an illusion to those on precarious contracts, the unemployed or those on sickness benefits. If the age limit for entitlement to retirement benefits is to be raised, then entitlement to unemployment and sickness benefit should also be raised accordingly.

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[4] Eurozone Job Crisis: Trends and Policy Responses 2012

Scoreboard of key employment and social indicators

The JER 2014 contains the first Scoreboard of key employment and social indicators. While the Scoreboard can contribute to the analysis and provide an overall picture of employment and social developments, unless the results can influence the policy direction and correct macroeconomic policy as necessary, it will be of little consequence.

The current indicators are principally retrospective and, if the scoreboard is intended to act as an early warning system, insufficient to allow for pre-emptive action to tackle imbalances. More leading indicators and indicators addressing the quality of employment are required. The ETUC has previously identified the types of indicators we would like to see included[5] in the future. In this context, the ETUC welcomes the concrete indication from EMCO that it will involve the social partners in its work to improve the scoreboard.

To conclude, the ETUC demands the following: ensure full recovery, ensure more and better quality jobs and restore collective bargaining.

Pursuing the same policies will have the same results. If austerity policy is continued, the recovery will be weakened. If, under the motto of 'any job is better than no job', precarious jobs are being promoted, then those precarious jobs will produce a precarious recovery. If structural reforms continue to weaken wages and collective bargaining institutions, inflation, which is already too low to be comfortable, will tip over into open deflation.

The European Semester should be seized as an opportunity to take a different direction. The ETUC urges the Spring European Council to:

- urgently put in place a major European investment programme that modernises and upgrades its economy in a global marketplace and addresses rising economic and social divergence in Europe and the Euro Area. The ETUC's plan for investment, sustainable growth and quality jobs[6], proposing a 2% of GDP investment effort over the next ten years, is more valid than ever;

- recognise that Europe needs stronger nominal wage dynamics to steer the economy away from the debt deflation trap, and robust increases in real wages to put the economy onto a strong growth trajectory. The respect and promotion of autonomous collective bargaining is the best instrument to achieve all of this, as well as for negotiating restructuring processes, supporting productivity and investment, fostering redistribution and fighting poverty, and for restoring democracy and workers' participation at the workplace. The statutory minimum wage, in those countries where trade unions consider it necessary should be increased substantially. In any event, all wage floors should respect Council of Europe standards on fair wages;

- strictly adhere to the principles of the European Treaty of respecting the autonomy of social partners and the diversity of national systems of industrial relations. In this context, the ETUC underlines that the decision on how to organise wage bargaining is a national competence and that reforms to strengthen wage formation and bargaining systems can only be undertaken through negotiations with social partners and after in-depth social dialogue at a national level;

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[5] *ETUC position: European Commission Communication on Strengthening the social dimension of Economic and Monetary Union http://www.etuc.org/documents/etuc-position-european-commission-communication-strengthening-social-dimension-economic#.Uwsla8rLJBM*

[6] *http://www.etuc.org/documents/new-path-europe-etuc-plan-investment-sustainable-growth-and-quality-jobs#.UwsiFcrLJBM*

- promote quality jobs for all workers as the means to address labour market segmentation. Precarious contracts and working practices will only lead to a precarious labour market and increase poverty levels among workers even further;

- invest in Europe's workforce. Well-skilled workers are essential if Europe is to meet the challenges of globalisation. However, despite consensus that investment in education, lifelong learning, skills and training are crucial, the reality is that many Member States are reducing spending and making reforms with little attention to the impact on quality of education and training, while too many companies are staying on the side lines when it concerns investing in the skills of their workers;

- defend the role of social protection systems as more than just another instrument of fiscal adjustment. Social policy and social investment has a key role to play in achieving cohesive societies, reducing poverty and also in supporting the economy.