CONTENT

Contents

AUSTERTY WATCH #2 .... Error! Bookmark not defined.
GERMANY – **1**
Debt consolidation at expenses of workers and poorer households? 1
LITHUANIA **2**
Less taxes for richer? 2
…and disinvesting in public services… 2
… curtailing pay of civil servants 2
ESTONIA **3**
Austerity in Estonia (September 2023) 3
EUROPEAN UNION **4**
On the Commission Communication on relief measures for SMEs 4

GERMANY –

Debt consolidation at expenses of workers and poorer households?

The German budgetary plan for 2024 that is currently being negotiated in parliament foresees a restrictive fiscal policy: According to the government's plans a decrease in expenditure of 30 billion euros (- 6.4 %) compared to 2023 is planned.
The consolidation of the federal government's core budget goes partly at the expense of the social security system. Federal grants to the pension system as well as grants and loans to the health system will be cut.
In addition to that, new social measures such as the anti-poverty child allowance that was planned to be introduced next year has been significantly watered down. The foreseen expenditure for this new measure has been reduced to a minimum.
Because of the strict fiscal consolidation course and the government's promise to comply with the German debt brake further measures such as the prolongation of electricity price breaks both for the energy intensive industry and for other consumers is at stake because of lack of funding. The DGB has intensively lobbied for the introduction of electricity price brakes in Germany during the crisis and demands a prolongation of a modified electricity price brake until 2030.
Regrettably, the government's fiscal policy does not foresee a significant increase in public investments. On the municipal level the investment gap meanwhile amounts to 166 billion €. Already in 2019, the German Trade Union confederation and the Federation of German Industries have together demanded an additional public investment package of 450 billion € in order to meet most urgent investment needs. The challenges have meanwhile even increased while the governments investment policy continues to stagnate on a low level.

Finally, the government has already introduced income tax reliefs particularly targeted at those citizens with middle and high incomes leading to a significant shortfall of revenues and to a higher debt consolidation pressure.
On all the reported measures, a constant dialogue between the government and the trade unions exits. All measures have been severely criticized by trade unions in Germany.

LITHUANIA

Less taxes for richer?

A tax reform is currently under consideration in Lithuania. Some of the suggestions include raising the threshold for paying a higher income tax. LPSK suggests applying a higher income tax rate to all aggregated incomes above 235 thousand EUR per year. This threshold was the initial agreement, but later it was raised to 353 thousand EUR per year, meaning that the higher income tax rate would apply to a smaller part of the wealthiest group of society and less tax revenue would be collected. Meanwhile, we also suggest that individuals earning up to 35 thousand euros per year should pay a lower – 15% income tax rate (currently it is 20%). The current system leads to a situation, where the average people carry the tax burden on their shoulders, while the wealthy contribute much less to the overall welfare.

In addition, it is suggested to aggregate different types of income (wages from employment contracts, capital, and self-employment contracts) and calculate the income tax from this aggregated income. It faces strong opposition, because it would mean that the higher income tax rate would apply to a bigger part of the wealthy class. LPSK invites the Parliament, when changing the tax system, to respect the fundamental principles of a welfare state: to ease the tax burden on average income and increase it for higher income. While some dialogue with the government is present, the voice of trade unions often gets silenced by the lobbyists of the businesses.

…and disinvesting in public services…

Trade unions repot about a continued shortage of investment in public services, leading to a decrease in their quality, which eventually results in privatization and an increase in prices. In LPSK's view, essential areas for public welfare - such as healthcare, education, social services, environmental protection, and infrastructure - are being impoverished. By not investing in these areas, the doors are being open for private business to gain more power. Then workers have to pay twice: through taxes and tariffs to have access to private services. This places an additional burden on workers, who are already struggling because their wages do not keep up with inflation. We already have almost completely privatized communal services; partially privatized medicine and education. Trade unions call the government to solve this by increasing the funding of these services, which can be achieved by having a more progressive tax system.

… curtailing pay of civil servants

Recently, discussions have arisen regarding potential changes to the civil servants' compensation system. These discussions have raised a few concerns.
Firstly, it's been noted that the Ministry of Social Affairs and Labor has unilaterally proposed these reforms without seeking dialogue social partners. This approach has raised questions about the government's commitment to social dialogue principles.
Secondly, movers of the reform suggest to move away from a statutory-based wage system for civil servants. Instead, they claim that compensation should be determined by agreements at the

workplace level. The Ministry has also suggested setting only a minimum wage coefficient for civil servants and a maximum coefficient for managerial positions. According to the Deputy Minister, this shift would attract new talents and offer better negotiation opportunities, however, trade unions are concerned that it could reduce clarity of the system and remove wage increase guarantees that workers enjoyed under the previous system. What is more, the wages are 'frozen' because according to the law, the next negotiation could happen only in 2025.

Another significant change that is being considered is the abandonment of variable pay component, and switching to more flexible ways of distributing bonuses. This change would be a huge disadvantage for certain workers, for example, in the theater or music industry, where variable components make a big part of their income. In the new system, the worker's performance would only be evaluated once a year, and only then the decisions regarding bonuses or wage increases would be made.

It's important to highlight that, apart from the increase in the minimum coefficient, there is no additional funding foreseen for civil servants. This means that the public sector will have to tighten their belts even more. Underpaying civil servants has long been an issue in Lithuania, leading to labour shortages and overloaded workers who are not adequately paid. A recent example of this issue is the teachers' union warning strike that occurred on September 15th. The demands of the strike include reducing the number of students in a classroom from 30 to 20, decreasing the number of contact hours (45-minute lessons) from 24 to 18, and increasing salaries to reach 130% of the average wage. If the demands are not met, the teachers will go on a real strike in the end of September.

ESTONIA

Austerity in Estonia (September 2023)

(BUDGETTARY)
The 2024-2027 budget, which has just passed the negotiations of the government's coalition partners, presents some austerity-oriented measures.
The Estonian government put together the 2024-2027 budget last week. According to the press, strong savings are planned to reduce the state budget deficit. Cuts must be made by all areas of government. Salaries of civil servants will be frozen. Only teachers are allowed a 1.7% salary increase.
Investments will be severely cut, including in road construction. There is also a plan to save money from the unemployment insurance, which is still to be discussed with the social partners.
New taxes were also under negotiation, which were waived by 2024, but discussions about the future continue.
The reform affects the livelihood of officials and employees receiving salaries from the state. Inflation has been in double digits in recent years, tax increases are planned, with which lower wage earners will lose. Investment cuts lead to job losses (e.g. in road construction).

The non-progressive tax changes were already adopted in the summer.
From 1.01.2024 the VAT rate will be increased of 2% (new 22%) , there will be changes in deductions from taxable income: disappears additional tax-free income for children, additional tax-free income for the spouse and housing loan interest.

From 1.01.2025 will be income tax rate 22% (instead of the previous 20%). With the change, from 2025 the income will be set at a uniform tax-free 700 euros per month, or 8,400 euros per year, except for old-age pensioners, whose tax-free income is equal to the average old-age pension.
The dialogue with state-level partners has not yet taken place, but we are planning a tripartite meeting with the government and employers. The civil servants and employees, who get paid by the government and are better organized, have already negotiated their salary. Unfortunately, their demands have not been satisfied. Teachers are most likely planning a strike.

EUROPEAN UNION

On the Commission Communication on relief measures for SMEs

On 12 September 2023, the European Commission published its SME Relief Package, as previously announced in March 2023 in its Long-term competitiveness strategy for the EU beyond 2030. Through these measures the Commission intends to provide short-term relief for SMEs, boost their long-term competitiveness and strengthen fairness in the business environment. The Package contains two dedicated legislative initiatives on late payments in commercial transactions and tax simplification for SMEs, together with a more forward-looking horizontal Communication on relief measures for SMEs focusing on improved access to skilled labour, financing and burden reduction.

In terms of burden reduction for SMEs, the Commission commits to a continued application of the ‘one in, one out’ approach as part of its Better Regulation Agenda. Moreover, it sets a target of a 25% reduction in reporting obligations, to be rolled out trough dedicated proposals and rationalisation plans in the months and years to come. Concretely, this may take expressions such as longer transition periods, simplified administrative procedures and requirements for SMEs, as well as regulatory sandboxes to stimulate innovation. To better address the needs of SMEs, the Commission as part of its impact assessments for future legislative initiatives also aims to strengthen the SME Test, including by appointing an SME Envoy to provide advice to the Commission on SME issues, notably by participating in the internal hearings with Commission DGs organised by the Regulatory Scrutiny Board. Finally, the Commission intends to look into the SME definition (micro 1-10; small 11-50; medium 51-250 employees), potentially adapting the thresholds with a view to also include smaller mid-cap companies (250-500 employees). Adjusting these thresholds may as a consequence have an impact also on certain obligations of these categories of companies.

The ETUC has raised serious concerns about the envisaged measures in a letter to Internal Market Commissioner Thierry Breton on 8 September 2023. In addition the French and German trade unions supported by the ETUC raised further concerns in a joint statement on 12 September 2023 on the German – French initiative developing similar attempts to exempt SMEs (see text attached + Germany, France ask EU to cut bureaucracy for companies - Germany, France ask EU to cut bureaucracy for companies – EURACTIV.com).

In the opinion of the ETUC, the Commission’s quantitative reduction targets are arbitrary and frames regulation merely as a cost and burden for business, thereby disregarding quality legislation as a long-term investment in society. This short-term approach pursued by the Commission as a means to strengthen competitiveness risks producing a deregulatory pressure, prioritising economic interests over social and environmental ones. Ultimately, less could even mean more bureaucracy, poorer quality, less predictability, unfair competition, and ineffective enforcement.

The EU definition of SMEs already today covers more than 99% of European companies, together accounting for 2/3 of all jobs in the private sector. Therefore, the ETUC sees no need to further extend this definition. Clearly, SMEs have an important role in building sustainable and resilient markets, but fair competition needs to build on robust social and environmental standards and proper enforcement of the law. Designing cut-outs and safe havens for a large majority of economic actors risks having the opposite effect, giving priority to business interests at the expense of people and planet. Therefore, any simplification must be subject to strict conditions and have the enhanced compliance with applicable standards as its primary aim.