



March 2011
AK Position Paper

Annual Growth Survey: advancing the EU's comprehensive response to the crisis

About us

The Federal Chamber of Labour is by law representing the interests of about 3.2 million employees and consumers in Austria. It acts for the interests of its members in fields of social-, educational-, economical-, and consumer issues both on the national and on the EU-level in Brussels. Furthermore the Austrian Federal Chamber of Labour is a part of the Austrian social partnership.

The AK EUROPA office in Brussels was established in 1991 to bring forward the interests of all its members directly vis-à-vis the European Institutions.

Organisation and Tasks of the Austrian Federal Chamber of Labour

The Austrian Federal Chamber of Labour is the umbrella organisation of the nine regional Chambers of Labour in Austria, which have together the statutory mandate to represent the interests of their members.

The Chambers of Labour provide their members a broad range of services, including for instance advice on matters of labour law, consumer rights, social insurance and educational matters.

Herbert Tumpel
President

More than three quarters of the 2 million member-consultations carried out each year concern labour-, social insurance- and insolvency law. Furthermore the Austrian Federal Chamber of Labour makes use of its vested right to state its opinion in the legislation process of the European Union and in Austria in order to shape the interests of the employees and consumers towards the legislator.

All Austrian employees are subject to compulsory membership. The member fee is determined by law and is amounting to 0.5% of the members' gross wages or salaries (up to the social security payroll tax cap maximum). 560.000 - amongst others unemployed, persons on maternity (paternity) leave, community- and military service - of the 3.2 million members are exempt from subscription payment, but are entitled to all services provided by the Austrian Federal Chambers of Labour.

Werner Muhm
Director

The AK position in detail

It is to be welcomed that the Commission analyses the socio-economic position at the beginning of the first European Semester without glossing things over.

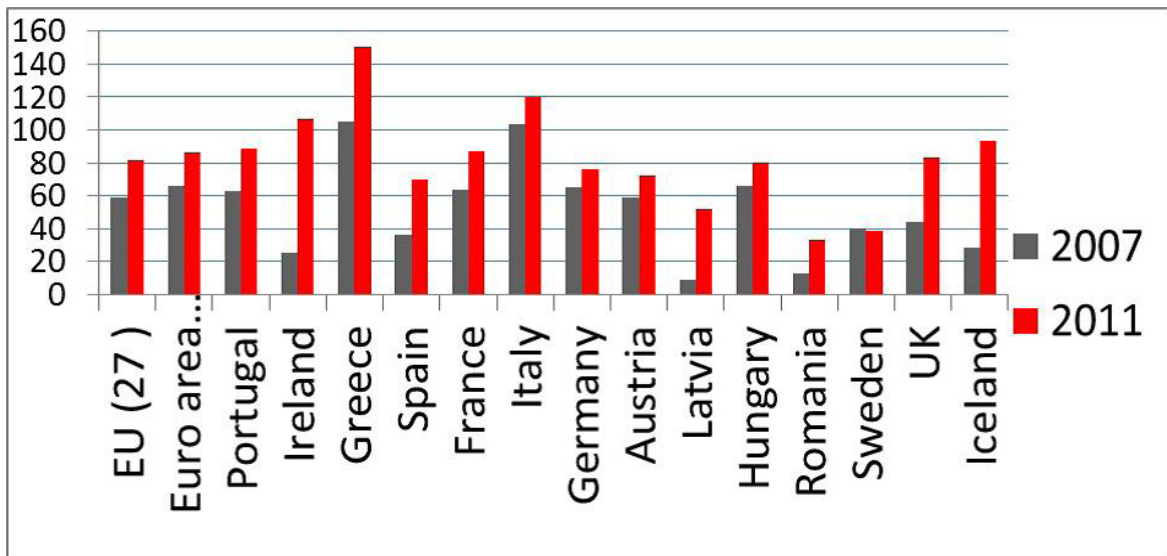
On January 12 th, 2011 the Commission has presented the Annual Growth Survey (with the additional title: "advancing the EU's comprehensive response to the crisis") in conjunction with three appendices (Progress Report on Europe 2020, Macro-economic Report, Draft Joint Employment Report). In this position paper, we will primarily address the Annual Growth Survey; however, to begin with we would like to make the following comments concerning the Progress Report on Europe 2020: we are not surprised that achieving the five EU headline targets by 2020 is anything but certain as the Commission had to realize rather disillusioned, after having evaluated the national targets presented by the Member States,. For example, the EU headline target to achieve an overall employment rate of 75 % in the EU by 2020 has been missed by 2.2 to 2.6 percentage points! This actually confirms the fundamental AK criticism of the EU 2020 Strategy. The setting of national targets, which should – in total – sum up to the EU headline targets, was left to the Member States. It would have been better, in terms of a fair burden-sharing, to agree in advance on the respective national targets – taking into account the relative starting points. Now the Commission has to make a great effort to undertake this process in negotiations with the Member States.

Fundamental observations on the proposed growth and budget course in the Annual Growth Survey

It is to be welcomed that the Commission analyses the socio-economic position at the beginning of the first European Semester without glossing things over. The sharp drop in GDP as a consequence of the financial and economic crisis has on average wiped out four years of growth. The production in eleven Member States will remain below the pre-crisis level until the end of 2012. The unemployment rate will be also above 9 % (currently 23.1 million people are without a job) in 2012. Long-term unemployment will rise in all sections of the population. In some countries, youth unemployment will reach over 40 %. About 80 million Europeans live below the poverty line. The Commission fears that the crisis will have a long-term effect on potential growth. That is why - according to the Commission - the measures of the Member States during the period 2011-2012 will be of vital importance to avert the "scenario of a lost decade".

It is also to be welcomed that the Commission points out in its "Macro-economic Report" that "the current sharp deterioration of public finances results from a decline in revenues and increased pressures on expenditure as well as discretionary fiscal stimuli" because of the crisis. This is also clearly shown in the diagram below - the national debt, which has risen to exorbitantly high levels over a period of only a few years, is primarily a consequence of the financial and economic crisis.

Debt ratios 2007/2011



Source: EU Commission

It will only be possible to gain control of this development by adopting a consequent growth strategy and not by rigorous austerity programmes and wage cuts! This is essentially our main criticism of the Commission's proposals. The Commission is definitely aware of the connection between growth and budget consolidation; however, its growth promoting proposals point into a purely supply side direction as manifested by the following paragraph from the Annual Report: "Such policies would also have a positive impact on budgetary consolidation, by generating higher tax revenues and lower public spending on social transfers, and will help reduce the risk of future macroeconomic imbalances. Structural reforms will generate gains already in the short term. Output as well as employment gains are driven by product market and labour market reforms".

In view of the precarious starting position and recognising the necessity of new sources of growth, it is incomprehensible that the Commission in its Annual Growth Survey primarily favours consequent budget consolidation and structural reforms in the labour, service and product markets to tackle the consequences of the crisis and to bring the EU on track towards lasting growth. Should the European Council accept the proposals of the Commission in their present form the opposite is looming: a strangling of the fragile economic development with negative consequences for the workers and the development of the budgets of the Member States. **The proposals of the Commission in the Annual Growth Survey ultimately amount to weakening the forces of endogenous growth within the EU and more than ever let the "scenario of a lost decade" become reality.**

We need measures, which enable the Member States to grow out of the crisis instead of saving themselves into a new recession.

We need measures, which enable the Member States to grow out of the crisis instead of saving themselves into a new recession. This requires the promotion of the forces of endogenous growth; from our point of view in particular the aggregate demand. The EU is still one of the leading world trade regions and has been able to maintain its share in world trade of an average of 17.5 % during the last decade, in spite of the rise of the emerging countries¹ The fact that in view of the situation, the Commission rates the EU's international competitiveness as vulnerable in its Annual Growth Survey is incomprehensible. Due to the fact that the major part of EU trade takes place between the Member States, strengthening domestic demand is the most promising path to tackle the crisis.

Hence, from our point of view there are two important sources of endogenous growth, on which we have to focus in the near future:

a) A fair distribution of income and wealth

Over the past decades, most industrial states have experienced dramatic imbalances with regard to the distribution of income and wealth. Increasingly more economists, such as the Parisian economist Jean-Paul Fitoussi or the Nobel Prize winner Joseph Stiglitz regard them as one of the roots of the economic and financial crisis. Even a study, published by the International Monetary Fund (IMF) comes to the conclusion that the growing income disparity in the USA has triggered the two most serious financial and economic crises

of the last 100 years through the creation of unsustainable imbalances.

Whilst consumers in the USA at least tried for some years to bridge the growing income gap by taking out loans to maintain or better their standard of living, in many EU countries the imbalance had a direct impact on private consumption, from which - in particular in Germany - only weak impulses for growth emerged.

Today, it is more necessary than ever to reverse this redistribution to the top - for example by imposing higher taxes on high incomes and wealth as well as a productivity-oriented wage policy. The objective of redistribution must be to secure the welfare state as a productivity force on high level and to provide the states with new sources of revenue to finance public expenditure. Therefore, issues concerning distribution policy must be on the agenda of the European Council.

From a distribution policy and growth enhancing perspective, we also consider measures in the following sectors to be important:

- Coordination of tax policy concerning company taxation, for example by harmonising the corporate tax base and introducing a minimum tax rate;
- EU-wide taxation of speculative turnover, in particular in form of a Financial Transaction Tax. Its introduction at European level would generate substantial tax revenue. Thus making a significant contribution to budget consolidation and at the same time reducing those

¹ See Communication of the Commission "Trade, Growth and World Affairs", 9. November 2010

Each year, the EU loses estimated 200 to 250 billion Euros through tax fraud, tax avoidance and tax evasion.

speculations, which were also responsible for the outbreak of the crisis, without having a growth stalling effect.

- Effective measures against tax fraud: each year, the EU loses estimated 200 to 250 billion Euros through tax fraud, tax avoidance and tax evasion. The loss through VAT fraud alone is estimated at 60-70 billion Euros per year (according to former EU Commissioner László Kovács on 6th October 2009 before the Committee on Economic and Monetary Affairs des European Parliament).

b) More flexibility for future public investments

The second important source of growth in highly developed industrial states is investments in the social and ecological infrastructure of our economic system. We are confronted with fundamental challenges: meanwhile several studies confirm the immense economic costs of global warming, which forges ahead unabated. The climate review by Nicholas Stern, which was commissioned by the British government, suggests that global warming could cause losses in the amount of 20 % of the Gross Domestic Product. According to calculations of the German Institute for Economic Research, Germany alone could incur losses of up to 137 billion Euros through climate-related natural disasters by 2050². Fact is: the costs for subsequent damage limitation will be higher than the costs for reducing greenhouse gas emissions. These costs will have to be borne by future generations. Would it not be more sensible to act now and - even if it means additional national debt - to

make the EU the world's most resource and energy efficient economic area? At the same time we have to reduce our dependency on fossil fuels quickly. The rise in oil prices was certainly also caused by political issues (revolt in the Arab world) and speculations; however, it is also an indication of imminent scarcity. Whilst after the downturns 2008/2009 global oil consumption is on the increase again, oil production has stagnated significantly. This cannot only be put down to a lack of investment into exploring new oil fields, but also to reaching the oil peak (i.e. zenith of global oil production) with regard to conventionally extractable oil. The diagram from the latest World Energy Outlook of the International Energy Agency shows that the peak for conventional oil had been exceeded in 2006 and that since then production has been in decline. Whether new oil fields and unconventional oil (e.g. oil sands) will be able to compensate the decline and at the same time globally increasing demand, is uncertain. In any case, the rising oil prices pose a risk to economic development to which governments must react in time.

² DIW: "The economic costs of climate change", Weekly report 42/2004

World oil production by type in the New Policies Scenario

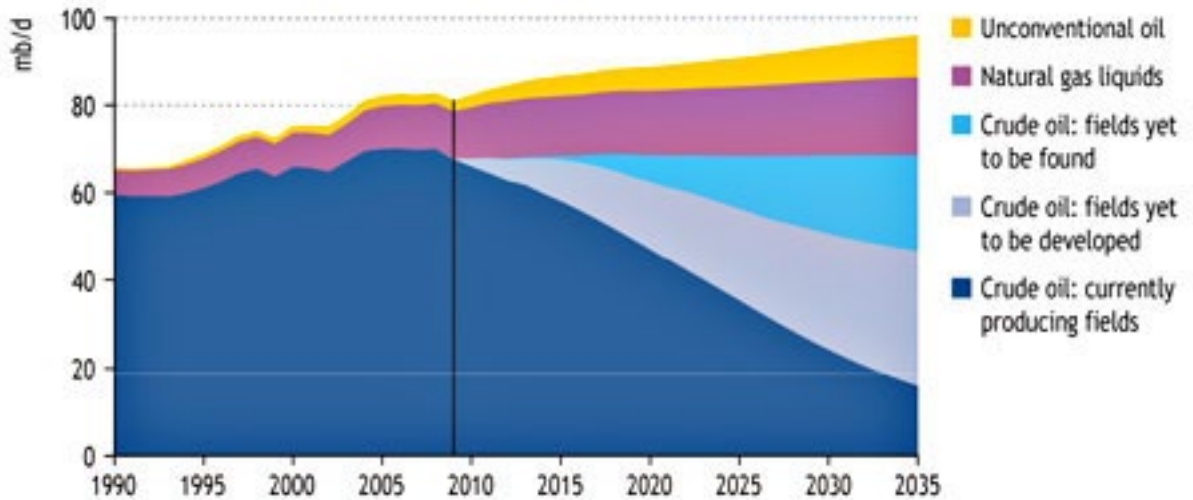


Diagram: IEA, World Energy Outlook 2010

What we need is a kind of “Social European Green New Deal”, which means a Europe-wide coordinated public investment offensive in the social and environmental sector. We need investments in our education and social systems. Both strengthen Europe, create effective demand, save resources and create jobs. Important is an expansion of public investments in renewable energies, climate protection (development of district heating, heat insulation, making public transport, infrastructure/rail etc. more attractive) and targeted research and development (eco innovations). This also creates jobs and helps us to reduce dependency on fossil fuels at the same time.

Basic comments on the proposed measures for mobilising the labour markets

In this area of focus, the Commission proposes measures under the headlines “Making work more attractive”, “Reforming pensions systems”, “Getting the unemployed back to work” and “Balancing security and flexibility”, which were already rightly heavily criticised as an “Attack on Social Europe”³. We reject the thrust of the Commission to reduce the “excessive” protection of workers with open-ended contracts and to restrict benefits. The Commission still works on the assumption that supposedly inflexible labour markets prevent a stronger participation in the labour market. The high unemployment rate in Europe is a consequence of the financial and economic crisis and has absolutely nothing to do with a lack of flexibility in the labour market. The Commission should remind itself what it has stated in its Employment in Europe Report 2009 that over the past years the European labour

³ <http://www.pes.org/en/news/ec-annual-growth-survey-a-frontal-assault-on-workers>

markets had shown remarkable dynamism: "On average every year, between one fifth and one quarter of all European workers separate from their current job and/or are hired to a new one. Such labour market dynamism is not just limited to countries usually considered as 'flexible', such as the UK or Denmark – but rather it concerns all Member States, ..."⁴. What we on the contrary have to focus on more is the quality of work - a term, which does not appear in the Commission's Report. This includes good working conditions such as worker's participation and collective representation of interests, fair wages, equality of women and men, occupational health and safety, family-friendly work practices as well as promoting lifelong learning and access to continuing training. What we urgently need in the EU are programmes to fight high youth unemployment if we want to avoid that we raise a "lost generation".

Easing the tax burden on labour to stimulate the demand for workers is a step in the right direction. However, at the same time it is important to ensure that tax revenue for maintaining the welfare state is guaranteed. Introducing a common corporate tax base plus a minimum tax rate to reduce damaging tax competition as well as the introduction of a Financial Transaction Tax at European level would be appropriate measures, which should support the tax relief for labour. In this context, we generally warn against the risk of shifting the tax burden from businesses to a broader burden of the general public with relevant impact on private con-

sumption, which has turned out to be a stabilising factor, in particular during the economic crisis of recent years.

We also explicitly welcome additional efforts to curb and prevent illicit work. However, the horizon should be broadened - possible wage and social dumping due to cross-border posting resp. temporary employment of workers and other provision of services must also be effectively countered at EU level.

To be welcomed, however dependent on the concrete details, are changes in the tax system with the aim to achieve a greater female participation in the labour market. What should definitely be taken into account is the promotion of full-time employment resp. of almost full-time employment for women. Equally positive and important are flexible working time arrangements and child care facilities, which enhance the participation of women with care duties in the labour market.

The proposals on "pension scheme reforms" focuses too much on consolidation and far too little on the actual objective - namely the guarantee of adequate, sustainable and safe pensions! One of the central problems of the discussion is the fact that in respect of the long-term costs of pension provisions, the focus is always on the costs of public systems and that the (comparatively higher) costs of private pension schemes are ignored. We are strictly opposed to the approach to raise the retirement age and to link it to life expectancy and to any other form of automatism to limit/restrict pension

⁴ <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1803&format=HTML&aged=1&language=DE&guiLanguage=en>

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The large number of negative experiences with various forms of capital-funded pension schemes should at last be considered in the pension strategies!

benefits. In Austria, the actual retirement age lies several years below the statutory retirement age (this is similar in many other EU states). In view of this situation the focus should lie on reducing the gap between the actual and the legal retirement age and to introduce the necessary measures to extend working life (suitable jobs for older workers, improved health protection, continued education and training etc.).

In view of the demographic change, the Commission also makes an attempt in this report to warn the Member States against reforms of their pension systems, which would have a long-term impact on public finances. Of course, long-term stable public finances are of vital importance. However, this is not a predominantly political objective but a means to an end, a necessary basic condition for sustainably achieving the actual political objectives. In particular in view of the demographic change, the sustainable safeguarding of the capacity of social security systems (adequate reliable pension benefits, high standard of health care, which is accessible for all etc.) must be regarded as the or at least as one of the core objectives. The sustainable guarantee for achieving this objective requires in particular the consequent usage of existing employment potentials by setting relevant political priorities and securing the financial basis whilst ensuring a fair burden-sharing (for example by broadening the financing basis, by correcting past undesirable developments, such as the increasing concentration of the financial burden on labour, etc.) at the same time.

We do not regard the recommendation of the Commission to promote the building up of private savings to top up pension benefits as a suitable contribution to safeguard adequate, reliable and sustainable pensions. It is devoid of any logic when it is claimed public pension schemes could not be financed permanently and when at the same time an alternative development of private supplementary forms are encouraged:

- Private pension schemes are not cheaper, but generally more expensive than public schemes;
- Private pension schemes do not provide more security but - as the financial crisis has so vividly demonstrated - the supposed safety cushion of capital cover is in reality an enormous risk factor;
- A quality pension scheme needs elements of social adjustment - this is only provided by public systems (the reference to private or occupational pensions schemes in case of the spreading precarious forms of work as an alternative to reduced public systems is sheer cynicism).

The large number of negative experiences with various forms of capital-funded pension schemes should at last be considered in the pension strategies!

We once again request the speedy introduction of a Financial Transaction Tax and measures to combat tax frauds.

Specific comments on other priorities recommended by the Commission

With regard to the correction of macro-economic imbalances, the Commission sees the burden of adjustment in case of the deficit countries primarily in the wage sector, whilst the surplus countries should promote their weak domestic demand by further liberalising the service sector and by improving their investment conditions. In our view further liberalisations in the services sector would not have any positive impact on domestic demand. On the contrary, liberalisations in particular in this personnel-intensive sector lead to an increase in precarious employment. In our view, the reduction of macro-economic imbalances requires a symmetric approach, i.e. surplus countries must also make a contribution. However, the fixing of wages must remain a matter of collective bargaining by the social partners. We absolutely reject the "strict sustainable wage discipline" demanded by the Commission in this context and the review of index clauses. Because the proposal of the Commission leads to a "race to the bottom": instead of the coordination of wage rates by the social partners, with regard to a macroeconomically favourable level and, taking the development of productivity into account, it seems to be the aim to aggravate intra-European competition via (unit) labour cost competition. In view of the fact that labour costs represent an increasingly smaller part of the entire production costs of export goods, the focus on macro-economic unit labour costs as an indicator seems to be absurd. Capital costs (e.g. based on excessive dividends), cur-

rency fluctuations, raw material prices and shortages, technological development, education level of workers and other factors should also be taken into account. But even then the **position of the Austrian social partners** of 2005 still applies according to which Europe in the location competition should focus on "permanent upgrading" resp. where **"a cost and price competition [...] is neither sensible nor promising"**.

In the priority area "Frontloading growth - enhancing measures" the Commission once again advocates "Tapping the potential of the Single Market", for example by further opening the services sector. The Services Directive represents agreement to opening the services sector, which has been reached by a long negotiation process. Particular sensible areas, such as social services, the health and education sector were deliberately not subjected to further deregulation by the "European" legislator. It appears as if the democratic process was undermined when the Commission plans a further opening of the services sector. The focus should be on harmonising standards at a high level to ensure fair competition in an open services market to avoid pure regulation arbitrage as in the financial sector and social dumping.

The intentions of the Commission in the tax sector are positive but not ambitious enough. Apart from introducing a common consolidated corporate tax base, a minimum tax rate is also required. We once again request the speedy introduction of a Financial Transaction Tax and measures to combat tax frauds.

Should you have any further questions
please do not hesitate to contact

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