AK EUROPA

August 2014

AK Position Paper

Public consultation on the Europe 2020 strategy

www.akeuropa.eu

About us

The Federal Chamber of Labour is by law representing the interests of about 3.4 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.

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, communityand military service - of the 3.4 million members are exempt from subscription payment, but are entitled to all services provided by the Austrian Federal Chambers of Labour.

Rudi Kaske
President

Werner Muhm
Director

The AK position in detail

On 5 May 2014, the European Commission initiated an online consultation on the Europe 2020 strategy. The Austrian Federal Chamber of Labour (AK) hereby registers its participation in the public hearing and responds to the questions defined by the European Commission as follows:

1) Results of the "Europe 2020" strategy from 2010 to 2014

Content and implementation

- **For you, what does the Europe 2020 strategy mean? What are the main elements that you associate with the strategy?**

The Europe 2020 strategy could create the political framework for a stronger policy focus at the EU and national levels on sustainability, full employment and tackling poverty. The objectives formulated in the Europe 2020 strategy basically point in the **right direction**. They depict a union with which the majority of citizens can identify. A successful implementation of the strategy could re-establish the citizens' trust in the EU and make the EU an exemplary economic and social model globally.

The Commission itself expressed its expectations of the strategy most succinctly. In its view, the strategy should contribute to overcoming the economic crisis which erupted in 2008, but also go beyond that. In its communication, "Europe 2020 – a strategy for smart, sustainable and inclusive growth" dated 3 March 2010, it wrote: "In so doing, our exit from the crisis must be the point of entry into a new economy. For our own and future generations to continue to enjoy a high quality of healthy life, underpinned by Europe's unique social models, we need to take action now. What is needed is a strategy to turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion."[1]

To date, the strategy has not met this requirement. The EU is nowhere near achieving its key primary targets – not least due to the neo-liberal crisis policy – and will not achieve them without a significant trend reversal. The real situation of millions of EU citizens after six years of crisis management and four years of Europe 2020 strategy is characterised by unemployment, recession and poverty. There are now 10 million more unemployed people in the EU than before the onset of the crisis. There are currently more than 25 million people out of work. Above all, the percentage of young unemployed people has grown dramatically to 30% or even over 50%. At the same time, government debt has risen – in spite of, or even precisely because of, the austerity programmes that have had a negative effect on domestic demand.

The Federal Chamber of Labour (AK) foresaw this development, so, in this respect, the Commission's sobering stocktaking report of 5 March 2014 did not come as a surprise[2]. Achieving the

1 The Commission's communication, „Europe 2020 – a strategy for smart, sustainable and inclusive growth", 3 March 2010

2 http://ec.europa.eu/europe2020/pdf/europe2020stocktaking_de.pdf

EU's primary targets depends on the **general conditions** in which the strategy is embedded and on the **interpretation of economic interrelationships** that underlie the set measures.

The targets of the Europe 2020 strategy are discussed in the context of the European Semester and are embedded in its road map. They are therefore part of the strengthened economic control which focuses on fiscal consolidation. The Commission does not see any contradiction in this, although it is obvious. **The tightening of the fiscal regulations of the EU Treaty, the result of which is that a budgetary straitjacket with far-reaching sanction options is forcing EU states to make spending cuts (austerity policy), offers no realistic chance of achieving the strategy's primary targets, especially the targets of increasing employment and tackling poverty.** In any event, under the present fiscal framework, we believe that the Europe 2020 strategy cannot contribute to overcoming the crisis.

Moreover, neo-liberal ideas are being brought to bear in the specific drafting of many measures to achieve the primary targets, and these ideas focus on a **supply-side view with a strong emphasis on price competitiveness.**

What that means is particularly apparent in the employment target. If the economy is primarily viewed from the supply side, this will result in recommendations that reduce employment costs in order to raise the price competitiveness of individual companies. Within this ideology it is postulated that lowering wage costs and undermining the rights of workers would lead to higher employment rates. Similarly, following the same logic, it is recommended that social services be cut back in order to increase the "motivation" to look for work.

In the AK's opinion, however, this supply-side approach blocks the view of the macroeconomic context, so the measures recommended as part of the neo-liberal ideology will instead generally lead to an increase rather than a reduction in unemployment. Due to lower purchasing power and higher uncertainty, a reduction in wage rates and cutback in social services will actually lead to a reduction in **domestic demand**, which makes up the majority (namely 7/8) of European demand. Any export successes can therefore only offset this depletion selectively and not overall. Consequently, companies' sales expectations become blurred, and so there is lower investment. And, due to the predefined budgetary targets, there is also a collapse in public demand. **Therefore, neo-liberal structural reforms are most definitely not the correct measures to adopt; instead, one should increase private and public demand and actively tackle unemployment.**

Therefore, although there is general agreement in respect of the target of increasing the employment rate, some of the recommendations for action go in diametrically opposite directions, depending on the "ideological map". **Thus, the Europe 2020 strategy presents a political consensus in relation to such things as social targets, but without questioning the essentially neo-liberal political orientation and the priority of price competitiveness.**

The Commission itself has established that competitiveness can also be defined in another way. In its communication on industrial policy for an enlarged Europe, it defines competitiveness as "… the ability of the economy to provide its population with high and rising standards of living and high rates of employment on a sustainable basis"[3]. The Europe 2020 strategy should be based on this interpretation of competitiveness.

- **Overall, do you think that the Europe 2020 strategy has made a difference? Please explain.**

Setting a strategy of smart, sustainable and inclusive growth has certainly increased mutual awareness of Europe's challenges and opportunities. The key targets, some of which are ambitious, are positive, because they focus on specific policy areas, make progress measurable and, finally, are also capable of creating a European identity through shared objectives. However, the strategy's shortcomings are obvious and must be corrected urgently.

It is also obvious that the Europe 2020 strategy is playing an ever-decreasing role within the European Semester and EU economic policy during the crisis. In contrast, **budgetary objectives** became increasingly important with the installation of the "six pack", the "two pack" and the fiscal package, whereby restrictive regulations were fixed in relation to government deficits and debt, and tougher sanctions were put in place in the event of failure. At the same time, reliance was placed primarily on "structural reforms", whereby the achievement of **price competitiveness** was given top priority. This has already been expressed in the "six pack", is continuing in the "prior coordination of economic reforms" and would undergo a further increase during the planned "competitiveness pacts". But what is also significant is the rigorous austerity course that has been prescribed for the "programme countries".

3 COM(2002) 714 final, Industrial Policy in an Enlarged Europe, 11 December 2002

The AK does not subscribe to the view that, principally "due to the serious consequences of the crisis", the targets of increasing employment and tackling poverty have moved further and further out of reach. This is because the disastrous developments in the employment market and in the social domain in large parts of the EU are proving increasingly to be the consequence of the above-mentioned crisis policy itself.

Overall, to a great extent, the current "crisis policy" is severely counteracting the achievement of most of the Europe 2020 targets. The targets are clearly subordinate to the economic targets of the European Semester. This has also meant that the convergence process, i.e. the individual countries coming closer together in terms of economic power, has transformed into a divergence process during the crisis. The states are no longer coming closer together in terms of economic power: instead, many divergent trends can be observed. Therefore a fundamental objective of the Union, namely the strengthening of social and economic cohesion, is under serious threat. Divergent economic developments put pressure not only on the single currency, but also on the legitimation of a united Europe. Why should people adhere to a joint future in Europe if they cannot benefit from it, unlike the population of other EU countries?

Paradoxically, decreasing economic activity has contributed to the fact that at least two of the three climate and energy targets (reduction in greenhouse gases by 20 per cent, and 20 per cent share of renewable energy) is being met or even exceeded. Alongside the economic crisis, the fact that both targets are the only ones subject to legally binding general provisions should contribute to their attainment. It is all the more regrettable that, of all things, the energy efficiency target (lowering primary energy consumption by 20 per cent) is not regulated by law, and compliance with this target is highly doubtful. The decrease, which is small anyway, is probably primarily the consequence of slowed economic development, as the Commission itself also points out. It is therefore necessary to enshrine all three climate and energy targets with binding effect in the energy and climate policy framework until 2030, and not just to focus on reducing greenhouse gas emissions.

- **Has the knowledge of what other EU countries are doing in Europe 2020 areas impacted on the approach followed in your country? Please give examples.**

We assume that it would be in the interest of all states to examine which national measures have been useful and successful in implementing the Europe 2020 agenda, and would also be applicable to their own countries. For Austria, for example, measures for a better work-life balance, as implemented in individual countries, serve as a guide. Conversely, it is positive that the Austrian model of dual vocational education and training has attracted wide interest from other EU states.

Unfortunately, this is limited to only a few examples. In our opinion, the overwhelming majority of structural reforms that have been or are being implemented in the member states of their own accord or as a reaction to EU specifications, within the context of enhanced economic control, are not worth imitating.

- **Has there been sufficient involvement of stakeholders in the Europe 2020 strategy? Are you involved in the Europe 2020 strategy? Would you like to be more involved? If yes, how?**

There is a formal involvement of the Austrian social partners in the Europe 2020 strategy and this has intensified over the years. As regards content, however, to a significant degree, the specific make-up of the government determines whether and to what extent the specific contributions of social partners are taken up. Joint positions and requirements of the social partners have stood the test of time and they often influence specific Federal government proposals. That also affects areas that are relevant to the Europe 2020 strategy. Numerous relevant documents can be found at www.sozialpartner.at.

We can definitely see potential for improvement in the involvement of social partners in creating the National Reform Programmes, particularly as regards consideration of the proposals.

The Commission's approach of running informal discussions in the member states as part of the Europe 2020 strategy should definitely be ramped up. In the process, it must be ensured that all social partners are equally involved in these discussions. Previous experience shows a clear preference for the companies' viewpoint.

Instruments

- **Do the current targets for 2020 respond to the strategy's objectives of fostering growth and jobs?** *[Targets: to have at least 75% of people aged 20-64 in employment; to invest 3% of GDP in research and development; to cut greenhouse gas emissions by at least 20%, increase the share of renewables to 20% and improve energy efficiency by 20%; to reduce school drop-out* *rates to below 10% and increase the share of young people with a third-level degree or diploma to at least 40%; to ensure at least 20 million fewer people are at risk of poverty or social exclusion].*

Overall, the individual targets correspond to the targets that are generally being aimed at. However, they are **insufficient**, are counteracted by the general economic conditions and are clearly being missed due to the incorrect economic "map". Overall, this results in increasing unemployment and poverty, as well as weaker economic development.

We believe that it would be useful to concretise and/or tighten the EU's primary targets in the following areas:

- In terms of the employment target, it must be expressed again and more strongly that this not only involves the employment of men and women but also a "greater participation of youth, older workers and low-skilled workers", as well as people with an immigrant background (see European Council, March 2010). Apart from that, we propose that the Europe 2020 Integrated Guidelines also include a **specific guideline on youth employment**.

- The required increase in the **percentage of female employment** is also only indirectly addressed by the employment target. Concretising this aspect would certainly improve political effectiveness. In the AK's opinion, extending childcare and caregiving services is a prerequisite for improving the opportunities for women in the employment market. Combating the large wage gaps between genders is also important.

- It is not sufficient to just have a target for the level of employment. Finally, it could not be viewed as progress if there were (theoretically) high employment but wage levels were below the living wage and working conditions were very poor. Therefore additional targets/indicators are required that relate to the **quality of work**. The Commission makes a similar argument in its communication "Taking stock of the Europe 2020 strategy". The AK has repeatedly called for employee rights, fair wages, health and safety at work, family-friendly working arrangements and opportunities for work-related training as important additional indicators in order to be able to sufficiently determine the quality of the employment rate. Then it would be possible to see the vast amount of non-standard or insecure jobs in Europe, and there would be increased political pressure to improve working conditions.

- Far too little attention is paid to the **social dimension** of the Union. Although the prevention of long-term social exclusion is covered by the poverty prevention target, it should be specified more clearly here, taking account of areas such as improving the work-life balance, and improving the integration of people with an immigrant background and other people affected by discrimination.

- In addition, the dramatic imbalance of the distribution of income and wealth is the central political challenge both now and for the foreseeable future. This is becoming increasingly visible, including in the results of the ECB's current study. Even the OECD is now warning urgently of a growing gap between rich and poor and is pointing out that growing inequality weakens societies and economies[4]. It is positive that, in its stocktaking report, the Commission also addresses the great inequalities in the distribution of income and flags up the issue of distributive justice. It will not be possible to overcome the crisis without correcting the distribution imbalance that we have criticised for years, and which has built up in Europe over decades, and without such a correction the Europe 2020 strategy is doomed to failure. In this sense, it is imperative that the EU 2020 targets are urgently supplemented by **distribution-related indicators**.

- Meeting the **energy and climate targets** will not automatically lead to increased employment and growth. So, naturally, climate policy must always focus on the absolute reduction of emissions/energy and must not have the effect of shifting production to other locations with lower social and ecological standards. Otherwise we will achieve the energy and climate targets but not the employment targets (and, viewed globally, it is also damaging in terms of climate policy). Furthermore, the **distribution dimension** must also be included in energy and climate policies. If achieving the targets is solely financed by households, and large industrial companies distance themselves from the financing – as in Germany in the case of renewable energy – it is not only unjust, but affects households' purchasing power. On the other hand, climate and energy policy can definitely also create jobs: above all, investments in energy efficiency - such as in house building, where local demand for jobs is stimulated, and households achieve financial savings over time[5] - result in high net employment creation. In the opinion of the Federal Chamber of Labour, the following conditions must be met in order for energy and climate policy to also increase growth and employment: the costs and benefits of the energy transition must be fairly distributed; investment should mainly go towards energy efficiency, energy infrastructure and renewable energy, with priority given to generation that is not dependent on raw materials; and energy must also be affordable for everyone (households and companies).

- As regards the **educational targets**, it must be assumed that the reduction in the number of early school leavers is not just worth striving for in terms of educational and social considerations, but will also be economically beneficial in the medium term. So the successful completion of compulsory schooling is a precondition for continued general education and initial vocational training, which, in turn, opens up entry to working life and helps avoid unemployment. The connection between the university target and "growth and employment" is not so clear. It should be assumed that, in future, more uni-

4 http://www.oecd.org/newsroom/global-growth-to-slow-as-wage-inequality-rises-over-coming-decades.htm

5 For the net effects of renewable energy and energy efficiency see http://www.renner-institut.at/fileadmin/user_upload/images_pdfs/veranstaltungen/veranstaltungen_2013/2013-05-23_Schafft_die_Energiewende_Arbeitsplaetze/2013-05-23_Praesentation_Hergovich.pdf

versity graduates will be required in knowledge-based service industries such as software development, engineering, management, healthcare, etc. However, one must fundamentally agree with the Commission that quantitative educational targets do not say "much about (...) the levels or adequacy of skills achieved", and it would be useful to have detailed analyses and additional indicators in this area. Basically, more attention should be paid to improving the balance between study and career in the European policy agenda. The development of courses alongside work, which is, de facto, only possible at universities of applied sciences in Austria, would make a significant contribution towards this.

- **Among current targets, do you consider that some are more important than others? Please explain.**

When passing a resolution on the Europe 2020 strategy in March 2010, the European Council correctly pointed out that the primary targets concern the most important areas, in which fast progress is required, and which are linked together and mutually reinforce each other. Because unemployment, exclusion and poverty are rising overall and, in many places, have even increased dramatically, we believe that immediate measures are urgently required in order to halt and reverse this dangerous, regressive social trend. In this sense, the **target of increasing employment** – supplemented by qualitative targets – and the **target of tackling poverty** must be rated as particularly important. These are also the targets that are directly aimed at improving people's quality of life in Europe. The European Union can only develop further if its inhabitants have prospects that are worth living for.

- **Do you find it useful that EU-level targets are broken down into national targets? If so, what is, in your view, the best way to set national targets? So far, have the national targets been set appropriately/too ambitiously/not ambitiously enough?**

Due to the different social and economic situations in the individual countries, a breakdown into national targets makes sense. It was therefore correct to require the member states to set national targets, taking into account the EU primary targets and their relevant starting position. For example, Austria has set itself a national employment target of 77-78% that is higher than the EU target (which Austria has already achieved). It is clear that national contributions towards achieving the target must vary, depending on their starting position, and that a contribution must be required from those countries that have already surpassed the EU targets. Nevertheless, the AK has requested right from the start that the Commission, at the outset, should calculate the national contributions towards achieving the EU targets in order to avoid what the Commission has now had to state, specifically that "… national targets are not sufficiently ambitious to cumulatively reach the EU-level ambition"[6]. The gap in terms of the research target (cumulatively, the national targets only amount to 2.6% of EU GDP) and in terms of the poverty target (by 2020 only 12 million fewer people will be at risk of poverty instead of 20 million) is particularly large. The result is that the Europe 2020 strategy is destined to fail due to the national targets alone! Therefore, as part of the review process, the national targets should be updated/tightened accordingly.

6 http://ec.europa.eu/europe2020/pdf/europe2020stocktaking_de.pdf

With regard to the energy targets, targets definitely need to be allocated to the member states – and these must be differentiated according to potential and performance.

What has been the added value of the seven action programmes for growth? Do you have concrete examples of the impact of such programmes? *["Flagship initiatives": "Digital agenda for Europe", "Innovation Union", "Youth on the move", "Resource efficient Europe", "An industrial policy for the globalisation era", "Agenda for new skills and jobs", "European platform against poverty"].*

The action programme for youth, "Youth on the move", has had scarcely any concrete effects. The only benefit, apart from a few small projects (due to the low budget) is that it was an additional building block for moving the subject of youth employment closer to the heart of public interest. However, it is debatable as to whether this would have succeeded even if youth unemployment had not reached these dramatic proportions. In order to help action programmes to be more effective, they must be adequately funded, be better embedded in the strategy and also be implemented with more effect on the public.

Research, technology and innovation (RTI) should make an important contribution towards solving important global and social problems (environment/climate change, energy and resource efficiency, transport/e-mobility, globalisation, health, safety, demographic trends/ageing, poverty, etc.). The Commission's communication "Europe 2020" dated March 2010 gives important food for thought in this direction. Under the flagship initiative "Innovation Union", it recommends a new alignment of the RTI policy to solve the major social challenges ("grand challenges"). It is worth continuing to pursue and develop this approach.

2) Adapting the Europe 2020 strategy: the growth strategy for a post-crisis Europe

Content and implementation

- **Does the EU need a comprehensive and overarching medium-term strategy for growth and jobs for the coming years?**

The answer is a definite yes, but with the reservation that growth is a means to an end and not an end in itself. The Commission should resume work on its "Beyond GDP" initiative, which could provide the coherent framework for measuring social progress and, as a consequence, the basis for a comprehensive strategy such as Europe 2020.

During the crisis, over-hasty decisions with significant consequences were often taken under the huge pressure of the threat to financial stability. It is therefore very important to have a medium and long-term strategy, within which the EU's social and environmental targets and its fundamental political organisation are discussed.

However, the focus should not only be placed on growth and employment. Rather, this strategy should also be geared to take account of the quality of jobs. This requires measures to counter the increasing insecurity in the work environment. Employment must be possible at fair conditions with appropriate pay.

The Europe 2020 strategy should be geared to establish a **new prosperity and distribution model** in Europe. Approaches are revealed in the Commission's analysis. So the Commission states, with a view to an EU strategy for promoting growth after the crisis, that a return to the growth model of the past decade would be both illusory and damaging: "fiscal imbalances; real estate bubbles; widening social inequalities; lack of sufficient entrepreneurship and innovation; dysfunctional financial systems; growing energy dependency; multiple pressures on the use of resources and the environment; (...) weaknesses in education and training systems (...) – these were issues that could be observed but that were not resolved in the past. They contributed to the collapse of parts of our economies when the full crisis hit."[7]. This analysis contains some correct statements that, together with other statements by the Commission, could be used to draft the cornerstones of a new prosperity model. One of the most important basic preconditions is that, in addition to growth and employment, **distributive justice** should be recognised as an overall target.

At the same time, the Europe 2020 strategy must aim to make the EU the world's most energy and resource-efficient economy. The **increase in the energy and resource efficiency of the economy** shifts the boundaries of growth and thereby creates the required time to design the transition to a sustainable prosperity model, in which there is no more opposition between the environment and the economy.

- **What are the most important and relevant areas to be addressed in order to achieve smart, sustainable and inclusive growth?**

This question is directly connected to the challenges that we discuss in the next question.

7 http://ec.europa.eu/europe2020/pdf/europe2020stocktaking_de.pdf

- **What new challenges should be taken into account in the future?**

As already shown, in our view, a central challenge of our time lies in the **creation of distributive justice in the areas of both income and wealth**. The parallel trends of an increase in the concentration of wealth and a huge increase in unemployment and poverty puts at risk the European Union's credibility as a democratic peace project. Therefore the AK does not just advocate distributive justice in this country, but also demands appropriate objectives and measures at the EU level.

The trend that more and more people risk completely dropping out of the social security and work systems (in the area of young people, this is documented by the increasingly large group of NEETS) will increase if no strong countermeasures are taken. Therefore the Union's policy and national policies must focus significantly more strongly on tackling poverty and (re-)integration into the employment market. Once again, in this context we urge a stronger commitment by the EU and the member states to fighting youth unemployment.

There is a decrease in employment contracts that meet the standards of employment law, fully comply with social security and are properly remunerated. In many European countries, entry-level jobs for young people are often temporary or poorly paid, or they are low-paid work placements rather than employment contracts. Even beyond this group of people, in many member states there is increased flexibility in the employment market, and this principally involves a deterioration in employment and social law, wrongly seen as a solution to the employment market problems. This trend, which only leads to a worsening of people's economic situation, must be counteracted by enhanced targets in the area of the quality of employment.

In order to halt and/or reverse these developments, **modern ways of reducing working hours** should also be seriously considered within the Europe 2020 strategy. Shorter working hours are generally desirable in improving living conditions, but also in maintaining health and, therefore, the ability to work in old age. Record unemployment makes it one of the most important measures for combating the consequences of the economic crisis. Firstly, it will still take a long time for the economy to reach its pre-crisis level. And, secondly, technical progress will also continue during this period. Given the choice - either fewer employed people or fewer working hours per employee - Europe should choose the latter option. Therefore, to increase employment, smart measures should be coordinated and implemented for a better distribution of working hours at the European level.

The **divergent development of the member states** will really put the EU to the test. Apart from the EU budget, which is comparatively low and has a medium-to-long-term focus, there is no way of compensating for different national economic trends. On the contrary, increasingly severe budgetary targets and their unnecessarily restrictive application have an increasingly pro-cyclical effect, thus reinforcing the divergences emerging within the system. Even the EU Commission – jointly responsible in this setting – is now warning of an increasing North-South divide and of a downward spiral in the economies of the EU periphery.[8] A defusing of this trend could consist of establishing an **automatic cyclical stabilisation mechanism** at the European level.

One of the great challenges is to finally achieve progress in the **field of tax policy**:

- On the one hand, this involves ending damaging tax competition in the area of corporation tax at a European level. It is common knowledge that the EU is the economic area with the greatest tax competition worldwide! Between 1995 and 2014, the average nominal rate of corporation tax in the European Union fell markedly. Although, because of the crisis, the race for ever lower corporation tax rates has been stopped to some extent since 2010, new EU accession countries threaten to set this downward race in motion again. **An EU-wide minimum tax rate of at least 20% is required with a uniform consolidated assessment basis.**

- On the other hand, this involves providing the states with the required resources to finance public investment (and to achieve the EU 2020 targets) through effective measures to combat tax fraud, tax evasion and aggressive tax planning. In fact, the EU member states lose around **one billion euros annually** due to tax evasion and avoidance. This volume equals the total revenue of Spain, which is actually the fifth largest EU economy, or the EU budget for the next seven years.

- It is also imperative to work towards a **fast implementation of financial transaction tax** in those

8 European Commission, Employment and Social Developments in Europe 2012 (2013) http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7315&type=2&furtherPubs=no.

11 EU member states who have announced they will introduce this by way of increased collaboration. The medium to long-term objective must be the EU-wide introduction of the financial transaction tax.

Finally - as already stated - within the framework of the Europe 2020 strategy (which, of course, has to look at a longer time frame), the aim must also be to make the EU the **world's most energy and resource-efficient economy**.

- **How could the strategy best be linked to other EU policies?**

In our view, the Europe 2020 strategy should act as the overall framework for all EU policy areas. We recommend that the new Commission prioritises and implements the proposals in its future work programme according to their potential to achieve the EU primary targets.

- **What would improve stakeholder involvement in a post-crisis growth strategy for Europe? What could be done to increase awareness, support and better implementation of this strategy in your country?**

The Commission actively advocating the development of structures to support social partnerships in all EU member states and promoting these itself. Because "it is precisely those European countries with the most effective social protection systems and with the most developed social partnerships, that are among the most successful and competitive economies in the world" (Jose Manuel Barroso in his speech on the state of the Union, 2012).

Austria is an example of this statement. The functioning social partnership structures and ways of working have made a significant contribution to Austria's being more successful in combating the effects of the crisis compared to other EU states.

Of course, it would be desirable for there to be more public focus on the strategy, particularly on the part of the government. A useful benchmark – such as a comparison with the three best, etc. – could help to make the strategy more clearly visible to the public. However, we are convinced that the **best way to make people more aware of the Europe 2020 strategy would be to achieve fast and visible progress in achieving the EU's primary targets.**

Tools

- **What type of tools do you think it would be more appropriate to use to achieve smart, sustainable and inclusive growth?**

In the Commission's communication, "Taking stock of the Europe 2020 strategy", the EU Commission itself assumes that the achievement of the 75% employment target will require the creation of around 16 million jobs. To this end, **comprehensive investment programmes** will be necessary both at the European level and in the member states. Employment programmes that have an influence on several EU 2020 targets seem particularly useful. A good example of this is an employment programme to develop the public childcare infrastructure. This does not just have significant effects on employment and improve the work-life balance, but also pays off in terms of taxation, as the current background paper "Caring for children and dependants: effect on careers of young workers" by Eurofound has shown[9]. Another result is that qualitative and quantitative development

9 http://www.eurofound.europa.eu/publications/htmlfiles/ef1344.htm

of the childcare infrastructure will lower the rate of early school leavers in the member states in the medium term.

Overall, we make an urgent plea for significantly greater consideration to be taken of the demand side. In any event, in our view, the Europe 2020 strategy can only be successful if the internal sources of growth to promote domestic demand in Europe are available again.

- This requires a correction of the distribution imbalance – such as through higher taxes on high incomes and wealth – and a fundamental rethink of the austerity policy that has intensified the social crisis and reduced domestic demand.

- Private consumption can be stabilised and increased through a wage policy focused on productivity and inflation, which recognises the importance of wages as a central demand factor.

- A huge increase in public investment in Europe is also a primary requirement as an important element in domestic demand. Precisely in times of a difficult economic crisis, public investment is the most effective instrument to revitalise the economy. Every additional euro a country invests increases economic output by EUR 1.30 to EUR 1.80. That is shown in a meta-analysis by the Macroeconomic Policy Institute (IMK) which analysed more than 100 international studies[10]. Instead, the Europe-wide austerity policy reduces growth potential while increasing the debt ratios. The EU crisis policy must finally focus on this link, which has been confirmed by many studies. It is precisely the challenge of climate change and sustainable energy generation that offer sufficient room for sensible public investment. Investment in the social infrastructure (education, childcare, caregiving, etc.) is also important. Model calculations by the Chamber of Labour show that a social state that invests provides significant additional income for the public sector, in addition to having considerable positive effects on employment. Not least, in its communication COM (2013) 83 final dated 20 February 2013, the Commission expressly recognised the importance of social investment for growth and social cohesion.

The strategic **focus of the EU structural funds (EFRE and ESF) and ELER** is on the Europe 2020 targets in the current financial period. However, in terms of achieving the targets, the programme, now completed, shows very clearly the opportunities lost by the member states, and therefore the EU, by having the funds acting in parallel in their implementation, instead of jointly creating a programme of activities for the individual EU 2020 targets in a coordinated way and implementing them in complementary action plans. Accordingly, the aim should be to leverage the multi-fund approach in the current financial period in implementing the cohesion policy and the rural development policy.

What would be best done at EU level to ensure that the strategy delivers results? What would be best done at Member State level?

By the EU:

- prioritising economic cooperation in-

10 IMK report, Streitfall Fiskalpolitik, Eine empirische Auswertung zur Höhe des Multiplikators (The vexed issue of fiscal policy - an empirical analysis of the size of the multiplier), April 2014

stead of ruinous competition between states,

- accelerating an increase in (domestic) demand through fair pay and social and environmental investment for the future,

- demanding robust public sector budgets through fair tax policy (e.g. wealth-related taxes, measures to counter tax avoidance) and stable economic development,

- overseeing the establishment of high social, environmental and employment law standards,

- implementing effective financial market regulation and

- ensuring the development of democracy at EU level.

An important precondition is that the member states are given enough leeway for public investment. It is necessary to **gear economic governance to the Europe 2020 strategy, because a strategy cannot work without governance, or even with countervailing governance.** This requirement has been completely ignored by the Commission in its stocktaking report.

Therefore, the debate that has started on a reform of the stability pact must be included in the mid-term review and led in a goal-oriented way, whereby the **flexibility** in the stability pact **should be used and extended as comprehensively as possible**. And within the new budget provisions of the stability and growth pact, the member states have the opportunity to finance additional expenditure for public investment through revenue-related measures. This directly addresses the distribution issue. A coordinated approach to **taxes on wealth, top incomes, capital yields and company profits, the fast introduction of the planned financial transaction tax and effective measures against tax dumping, tax fraud, tax evasion and aggressive tax planning** will create the necessary financial resources for the member states to make a huge increase in public investment.

In addition, the "**Golden Rule**" of fiscal policy must be enabled, i.e. new borrowing for value-creating public investment must not be restricted by the fiscal regulations. As a result, the member states would be forced into a more employment-friendly budget policy; they could make investments that benefited the whole economy and so increased the potential for long-term economic growth. The primary targets of the Europe 2020 strategy already provide sufficient approaches for useful public investment.

- **How can the strategy encourage Member States to put a stronger policy focus on growth?**

Growth is a means to an end and not an end in itself. The Commission should resume work on its "Beyond GDP" initiative, which could provide the coherent framework for measuring social progress and, as a consequence, the basis for a comprehensive strategy such as Europe 2020. In doing so, consideration must also be given to the national level. Policy at both European and national levels should concentrate on the prosperity of the people and on social progress, not just on growth.

With regard to the growth aspect, it must first be stated that it is definitely not possible to achieve a stronger national focus by enhancing the country-specific recommendations in the context of the European Semester through the **competition pacts** that are under discussion. The AK strictly rejects any contractual agreements between the Commission and the member states in which binding structural reforms are set, including in the area of wage trends or wage bargaining systems, the employment market, the pension system, the efficiency of the public sector, etc., and are to be provided with a financial incentive scheme.

It is apparent that growth in the member states is hugely compromised by the austerity measures defined by the EU, the growing inequality in the distribution of income and wealth, and the huge reduction in public investment across the whole of the eurozone. Therefore there must be a policy shift in all these areas with the aim of re-stimulating **domestic demand** in Europe. That does not require any fundamental departure from a sensible policy of budget consolidation. But, in future, European and national policy must focus on both together: budget consolidation and encouraging domestic demand. We have already addressed the measures for this several times in this document, such as

- robust public sector budgets through fair tax policy (e.g. wealth-related taxes, measures to counter tax avoidance) and stable economic development;

- strengthening (domestic) demand through fair pay and through a growth-friendly tax system, while the tax burden is increasingly shifted from being a work factor towards wealth-related taxation;

- the introduction of a "Golden Rule" to ensure that future investment will be possible.

- **Are targets useful? Please explain.**

Yes, targets are useful because the debt is growing and specific planning processes must take place in the member states as to how these target values can be achieved. Here, it is important to set the targets in as democratic and consensus-oriented way as possible, as well as including qualitative elements, such as achieving the employment rate through employment that pays a living wage.

- **Would you recommend adding or removing certain targets, or the targets in general? Please explain.**

The catalogue of the current Europe 2020 targets lacks a target that addresses the European Union's most pressing problem: combating youth unemployment. If this problem is not solved, it will have wide-reaching and lasting economic, social and societal effects. Young people do not just find it significantly more difficult to obtain work, but they are also more strongly affected by insecure ways of entering working life, such as part-time and and temporary work, fixed term employment or unpaid work placements. Around 7.5 million young people who are not in education, employment or training (NEETs) demonstrate that unemployment at the start of a career often brings about a lasting exit from the social systems. As well as a higher risk of future unemployment, these young people also face a higher risk of exclusion, poverty and illness. The actions on youth unemployment to date have certainly put more focus on the issue, but setting an appropriate target can increase the commitment. **Therefore there should be a European target for a significant reduction in youth unemployment that will be concretised through the setting of national targets.**

As already stated, there should also be a stronger requirement to increase the employment rate of women and older employees.

It would also be necessary to set **distribution-related indicators**. Reducing distribution issues to poverty and the risk of exclusion completely disregards the upwards redistribution that has been taking place for decades in practically all EU states.

- **What are the most fruitful areas for joint EU-Member State action? What would be the added value?**

A **cooperation in Europe on social and economic policy is urgently needed.** Finally, an important aspect of the EU's potential lies in a coordinated policy that is not reliant on ruinous competition. Thus economic and investment policy that is coordinated between states can have positive and mutually strengthening effects. And the setting of joint standards at a high level in the social, work and environment fields is also required to counteract a negative spiral resulting from a focus on price competition. But cooperation is also important in the area of taxation (such as combating tax fraud, or joint taxation on high levels of wealth), in the area of financial market regulation and financial market supervision (in order to counteract low levels of transparency and regulatory arbitrage) and in the work environment.

A cooperative policy in the world's "largest domestic market" will not just ensure strong growth in demand and, therefore, in the economy, but it is also a precondition for social and environmental progress. Finally, many problems of our time can scarcely be solved at the national level, and certainly not under the general conditions of a destructive focus on competition and competition between locations.

3) Do you have any other comment or suggestion on the Europe 2020 strategy that you would like to share?

Behind the Europe 2020 strategy is the desire to manage the long-term challenges of the EU such as unemployment, poverty, globalisation, energy issues, resource efficiency, climate change, etc. Faced with the austerity policy and the priority of budget consolidation, the EU is, however, far from seriously addressing these challenges.

There are doubtless huge costs involved in managing these challenges, but we urgently need a change of perspective in this respect, because it is actually the case that the costs of inaction are greater than the measures required to achieve the EU 2020 targets. It would be highly advisable to take this view into consideration in the mid-term review.
Now several studies prove the huge economic costs of global warming. The fact is that the costs of managing the damage in retrospect will be higher than the costs of reducing greenhouse gas emissions.

Another example is the costs of combating youth unemployment. The German government broaches the issue of the costs of inaction or of insufficient action very clearly in its response to a parliamentary question on the Youth Guarantee in Europe and Germany: "However, the latest research findings suggest that the estimated benefits of implementing the Youth Guarantee far exceed the costs. According to these findings, the estimated overall costs of implementing the Youth Guarantee in the eurozone are EUR 21 billion per year or 0.22 per cent of gross domestic product (Source: report by the International Labour Organization: EuroZone job crisis: trends and policy responses). The costs for young people who are not in employment, education or training are EUR 153 billion per year, or 1.21 per cent of gross domestic product, due to social benefits and lost revenues and taxes (Source: Eurofound report on youth unemployment)".[11]

The calculation of the budget effects of different employment market scenarios for the EU shows that a change in (EU) policy towards promoting employment is not just the most sensible answer to the problem of high unemployment, but would also open up huge scope in public sector budgets. Underlying this is an optimistic EU 2020 scenario based on the assumption that the target of the EU 2020 strategy, raising the employment rate for those in the 20-64 age group to 75% by 2020, will be achieved.[12]

The AK would finally like to emphasise that there is a great deal at stake for Europe. Even in 2010, the EU should have been the world's most dynamic knowledge-based economy, with more and better jobs and greater social cohesion. That was the vision of the Lisbon Strategy agreed in March 2000, which failed miserably. And that was not just due to the financial and economic crisis that erupted in 2008. Action must now be taken if the Europe 2020 strategy is to avoid the same fate. Millions of unemployed and poor Europeans justifiably expect that the heads of their states and governments are taking their self-imposed targets seriously. This also concerns the credibility of European policy.

---

11 http://dip21.bundestag.de/dip21/btd/18/017/1801792.pdf

12 http://blog.arbeit-wirtschaft.at/erreichungnicht-erreichung-des-eu-2020-beschaftigungsziels-1-000-mrd-euro-stehen-auf-dem-spiel/

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

Norbert Templ
Tel: + 43 (0) 1 501 65 2158
norbert.templ@akwien.at

and

Amir Ghoreishi
(in our Brussels Office)
T +32 (0) 2 230 62 54
amir.ghoreishi@akeuropa.eu

Bundesarbeitskammer Österreich
Prinz-Eugen-Straße 20-22
A-1040 Vienna, Austria
T +43 (0) 1 501 65-0
F +43 (0) 1 501 65-0

AK EUROPA
Permanent Representation of Austria to the EU
Avenue de Cortenbergh, 30
B-1040 Brussels, Belgium
T +32 (0) 2 230 62 54
F +32 (0) 2 230 29 73