

Annual Growth Survey 2011

SOLIDAR recommendations for a more social strategy to tackle the crisis



TABLE OF CONTENTS

Foreword	2
Recommendations to European decision makers	3
Introduction	5
General remarks	6
Summary of Annual Growth Survey 2011	6
SOLIDAR Analysis	8

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SOLIDAR is a European network of 52 NGOs
working to advance social justice in Europe and worldwide.

SOLIDAR lobbies the EU and international institutions in
three primary areas: social affairs, international cooperation and education.

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FOREWORD

Over the past few months, the issue topping the headlines is what economic strategy will European countries adopt to get us out of the crisis. Two proposals are: the Competitiveness Pact (by France and Germany) and the Annual Growth Survey (by the European Commission).

Both documents are looking to get Europe a competitive advantage by advocating for putting in place a more flexible labour market and wage cuts. This is a clear attempt to undermine the “social acquis” and the European Social Model. It would further undermine the welfare state and have severe consequences by increasing poverty instead of reducing it (note that the Europe 2020 Agenda instead aims to reduce poverty).

We know that Europe cannot and should not compete on low wages and precarious employment. The results of such a strategy would put Europe at risk, not only in terms of economic governance, but also by undermining the Eurozone and European integration - as the approach privileges an intergovernmental instead of a community method.

Instead of financial and fiscal consolidation through austerity plans, we call instead for consolidation through growth which should be smart, sustainable and inclusive. Has nothing been learnt from the crisis? The harsh austerity policies currently being implemented by governments are undermining a socially sustainable recovery and resulting in even more inequality for the poor and disadvantaged - people who SOLIDAR members work with and provide services for – paying the costs for a crisis that they did not cause.

We need economic strategies to get Europe out of the crisis which:

- Help Member States support each other – an EU coordination in favour of an intergovernmental approach where strong members group together and bully the small.
- Are based on the social dimension of the Europe 2020 Strategy, and not the Competitiveness Pact and Annual Growth Survey.
- Use employment rates as an indicator and not just labour costs.
- Increase competitiveness through an increase in wages and investment in education and social infrastructure, and not just cutting wages.
- Includes collective bargaining by social partners at national level.
- Gets supplementary financial revenue through taxation (Financial Transaction Tax) and Eurobonds.

Together for Social Europe!

Conny Reuter
SOLIDAR Secretary General

RECOMMENDATIONS TO EUROPEAN DECISION MAKERS

SOCIAL INVESTMENT

- SOLIDAR calls for the implementation of an effective social impact assessment of the crisis. This is important not only for the national austerity plans demanded by the EU finance ministers, but also for the establishment of the next EU multi-annual financial framework. The results of this social impact assessment would have to be binding towards EU and Member States, and to be conducted in a transparent and participative way together with civil society.
- The social dimension of the EU 2020 Strategy needs to be reinforced by supporting development policies, by stressing the need for investments to generate inclusive growth and by supporting the role of social protection as an automatic stabiliser for the economy.
- The EU budget, national budgets and austerity measures must comply with Article 9 of the Lisbon Treaty and its “requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health”.
- The social policy priorities in the Europe 2020 Strategy and its guidelines have to be matched with sufficient financial support for social recovery.
- SOLIDAR advocates for a fair redistribution of income and wealth. Mobilising massive tax-based state support to carry the banking sector, promoting strict wage moderation, cutting unemployed benefits and lessening progressive indirect taxes results in the contrary. It contributes and reinforces to an ongoing unequal redistribution of income and profits.

ENSURING SOCIETAL PARTICIPATION

- Policies guaranteeing mechanisms of solidarity and promoting social cohesion, social inclusion as well as sustainable development are to be defended, developed and strengthened against a one-

sided implementation of the Europe 2020 Strategy focused only on growth and competitiveness.

- Although the Commission’s Joint Employment Report (Annex 3 of the Annual Growth Survey) mentions the commitment to combat poverty and social exclusion and calls for a wider use of in-work benefits, for the redistribution of income towards low income families, and for a reinforcement of safety nets, this is not sufficiently reflected in the Survey itself. SOLIDAR points out that the Lisbon Treaty’s transversal clauses 8,9 and 10 as well as the Europe 2020 Strategy guidelines 7 (quality jobs) and 10 (promoting social inclusion and combating poverty) have to be effectively implemented.
- “Making work more attractive” must not be realised through putting pressure on the unemployed and by lowering working standards but by promoting decent work and quality jobs. SOLIDAR calls for the “translation” of the Decent Work Agenda to European social realities. This means developing and implementing policies to fight and avoid working poor and precarious working conditions and to address aspects of labour market segmentation.
- Bearing in mind the discussions of the European Year 2010 and the objectives within the European Platform against Poverty, SOLIDAR recalls that aiming for the eradication of poverty and social exclusion needs special attention, focus and resources and a mid- to long-term perspective. In this context, SOLIDAR emphasises that employment alone will not guarantee a route out of poverty. Ensuring social inclusion and societal participation requires more than the promotion of labour market participation. It also involves accessible, affordable and quality social services, the fight against gender inequalities and discrimination as well as poverty-proof minimum income schemes (at least 60% of the median national household equivalised income) which are accessible to

all groups of people as proposed by the Belgian presidency in 2010.

- The Commission called for the implementation of its active inclusion recommendation of 2008 by ensuring that the Flagship Platform against Poverty gives priority to developing a concrete roadmap for implementation.

TRANSLATING DECENT WORK AGENDA TO EUROPEAN SOCIAL REALITIES

- The financial and economic crisis deteriorated the living and working conditions of many people. In this context SOLIDAR advocates more than ever for a European Social Model based on sustainable economic performance, a high level of social protection and education, and social dialogue to become the reference frame for the Europe 2020 Strategy.
- For SOLIDAR, labour law is about effectively promoting individual and collective rights. SOLIDAR supports flexicurity policies if designed in a way not to increase insecurity or precarious conditions for more vulnerable groups in relation to the labour market.
- When tapping into the potential of the single market, the Commission refers to removing unjustified restrictions on the retail industry such as disproportional limitations on opening hours and zoning. "Disproportional" should not entail having long-working hours, night shifts or extra-opening during holidays because of fierce competition market logic.
- To enhance labour market inclusion for the more vulnerable, SOLIDAR calls for the merger of Public Employment Services and unemployment insurance services, to create "one-stop" shops avoiding double work (double data collection, interviewing, action planning) and reducing interface management between organisations.
- As the Commission underlines the importance of "white jobs", SOLIDAR stresses that it is economically relevant to invest in social services, considering

that the demand for these services already exceeds the supply of resources available.

ENHANCING THE PARTNERSHIP PRINCIPLE

- Engaging social partners and civil society organisations throughout the entire process.
- Reinforcing the social dimension of the Europe 2020 Strategy, through the education, employment and poverty targets, as well as through Guidelines 7 and 10, and the flagship initiatives on youth, poverty and new skills for new jobs, can be achieved by embedding effective monitoring and follow-up built on existing social indicators, as developed by the Open Method of Coordination (OMC) on social protection and social inclusion.

INTRODUCTION

On 12 January the European Commission presented its first Annual Growth Survey.¹ It is the initial step of the so-called “European Semester”², a six-month cycle for the coordination of economic policy between the EU Member States that was put in place by the EU Institutions last year in response to the economic crisis. From now on, every second European Semester will begin with an Annual Growth Survey. **This ex-ante policy coordinating paper is identified as the instrument which puts forward the necessary actions to strengthen recovery in the short-term and to prepare the EU to reach the Europe 2020 Strategy objectives.**

The survey was proposed in order to review Member States’ draft annual budgets and economic programmes before their adoption at national level, with an early peer-review system aimed at preventing a repeat of the Greek sovereign debt crisis. Having analysed the national draft budgetary plans, the Commission will submit “country-specific policy guidance” on budgetary policies. These recommendations will be adopted by the Council in July 2011. The process will then be repeated in the first half of each year, and Member States are supposed to take the recommendations into account when finalising their budgets in the second half of the year and implementing their growth policies.

The **purpose of the briefing paper** is to draw attention to the importance of this first Annual Growth Survey as a governance instrument with far reaching influence on national social and economic policies. More importantly, SOLIDAR

urgently seeks to highlight the need for better taking into account the social and employment dimension of this analysis which is currently unbalanced and lacking proposals to ensure job-quality driven growth and an inclusive society. SOLIDAR’s analysis will mainly focus on the main communication as well as on Annex III of the survey (Joint Employment Report), providing recommendations for a European Social Model based on socially sustainable economic performance, a high level of social protection and decent work, to become the reference frame for the Europe 2020 Strategy.

¹Annual Growth Survey 2011, COM (2011) 11 final. Published January 11th 2011.

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/22&format=HTML&aged=0&language=EN&guiLanguage=en>

²European semester: a new architecture for the new EU Economic governance – Q&A, MEMO/11/14, January 12th 2011.

<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/14&format=HTML&aged=0&language=EN&guiLanguage=en>

GENERAL REMARKS

The Communication from the Commission “Annual Growth Survey” sets out **ten “priority actions”** deployed in **three key economic areas**. Three reports underpin the Commission’s assessment and include an outline of the setting up of the Europe 2020 Strategy at Member State level:

- 1) A Progress Report on Europe 2020, reviewing the situation of EU headline targets under the strategy and the draft National Reform Programmes.
- 2) A Macroeconomic Report, assessing the measures with the highest potential for delivering growth.
- 3) A Joint Employment Report, reviewing the EU’s employment situation and labour market related policies throughout the Member States.

In addition to this, a proposal for a Council Decision on employment guidelines has been drafted, to ensure that the guidelines for employment policies are maintained for 2011 and are taken into account by the Member States in their employment policies.

SUMMARY OF THE ANNUAL GROWTH SURVEY 2011

The Commission’s Communication on the Annual Growth Survey presents economic priorities for the Union in three main areas, with ten priority actions. The objectives dovetail with the Europe 2020 Strategy and are designed to help the continent recover from the worst recession in decades.

The **three key economic areas** focused on are:

- the need for rigorous fiscal consolidation for enhancing macroeconomic stability
- structural reforms for higher employment
- growth enhancing measures

The **ten actions** highlighted by the Commission and grouped **under three main areas** are:

- Macro-economic prerequisites for growth:
 1. Implementing a rigorous fiscal consolidation
 2. Correcting macro-economic imbalances
 3. Ensuring stability of the financial sector
- Mobilising labour markets, creating job opportunities:
 4. Making work more attractive
 5. Reforming pension systems
 6. Getting the unemployed back to work
 7. Balancing security and flexibility
- Frontloading growth:
 8. Tapping the potential of the Single Market
 9. Attracting private capital to finance growth
 10. Creating cost-effective access to energy

The Survey mainly concludes that the EU’s high level of social protection cushioned the worst impact of the crisis, but because of its weak productivity growth, recovery is slower in Europe than in the US. This is clearly the major concern of the Commission, which together with concern over the high level of EU gross government debt and deficit with respect to GDP,³ led to the decision of EU Member States to pursue a strategy of fiscal consolidation justified throughout the report. Indeed, **to overcome and to make the EU come out stronger from the crisis, the Commission endorses the rigorous fiscal consolidation of public finances, the rapid reduction of unemployment through structural reforms and the promotion of growth.**

The priorities within the first key area (macro-economic prerequisites for growth) focus on rendering public expenditures more growth friendly. Member States with an excessive deficit are called upon to eliminate their deficits and to consolidate their budgets. In addition to this,

³ What is highlighted is the rise in 2010 of EU gross government debt to around 85% of GDP in the euro area, way beyond the Maastricht criteria threshold of 65%, and a foreseen fiscal burden of 4.5% of GDP, exceeding the threshold of EU gross government deficit being equal or less than 3% of GDP.

Member States with large current account deficits and high levels of indebtedness are suggested corrective measures such as “strict and sustained wage moderation, including the revision of indexation clauses in bargaining systems”, further liberalisation of the services sector and improving conditions to invest” (COM(2011) 11 final: 5). Some Member States are invited to increase indirect taxes (i.e. VAT) which are considered to be more growth-friendly than direct taxes (income taxes, capital taxes etc.). To ensure the stability of the financial sector, the Commission highlights the need to enhance supervision and to restructure the banking system, for instance by gradually withdrawing public financial support to banks and by requiring them to progressively strengthen their capital base.

Within the second key area (mobilising the labour market), priority is given to the increase of labour market participation by tying social benefits more closely to training and job hunting as well as by reviewing their amount which should guarantee incentives to work. To make sure that work pays, the Commission recommends a greater coherence between the level of income taxes and unemployment benefits. The institution also suggests shifting taxes away from labour in order to stimulate demand for labour and to make work arrangements more flexible. Furthermore, the Survey stresses the need for increasing the retirement age, reducing early retirement schemes, promoting lifelong learning and developing complementary private savings to enhance retirement incomes. For this reason, Member States should avoid adopting measures related to their pension systems which undermine the long term sustainability and adequacy of their public finances. As to the balance of security and flexibility, the Commission underlines that in some countries, employment protection is very rigid. Since this limits participation in the labour market, legislation should be reformed and the over-protection of workers should be reduced.

Proposals within the third key area (frontloading growth) concentrate on the full implementation of the Services Directive, on removing unjustified restrictions on professional

services, such as quotas or disproportionate limitations on opening hours, as well as on increasing symmetry in access to public procurement markets in developed countries and large emerging market economies. The Commission also suggests EU project bonds to bring public and private financing for investments in the energy, transport and ICT and recommends the rapid and full implementation of the third internal market energy package.

SOLIDAR ANALYSIS

The importance of Member States supporting each other to get out of the economic and social crisis cannot be underestimated. This can in fact serve as a good example of EU-wide solidarity. However, **the Commission's Communication is an unbalanced analysis offering solutions that are unlikely to promote mutual support but instead increase economic and social competition.** It is growth driven and the triad of the Europe 2020 Strategy and its guidelines aiming at smart, sustainable and inclusive growth, the horizontal social clause of the Lisbon Treaty and the currently published objectives within the European Platform Against Poverty and the New Skills and New Jobs Agenda are ignored.

A. UNBALANCED RESPONSE TO THE ECONOMIC AND SOCIAL CRISIS

AUSTERITY MEASURES

The Commission's suggestions strongly focus on fiscal consolidation and stability, calling for the necessity to reduce government's debt levels by 1% of GDP yearly. This directly increases the need for Member States to implement rapid public deficit reduction and leads to austerity cuts which risk aggravating poverty and social exclusion. We are already seeing public authorities cutting their budgets for social services, reducing levels of and eligibility to minimum income, disability, sickness, family and employment benefits, putting equality policies and plans for development on hold, and this at a time when even more people are in need of social services to overcome the downturn of the crisis. **Austerity measures are affecting those most in need and undermining the role of social protection as an automatic stabiliser for the economy.**

STIMULATING LABOUR DEMAND BY CUTTING BENEFITS AND REDUCING NON-WAGE LABOUR COSTS

After outlining the need for public deficit reduction, the Commission draws attention to the need to create jobs and mobilise the labour market. Unfortunately, **the reduction of**

unemployment is not based on the creation of quality jobs and decent work but on activating employment by cutting benefits and putting pressure on unemployed people.

The Commission's suggestion to "make work more attractive" reads as follows: despite the statement whereby "Member States need to adapt their unemployment insurance systems to the economic cycle so that protection is reinforced in times of economic down-turn" (COM(2011) 11 final: 6), the main aim is to actually reinforce the conditionality of unemployment benefits and review their amount as to ensure incentives to work. **This means a shift of social risks to the individual. Such an approach supports minimum income schemes which are not poverty-proof and will promote social exclusion and discrimination of the most vulnerable persons.** It will result in unemployed people accepting any job offer with no regard to the working conditions, contributing to social dumping and aggravating the situation of both employed and unemployed people. The same effect is likely to occur when promoting a greater coherence between the level of income taxes and unemployment benefits: in order to maintain the gap and make work pay, benefits will have to remain below the poverty line keeping a clear distance to poor jobs. **Hence, the ability to quickly find a job is not sufficient and the focus on adapting to and increasing participation in the labour market without taking into account the quality of the job only leads to atypical forms of work.**

To stimulate labour demand the Commission further proposes to shift taxes away from the labour market. Some Member States had indeed good experiences with a reduction of non-wage labour costs in the short-term by promoting, for instance, stock subsidies on a temporary base which are targeted at the more vulnerable, like young people or migrants. However, SOLIDAR stresses that exemptions from employer's social contributions cannot be a long-lasting solution and that a general call for a "reduction of taxes on labour to the minimum necessary" does not take into consideration the differences in income groups.

PRIORITISING LABOUR MARKET REFORMS OVER QUALITY JOBS

In its thematic review 2010 of the quality of work⁴, the Employment Committee (EMCO) states that “improving job quality is considered to be important, not just for the wellbeing of the workers, but also to increase productivity, employment levels and to promote social inclusion” (Quality of Work-Thematic Review: 2). The Commission however suggests growth and stability measures such as strict and sustained wage moderation, extended working hours, changes concerning the indexation clauses in bargaining systems, more flexible working arrangements, and a reformed labour market legislation reducing the over-protection of workers. An increase in the retirement age and the further privatisation of pension schemes are also recommended. Yet, we have just learnt from the crisis that the Commission cannot advocate for private savings to enhance retirement incomes unless the conditions under which private (pension) funds are managed are radically changed i.e. stricter control of investment flows and low investment risk for these funds. Furthermore, such suggestions can easily be interpreted as a dangerous attempt to release employees from their contribution responsibilities within pension schemes which is another individualisation of social risks.

By calling for more flexible work arrangements, the Commission ignores what it has already stated in 2006: the proliferation of “atypical” employment contracts in most Member States has tended to aggravate labour market segmentation and to reduce the security of the most vulnerable and disadvantages workers.⁵ **In that context SOLIDAR highlights that low pay and having a job for less than a full year strongly raises the risk of in-work poverty. Generally, the lowering of working standards**

⁴ EMCO Ad Hoc Group report on the 2010 thematic review. Part 2. 'Quality in work', November 2010. <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=973&furtherNews=yes>

⁵ Commission's Green Paper on Modernising Labour Law to Meet the Challenges of the 21st Century, 2006, http://eur-lex.europa.eu/LexUriServ/site/en/com/2006/com2006_0708en01.pdf

brings workers that still have a certain level of protection closer to those who are already in a precarious situation.

This can also be observed with regard to an increasing number of self-employed workers. Although self-employment can be a chance to get out of unemployment, this will not help to significantly reduce the number of unemployed. There is also a high risk of bogus self-employment evading labour regulations and other statutory obligations in times of an increased pressure of competition and under the influence of the liberalisation of the market. Statistics have shown that a substantial part of self-employed persons have less “bargaining capital” and are three times more likely to be working poor than employees.⁶ Their situation, in which they are deprived and excluded from the protection afforded by labour law and collective agreements, where they often cannot afford to contribute to social security schemes and thus are not sufficiently insured, directly harms the stability of the labour market and distorts competition. It also seems difficult to promote this solution since in order to become self-employed, a starting capital is required which many potential self-employed people will not be easily granted during a period of downturn.

Moreover, the Commission's efforts are directed towards the introduction of more open-ended contracts in Member States to replace existing temporary or precarious contracts. Following the Commission's recommendation on active inclusion⁷ and the agenda for new skills and jobs⁸, SOLIDAR supports the analysis that

⁶ Eurofound (2004). Study „Working Poor in the European Union” [authors: Peña Casas, Ramón/Latta, Mia], <http://www.eurofound.europa.eu/pubdocs/2004/67/en/1/ef0467en.pdf>

⁷ Commission recommendation on the active inclusion of people excluded from the labour market, 03 October 2008.

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:307:0011:0014:EN:PDF>

⁸ Communication from the Commission. An Agenda for new skills and jobs: A European contribution towards full employment, COM(2010) 682 final/2, 26 November 2010. <http://www.toad.eesc.europa.eu/ViewDoc.aspx?doc=c>

employment perspectives for new recruits must be improved. However, open-ended contracts should not be interpreted in a way that allows the introduction of gradually improving working rights. SOLIDAR advocates against the dumping of working conditions and for the equal treatment of employers. In this context, SOLIDAR supports the Commission's willingness to increase the emphasis on internal flexibility in times of economic downturn, consisting in working time flexibility, such as short-time working arrangements and (not imposed) part-time work, or functional flexibility like internal job changes, flexible work organisation and on-the-job learning.

The number of working poor is recognised as a problem in the Joint Employment Report⁹ of the Annual Growth Survey. **In this context SOLIDAR shares the Commission's view in calling for a wider use of in-work benefits, such as tax credits to redistribute income to low income families.** SOLIDAR also welcomes the reference of having labour market policies which aim at ensuring living wages for those in work, by addressing low pay and labour market segmentation. As high unemployment and the lack of integration measures for the most vulnerable increase the risks of long-term exclusion, the Commission suggests to improve the coverage and adequacy of safety nets. **Yet, we cannot endorse statements like "a job is the best safeguard against poverty". SOLIDAR strongly emphasises instead that decent work and quality jobs, an individual, poverty-proof minimum income and accessible, affordable and quality social services are the best safeguards against poverty.**

[omm%5C2010%5Ccomm682%5CEN%5Ccomm682-2010_part1_ext_EN.doc&docid=2737109](http://ec.europa.eu/economy_finance/articles/eu_economic_situation/pdf/2011/com2011_11_annex3_en.pdf)

⁹ Annual growth survey. Annex 3, draft joint employment report, COM(2011) 11 final, 12 January 2011.

http://ec.europa.eu/economy_finance/articles/eu_economic_situation/pdf/2011/com2011_11_annex3_en.pdf

INCLUSIVE AND SUSTAINABLE (JOB-DRIVEN) GROWTH PUT ASIDE

The Survey does not include a clear commitment to inclusive growth as foreseen in the Europe 2020 Strategy. It frontloads the removal of disproportionate limitations of working hours, calls for the full implementation of the Service Directive and recommends the strengthening of indirect (and less progressive) taxes. Unfortunately, the call for the full implementation of the Service Directive does not reflect the need to amend the directive so as to ensure concessions based on quality and performance rather than on lowest price criteria. However, in its first input on the modernisation of the EU's public procurement policy, the Commission itself highlighted the need to better take into account social, ethical and environmental benefits when awarding a tender.

When the Commission speaks of reaching full employment through targeted active labour market policies, it recognises in this context the inefficiency of Public Employment Services. **Indeed, the modernisation of Public Employment Services is crucial for long-term unemployed and vulnerable groups, like migrants and young people** and their inclusion in the labour market. Delivering more individualised and tailor-made services is particularly difficult considering that "vulnerability breeds vulnerability", i.e. being young and a migrant, and since cuts in public expenditure on social programmes are taking place across the EU.

Further, the potential of social services to create new jobs and contribute to a cohesive society should be supported. For example, the care sector currently employs around 11% of the total EU workforce. Employment increased by 4.2 million between 2000 and 2009, which accounts for more than a quarter of the net employment growth in the total economy, and the sector has an important potential with a possible increase of 5-7% in the EU 27.

B. AN INSUFFICIENT APPROACH TO GOVERNANCE

From the perspective of a social NGO, the governance approach of this Commission paper is lacking. While the Survey mentions that “social dialogue has proved to be effective during the crisis” and that national level consultations with social partners are to take place when drafting NRPs, there are no Member State recommendations for enhancing industrial relations or developing social dialogue especially in countries where social partners barely have rights of negotiation. Moreover, civil society organisations are not mentioned in the survey and NGOs are only cited when it comes to the dissemination of results concerning projections of future skills gaps. **SOLIDAR firmly advocates for the engagement of social partners and civil society organisations** in drafting, implementing and evaluating the National Reforms Programmes (at least in the section dealing with the headline targets and flagship initiatives) through the Social OMC.