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STATEMENT

BUSINESSEUROPE

24 October 2013

Social dimension of EU/EMU

EXECUTIVE SUMMARY

Since the outset of the European project, EU economic integration has had a positive impact on growth and employment, and therefore on European citizens' prosperity.

Business is the backbone of Europe's economy. The single market is its cornerstone, and the single currency its heart.

If Europe does not have a healthy heart, it will not have a promising future. Safeguarding the euro continues to be a top priority. Citizens are not suffering because of the Euro. They are suffering from bad past political choices, which the advantages of the Single Market and of the Euro contributed to hide.

If Europe does not have a strong cornerstone, it will not have thriving companies delivering growth and jobs. The single market has led to the creation of 3 million new jobs since its creation. It contributes significantly to reaching Europe's social objectives. Measures to further develop the Single Market are therefore essential.

If Europe does not have an agile backbone, it will not be able to help society to absorb economic shocks. Boosting the social dimension of the EU and EMU cannot come from increasing public spending. It can only result from measures to boost competitiveness, growth and jobs in the context of a coherent European growth strategy. And this requires making progress with sustainability of public finances and growth enhancing structural reforms in all Member States, in particular on labour markets. Structural reforms are bringing positive results, including in the countries most hardly hit by the crisis. But declining competitiveness, insufficient labour market flexibility, education and training weaknesses and unsustainable social protection systems continue to weigh on the overall European growth and job creation. Addressing the real cause of the persistence of high unemployment is essential to make further progress towards a job rich recovery and to restore economic, political and social cohesion.

The crisis has not been caused by a lack of social dimension in the EU. The social dimension has always been inherent to European economic integration. The EU represents only 7% of the world population and 20% of global GDP but at least 40% of global public spending in social protection. It has highly developed labour market regulations, including some 70 European directives setting minimum social standards in the Single Market. If Europe wants to defend its living standards, it must reform its social systems and shape the social dimension of the European Union in the right way.

Wage flexibility is important to compete globally. The EU must respect the autonomy of national social partners for wage bargaining. The Commission can issue recommendations to Member States to reconsider mechanisms, such as automatic wage indexation systems, but it cannot impose solutions and interfere in minimum wage setting which is a national competence.

Discussions on how to further strengthen EMU are currently focussed on the role that EMU institutions can play in risk-sharing between member states, the so-called solidarity mechanisms. BUSINESSEUROPE supports the introduction of contractual arrangements, provided that the proposals strike the right balance between solidarity and responsibility, by increasing incentives for structural reforms and do not lead to an increase in the overall tax burden in the EU or Euro Area. To be effective, EMU solidarity mechanisms should be targeted, temporary, and conditional to the delivery of necessary structural reforms.

STATEMENT

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Introduction

1. The global financial crisis of 2008 was the trigger for a deep economic recession. That recession has revealed many underlying issues with European economic competitiveness and social policies and has led to excessive debt levels in Europe. Addressing these underlying issues is critical to delivering sustainable long-term economic and jobs growth.

2. Both companies and workers are deeply affected by the crisis. Unemployment has risen to excessive levels in many countries with a European average of around 11% never reached since the beginning of the 1990s. As a result, national welfare systems are increasingly under pressure. And political stability is in danger with the rise of populist parties in some countries.

3. There is an urgent need for an ambitious structural reforms agenda in all EU Member States to restore Europe's global competitiveness, reduce high levels of unemployment, increase growth and restore political and social cohesion. At the same time, careful consideration needs to be given to ensure that financial support granted for reform packages - that are agreed and are important both for the Member State in question and for the good functioning of EMU, focus on growth and lead to more responsibility and economic discipline.

4. Some voices in the European Parliament and in the trade union movement argue that there is a lack of a social dimension of the EU/EMU, which needs to be addressed urgently to get out of the crisis.

5. In December 2012, the European Council started a debate on the social dimension of the Economic and Monetary Union, including social dialogue. In June 2013, it concluded that the social dimension of the EMU should be strengthened, notably through better coordination and monitoring of employment and social policies and social dialogue.

6. BUSINESSEUROPE has always stressed that the key to restoring growth and employment creation, and in turn, raising living standards and funding Europe's social protection systems, is through strengthening EMU itself, including through strengthened EMU economic governance to promote fiscal consolidation and structural reforms in Member States in the context of a coherent growth strategy.

7. With this statement, BUSINESSEUROPE brings its contribution to this debate.

General comments

On the main challenges to be addressed in EU/EMU context

8. High public and private debt, huge investment needs, slow productivity growth, high unemployment and ageing populations are key challenges Europe needs to overcome if it wants to remain a prosperous continent in the future. Whilst Europe has spent recent years responding to issues raised by the crisis, many competitor economies have continued to invest heavily in skills, technology and R&D in order to raise their competitiveness.

9. Structural reforms and sound public finances are indispensable for long-term sustainable growth and employment. Countries that have carried out the necessary reforms are benefitting from their effects. However, more needs to be done to ensure a job-rich recovery. It is essential to continue prioritising fiscal consolidation and growth-friendly structural reforms where necessary across the European Union.

10. The key factor in Europe's collective success will be the ability of the EU, its Member States, companies and social partners, to put in place the framework conditions, policies and measures needed for European companies to be able to compete globally, make profits and grow again. This is the only way to create jobs in Europe.

11. European economies are closely interconnected, notably as part of the single market. This means that the measures that are put in place in one Member State impact on others. Likewise, synergies can be found by making full use of the European dimension. That is why it is important to ensure a coherent link between what is done in each European capital and EU priorities.

12. The European Union has an important role to play to implement a coherent and effective EU growth strategy building on completion of the single market, a fully fledged banking union, and a competitive manufacturing industry. Moreover, the European Union should encourage Member States in identifying and putting in place the growth-enhancing structural reforms they need. The European semester process and macro-economic imbalances procedure should be fully mobilised to that end.

13. Whether the measures taken contribute positively to competitiveness, growth and jobs should be the central benchmark of economic and social coordination at European level, because social progress is tied to economic success.

14. A stronger link is needed between the European semester process, the use of public financial resources at EU and national levels, and the delivery of employment and social reforms at national level. In this respect, it is worth noting that the link with labour market regulatory reforms concerns all EU Member States, whereas welfare support is an issue most relevant in the EMU context.

15. The establishment and functioning of solidarity mechanisms in the EMU context is also an important issue for the future of Europe. These mechanisms should aim to help

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euro area Member States better adjust to asymmetric shocks affecting them in the future, and will need to be tailored in a way that will support growth-enhancing structural reforms and will ensure more responsibility and economic discipline. For example, the European Council is now considering whether and how to provide for a fiscal capacity in the eurozone, in the form of contractual arrangements. On the social side, labour costs monitoring and the role of worker mobility as a means to absorb asymmetric shocks are part of the debate.

16. Countries sharing the euro as their currency may need specific approaches but any further steps towards EMU integration should be open to other EU Member States and ensure that the single market remains fully open to all EU members.

The social dimension of European integration

17. The social dimension has always been an important component of European integration.

18. The internal market has contributed decisively to social progress in Europe over the last decades. Since 1992, it has helped create almost 3 million new jobs in Europe. Thanks to it, 6 million Europeans have been able to find a job and work in another Member State. More than 2.5 million students have participated in the Erasmus programme. This shows that a social dimension is inherent in the completion of the internal market. So, it is not only an economic but also a social project.

19. Another example of the social benefits of the single market is the rapid catching up of Central and Eastern European countries, notably in terms of wages, following their accession to the EU. From 1999, per capita income increased by a third in the New Member States. This was possible thanks to an annual increase of GDP in these countries of 5.5% from 2004 to 2008, and 3.5% from 1999 to 2003.

20. Likewise, it should be acknowledged that further efforts to complete the single market are in the interest of European citizens and contribute to the social dimension of the EU. For example, the digitalisation of European economies could lead, if correctly implemented, to a gain of 5% of GDP and to the creation of 4 million jobs. Moreover, the unexploited single market growth and jobs potential in the area of services remains huge.

21. By contrast, there is no lack of EU social regulations. Around 70 EU social directives ensure comprehensive minimum social standards across Europe. The posting of workers directive provides the basic conditions for fair competition between service providers in the single market. In addition, a comprehensive body of regulations ensures that mobile workers are treated like national workers in the host country.

22. Existing open methods of coordination in the field of employment and social affairs are another important element of the European social dimension. Taking into account the fact that employment and social policies are mainly the responsibility of Member States, they allow Member States to agree on common objectives, learn from and compare with each other, and adapt their policies accordingly. Employment and social indicators should are and should continue to be part and parcel of this policy method.

Specific comments

In the EU context

Social dialogue

23. BUSINESSEUROPE values social dialogue because it can lead to arrangements that better reflect companies' and employees' needs than legislative initiatives. It also enables to build a shared understanding and mutual trust, which are essential prerequisites to modernise European labour markets.

24. A constructive social dialogue can make the difference. It is best placed to provide solutions to structural labour market changes and, in the short-term, to find pragmatic ways to allow companies and workers to overcome the crisis. The objective is to put in place open, mobile and dynamic labour markets. A holistic strategy is needed, providing the flexibility companies need in terms of wages, working time and employment contracts, while preserving employment security in the long-term. Social partners also have an important role to use available resources at national level and in each company to invest in the skills needed on labour markets.

25. Current practice in Europe shows a great diversity in terms of national trade unions' approaches to collective bargaining. What matters is that in all these diverse national traditions, both employers and trade unions are reliable and responsible partners to discuss realistic and forward-looking solutions. The challenge is that companies and the workforce adapt in a timely manner to economic and social change. In many countries, social partners can also contribute to the modernisation of national labour market institutions and structures, and adapt collective bargaining, in line with economic reality, demographic change prospects, and labour market skills needs.

26. However, if social dialogue fails to deliver and bring about the necessary reforms, politicians and governments need to act.

27. The European social dialogue has demonstrated that it can provide solutions, most recently with the framework of actions on youth employment. The declaration on social partner involvement in economic governance should be taken into account in institutional discussions on the social dimension. An important test for the European social partners is the upcoming negotiations on an in-depth employment analysis.

Worker mobility

28. Just 2.9% of EU nationals live and work in a country other than their own. Furthermore, just 0.1% of the EU workforce moves country in a given year for work, compared with over 3% between US states.

29. The European Union should encourage worker mobility. To that end, EU and national policies should take into account the business case for labour market mobility by identifying the employer demand for labour in the regional and national context and using an EU level framework to facilitate the mobility of workers within the EU and to overcome existing barriers to it.

30. Worker mobility has a particular function in a single currency area, as adjustment mechanism against asymmetric shocks affecting some regions of the currency union more than others.

In the EMU context

31. The overall goal of strengthening the EMU is to restore confidence and ensure that EMU members strengthen their competitiveness and increase their capacity to adapt to economic shocks.

32. In the long-term, more fiscal integration will also be needed conditional upon a transfer of budgetary authority from national to the European level, as well as euro area economies showing greater convergence and ensuring their public finance positions are in genuine adherence with the Maastricht criteria.33. Discussions around strengthening EMU are currently focussed on the role that EMU institutions can play in helping provide facilities which enable risk sharing - often termed solidarity mechanism - between EMU member states,.

33. Any such instruments must, above all, ensure the incentives for Member States to take responsibility for strengthening the ability of their own economies to respond to economic shocks are not diminished.

34. The economic crisis has highlighted the importance of Member States ensuring that labour markets, particularly as measured by relative unit labour costs, remain internationally competitive, and are able to adjust flexibility to the event of external shocks, given members of the currency union no longer have the option of achieving a short-term competitiveness boost through a (nominal) devaluation of their currency. Those countries which saw the highest growth in unit labour costs in the run-up to the crisis generally saw the highest increases in unemployment following the onset of the crisis.

35. While labour market institutions need to support wage agreements that maintain cost competitiveness, this must not lead to a race to the bottom. We must work in a partnership to make the investments in skills, research and development, infrastructure and science and technology, as well as improving the efficiency of public services, in order to raise productivity growth and raise living standards.

36. Similarly, a lack of fiscal discipline meant that when the crisis struck, a number of member states had not sufficiently strengthened their public finances in a way that would have enabled them ensure that the automatic stabilisers of higher welfare payments and lower tax receipts were able to play a full role in supporting economic recovery during downturn. That it is why, in parallel to the strengthening of the EMU, it is so important that Member States improve their own public finances, where necessary through the EU enforcing its own strengthened fiscal rules, as set out in the 2 pack, 6 pack and fiscal compact.

37. The discussion regarding providing further risk-sharing measures within EMU also needs to be seen within the context of the measures that have already been taken since 2008 to strengthen the adjustment capacity of the EMU. In particular:

- Euro Area members have developed a permanent stability fund, the European Stability Mechanism, with a capacity of €500b able to provide liquidity to both sovereign states and banks who have lost access to funds on financial markets.

- The ECB, whose shareholders are EMU members, has massively expanded its balance sheet through non-standard measures such as the Long-Term Refinancing Operation to banks, purchase of sovereign bonds through its Securities Market Programme, (with the possibility of further purchases through 'Outright Monetary Transactions'), which facilitate increased lending by national central banks.

- Moves towards a banking union through a single supervisory mechanism and strengthened resolution and recovery framework should reduce fragmentations in Euro Area financial markets and ensure that private funds continue to flow between EMU members during economic downturns.

38. In addition, the EU budget through structural funds continues to provide vital support to less well off regions in EMU, and should be focussed on improving capacity for economic growth. In particular, the funding made available through the Youth Employment Initiative should be mobilised quickly in regions that are mostly in need. Member States must make sure that EU funding is used primarily to up-skill young people, for example by developing dual learning systems, and facilitate their mobility.

39. Given the importance of structural reforms and fiscal consolidation to both long-term growth and strengthening EMU, BUSINESSEUROPE supports the introduction of contractual arrangements in relation to structural reforms, provided the proposals strike the right balance between solidarity and responsibility by increasing incentives for growth enhancing structural reforms, and do not lead to an increase in the overall tax burden in the EU or the Euro Area.

40. However, we oppose the introduction of an EMU wide unemployment scheme, as we believe this risks undermining the incentives for Member States to undertake the labour market reforms and fiscal consolidation that are the primary route through which Member States, and in turn the euro area can strengthen its ability to respond to economic shocks.

41. In contrast to the conclusion of the Commission, the figures it used in its recent study on EMU unemployment insurance[1] actually show that had such a scheme being in place between 1995 and 2011, rather than being fiscally-neutral for individual member states, it would have led to significant transfers to member states with higher levels of unemployment. This evidences a risk of moral hazard.

42. Finally, a move to such a scheme would both require treaty change and a significant removal of existing national competences in the area of social protection. But to be effective, we believe unemployment insurance must be shaped at national level in the light of the overall economic and social safety nets in which they are embedded.

[1] "A euro-area wide unemployment insurance as an automatic stabiliser: Who benefits and who pays?" Paper prepared for the European Commission DG Employment by Sebastian Dullien, January 2013.

Social and labour markets indicators

43. This crisis has shown that buying time to avoid necessary reforms in the short-term is not a good political strategy. This would surely backfire in the medium term as Member States would later have to deal with more serious economic, structural and social problems.

44. In this context, an early warning system such as the macro-economic imbalance procedure is necessary to prevent undesirable economic and fiscal developments at an early stage, and correct macro-economic imbalances before it is too late. Likewise, the so-called scoreboard of macro-economic indicators is an important tool to shed light on central aspects of the global competitiveness of economies – for instance the trade balance, unit labour costs and export market shares.

45. The business community also values existing EU labour market indicators, such as the 75% headline employment rate target or targets in the field of education and training. These targets are useful to encourage policies and reforms at national level that boost employment demand and participation, and improve educational attainments in line with labour markets needs.

46. There are several ways in which social and labour market objectives can be achieved. The approach to achieve social improvements via structural reforms and improving global competitiveness is more difficult and takes longer, but it leads to sustainable results. However, solutions such as unsustainable public spending or creating artificial employment are not the right way forward. They may lead to short term improvements of social indicators but would worsen the employment and social situation in the longer run, because they lead to a deterioration of public finances and of global competitiveness of business.

47. Including additional social and labour market indicators in the score board bears the risk of going for easy solutions and jeopardising the objective of sustainable social improvements based on better global competitiveness and sound public finances. That is why BUSINESSEUROPE strongly believes that social and labour market indicators should continue to be dealt with in the context of the Europe 2020 strategy and within the European Semester, which allows for a more qualitative evaluation of the types of measures needed.

Wage bargaining, flexibility, and minimum wages

48. The decision on how to organise wage bargaining is a national competence. Member States have different industrial relations traditions in this respect. The competences of national social partners must be respected.

49. Wage flexibility is important for European companies to compete globally. Several countries have adapted their industrial relations systems in the last years to allow more room for companies to adapt working conditions to their economic performance.

50. Article 153 of the Treaty clearly establishes that the issue of pay is out of the scope of EU competences in the area of social policy. This principle is also valid in the EMU context. There is no role for the European level in the area of wage setting.

51. Therefore, the decision of whether to have minimum wages and how to regulate them must not be taken at the EU or EMU level. While some Member States may have good reasons to introduce a minimum wage, such step can be counter-productive in other countries. Where they exist, it is important that minimum wages are not set at a level which runs against the priority of job creation.

Labour costs monitoring

52. The scoreboard of indicators as part of the macro-economic imbalance procedure rightly looks at Unit labour costs[2] developments as they have a direct impact on competitiveness. For example, those countries that saw strong rises in unit labour costs in the period before the crisis generally have suffered the largest increases in unemployment in recent years.

53. Therefore, all Member States need to ensure that real labour costs rises are consistent with rises in productivity growth. However, there should be no EU or EMU labour costs coordination as it would undermine the role of national social partners in terms of wage setting. Therefore, BUSINESSEUROPE does not support the idea of a tripartite forum on wages at the EU or EMU level.

54. While respecting the autonomy of national social partners on wage bargaining, the Commission may issue recommendations to Member States to amend their wage setting systems if they do not ensure an appropriate link between labour costs and productivity, such as in the case of indexation systems.

55. European social partners plan to organise in the future dedicated bipartite sessions of the Social Dialogue Committee to exchange views on employment and labour market developments across Europe, including labour costs developments.

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[2] Unit Labour Costs are influenced by many factors such as changes in productivity, taxation or employers' social security contributions. Wages are only one factor impacting on labour costs