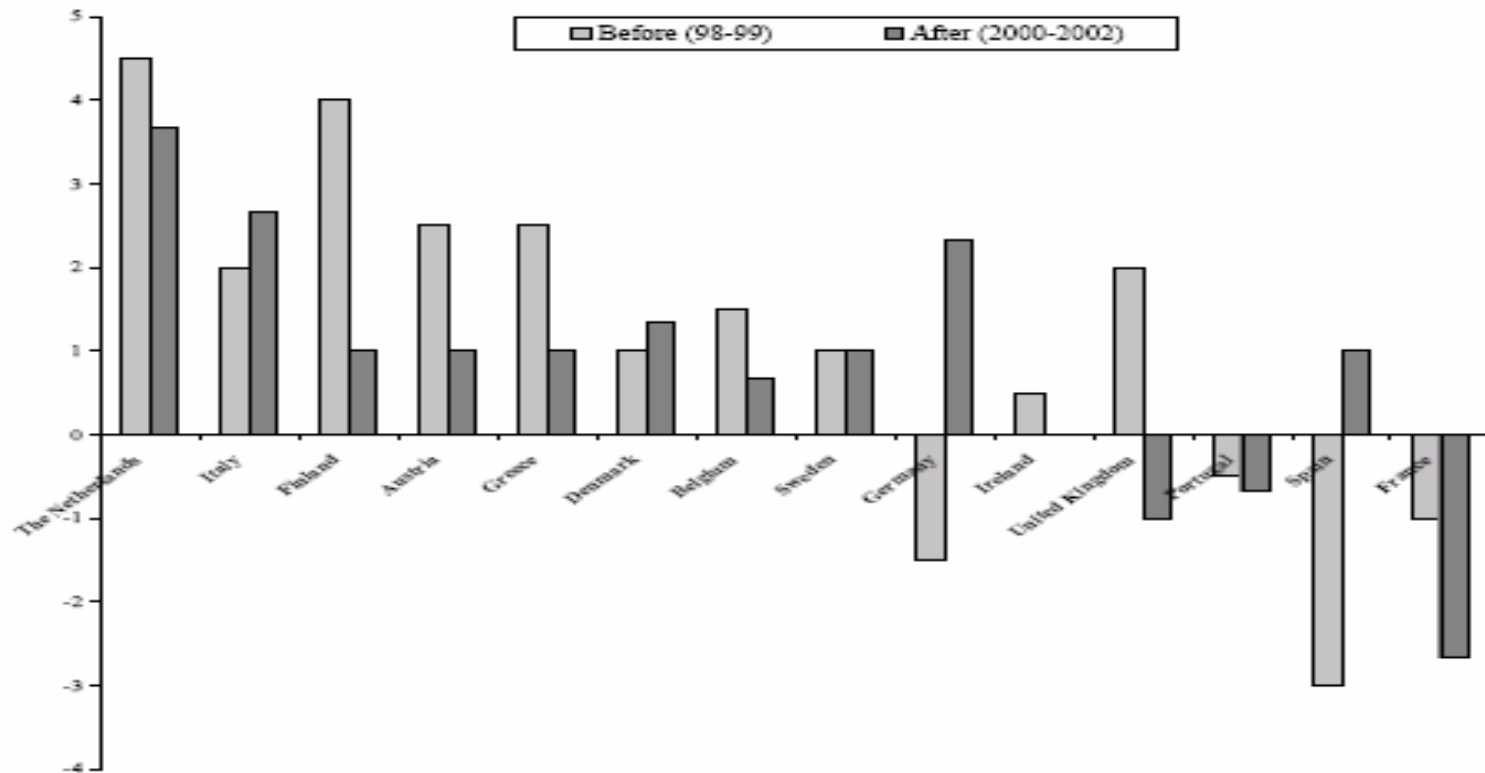


# Explaining lacklustre growth in Europe : The ETUC point of view

- Why 'lack of structural reforms' is not a convincing answer
  - A more likely culprit : Lack of active macro-economic policy to coordinate consumers and investors

# Labour market reforms have been done !

Figure 7. Net Number of Flexibility-Enhancing Labor Reforms Per Year: Before Lisbon and After



# Labour market reforms have been done !

- Germany : Hartz reforms and easier firing of workers in SME's
- France : More flexible rules for hiring/firing part time workers, increase in legal overtime hours from 120 to 220, more exemptions for SME's on 35-hr week, new working contract without any firing restrictions in return for temporary higher unemployment benefits
- Italy : More flexible rules for hiring/firing part time workers, SME's to have more flexibility in hiring/firing, 'parasubordinare' or workers excluded from social security

# Why the sudden collapse in growth after 2000 ?

- With more 'rigid' labour market institutions, Europe was able to grow much better in the 97- 2000 period
- A combination of institutions and shocks ?

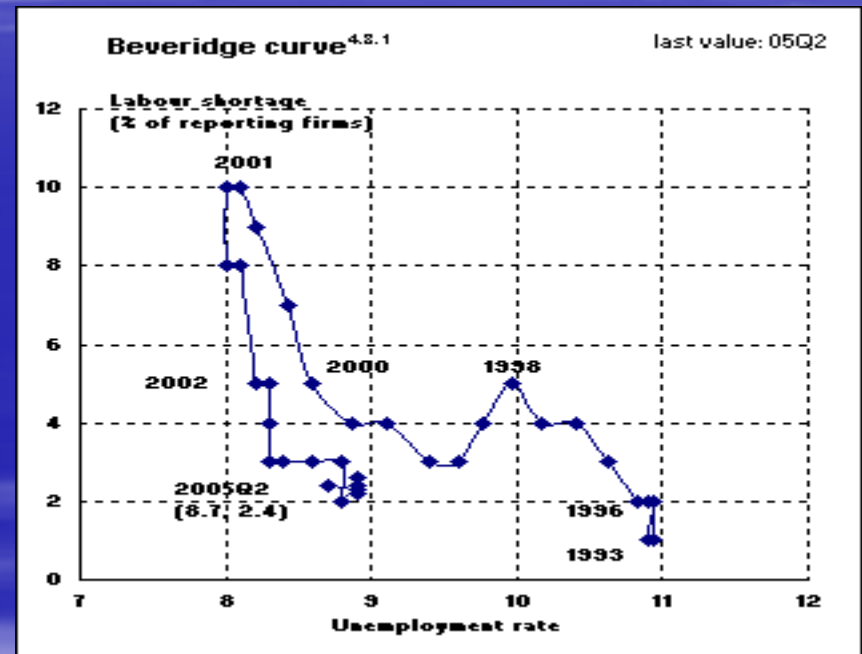
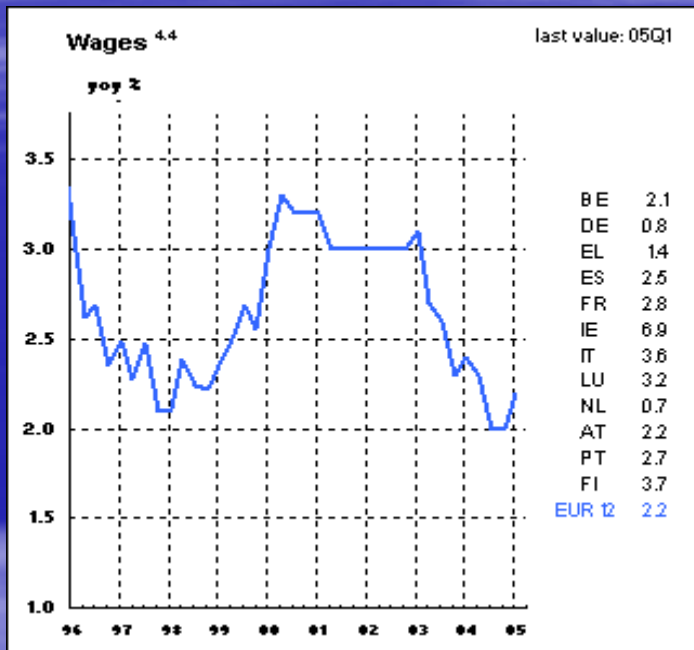
But :

- \* Oil price shock has been handled well
- \* Enlargement has provided major opportunities

# Is the problem really on the supply side ?

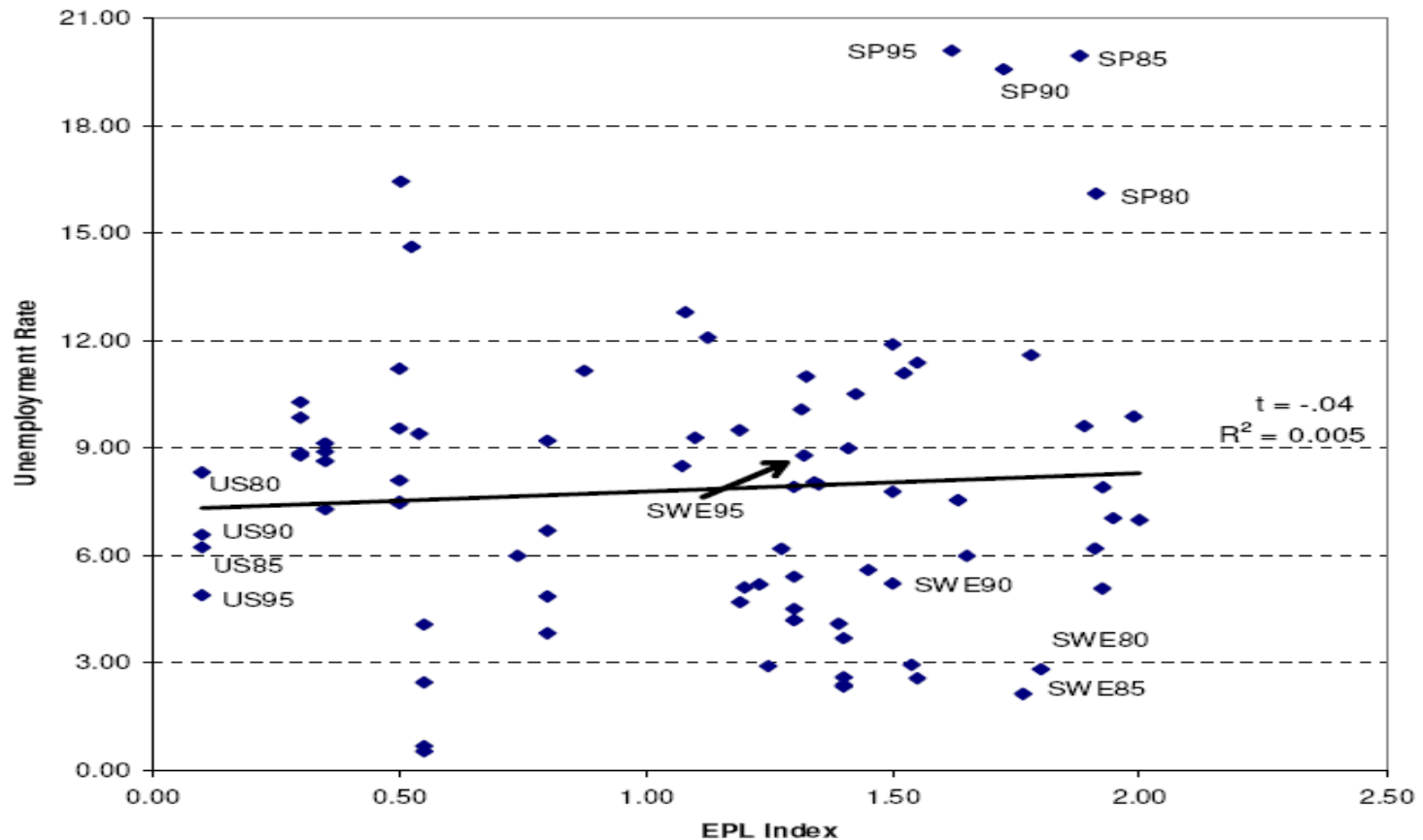
- Bottlenecks in a supply side constrained economy would show up in :
  - high nominal and real wages increases
  - a growth pattern with consumption growth being very dynamic but with disappointing export growth
  - high and galloping inflation
  - substantial deficits on the current account

# Wages very (too?) modest and labour shortage disappeared



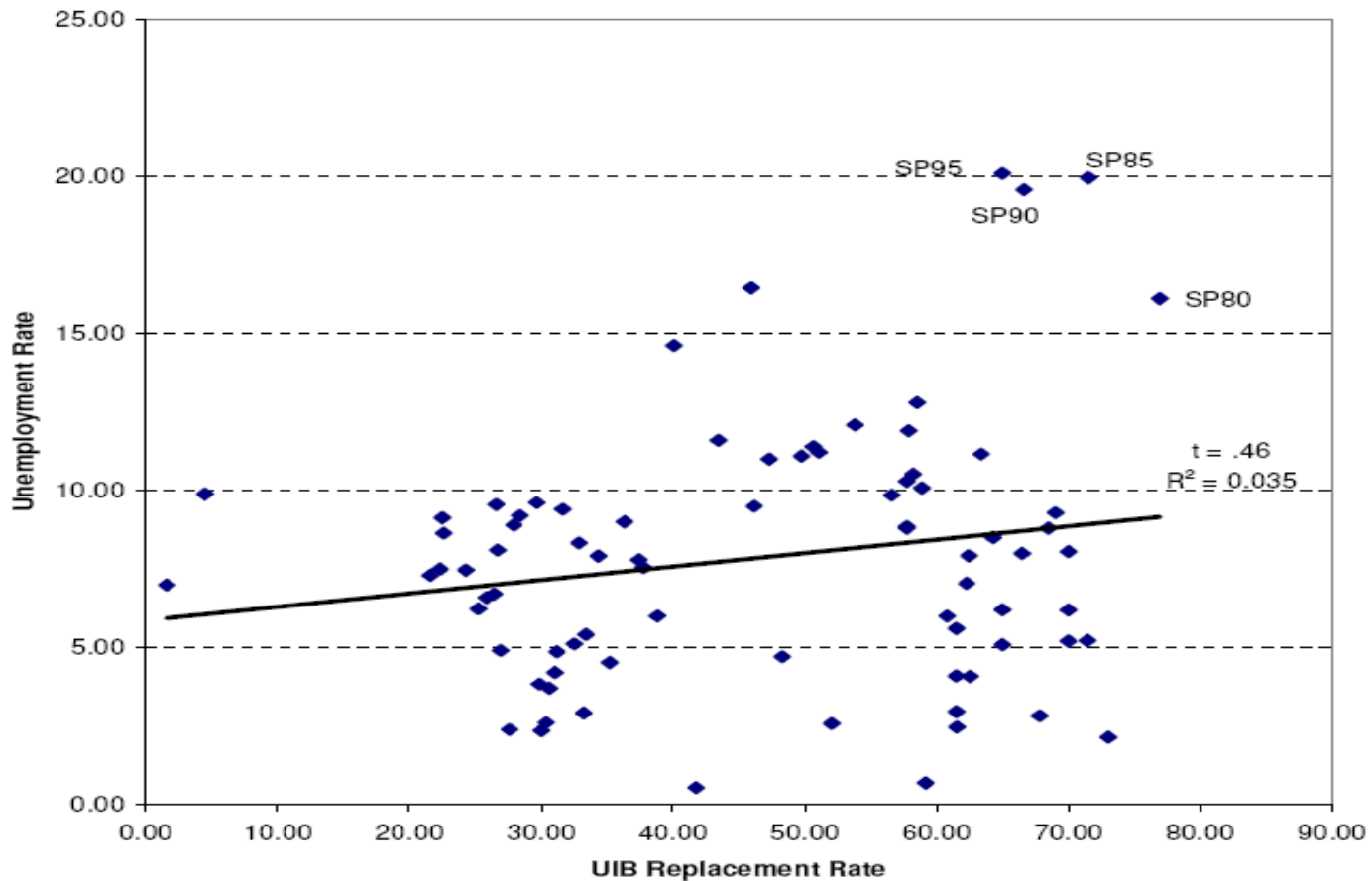
# Does the evidence tell an Orthodox Tale ? (Glyn, Howell, Schmitt, 2005)

Figure 1: Employment Protection Laws and Unemployment, 1980-99  
(20 countries, 4 five-year periods)



# Does the evidence tell an Orthodox Tale ?

Figure 2: The Unemployment Benefit Replacement Rate and Unemployment, 1980-99  
(20 countries, 4 five-year periods)





# Domestic demand as the missing engine of European growth (euro area level)

- Collapse of domestic demand : from 3.3% in 2000 to 0.5% in 2002 and 1.5% in 2003-2005
- Contribution of domestic demand to growth :
  - 2001-2005 : 1.2% on average
  - 97-2000 : 3.2 on average

# How confidence got eroded and domestic demand dynamics got undermined

- Fase 1 : An overactive ECB ('99-2000) together with a series of negative shocks throw the economy off its course
- Fase 2 : Absence of countervailing and timely macro economic policy allows negative expectations to become entrenched
- Fase 3 : A confidence trap. Consumers and investors holding each other prisoner.

# The euro area as Molière's 'malade imaginaire'

- Growth is not there, not because there are structural impediments to growth but because economic agents are thinking that Europe can not grow.
- This self – fulfilling prophecy impacts on effective growth and ,through the investment channel, also on potential growth

# The way out :

- Restore confidence through balanced, carefully designed and European coordinated :
  - active demand policies
  - Structural reforms that invest in an improved functioning of labour markets

# Joint European Social Partner Declaration (March 2005)

- Employability, balanced security/flexibility
- Social protection systems helping workers to cope with change in a positive way
- A supportive and high quality public service
- Sound and counter cyclical macro economic policies