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EMPLOYMENT COMMITTEE, SOCIAL PARTNER EXCHANGE OF VIEWS – 2013 ANNUAL GROWTH SURVEY (AGS)

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OPENING REMARKS

- The main results of BUSINESSSEUROPE's Economic Outlook published on 28 November show that continued political and financial uncertainty is taking its toll on business confidence, economic growth and employment;
- In order to build confidence, EU leaders need to commit to concrete steps to strengthen the Euro, including greater political and economic integration;
- Over 700,000 jobs will have been lost by the end of 2012, with our members foreseeing further losses of around 400,000 in 2013. Unemployment in 2013 will reach 11% in the EU (11.5% in the Euro Area). The EU unemployment rate as of September 2012 is 10.6%;
- Fiscal discipline and structural reforms are beginning to show positive effects and we welcome the fact that the AGS calls for structural reforms to lay the foundations for a sustainable job-rich recovery;
- We believe that thorough implementation of ambitious reform programmes is needed to increase competitiveness and allow labour costs to better reflect productivity levels;
- It is therefore, important to ensure continuity in the 3rd European semester, based on 2012 AGS priorities and the Europe 2020 strategy;
- We broadly support the employment aspects of the AGS and JER;
- We welcome that the idea of an EU unemployment scheme has not been taken on board;
- In the discussion about which sectors to focus on for job creation potential, we support a more horizontal approach towards the EU's industrial policy. A Eurofound report shows that in construction and industry, 6.8 million jobs were lost since 2008. European industrial and employment policy should converge to



re-industrialise Europe, which would help bring competitiveness and job creation to all sectors of the economy.

I. LABOUR COMPETITIVENESS AND JOB CREATION

1. LABOUR COSTS IN LINE WITH PRODUCTIVITY

➤ AGS recommendations

- *To monitor the effect of wage-setting systems, in particular indexation mechanisms, and if necessary to amend them, respecting national consultation practices, in order to better reflect productivity developments and support job creation. It is important that minimum wage levels strike the right balance between employment creation and adequate income;*
- *To limit the tax burden on labour, notably for the low-paid, as part of broader efforts to shift tax burden away from labour. Temporary reductions in social security contributions or job subsidy schemes for new recruits, notably the low-skilled and long-term unemployed, could also be considered to promote job creation, provided they are well targeted.*

➤ Joint Employment Report findings

- *A number of Member States have taken measures to address wage setting to ensure that wages develop in line with productivity (EL, ES, PT).*
- *Many Member States (BE, DK, CY, FI, EL, ES, IE, IT, FR, LU, NL, PT, SL, UK) recently increased personal income tax, often through increased statutory rates. This was often done on a temporary basis in the form of general surcharges or solidarity contributions for high-income earners (EL, IT, CY, LU, PT, SP). AT and CZ also plan to shortly introduce similar measures.*
- *In-work poverty and social polarisation is on the rise in many Member States. Working poor represented one third of the working age adults at risk of poverty in 2011. In 2010, 8.4% of the people in employment were living under the poverty threshold and the risk was significantly higher for families with dependent children (10.7%). Factors such as wage adjustments, reduction of working hours, short-time working arrangements and increased part-time and temporary contracts may have contributed to this.*

➤ BUSINESSEUROPE positions

- **Total wage costs are a key element of labour competitiveness. Wage negotiations are organised at different levels in European countries. Whatever the level at which they are negotiated, it is important to take into account companies' productivity;**



- Where they exist, wage indexation systems should be reviewed to assess whether adaptations could be brought forward to avoid the negative effects of disconnecting wages from productivity, thereby contributing to unemployment;
- As is noted in the joint employment report, Spain is one of the countries that is modernizing its wage setting system. One of the main elements of the 2012 Spanish labour market reforms involves moving away from a system of wage indexation. This concerns wage moderation, whereby salaries should only increase by 0.5% in 2012 and by 0.6 % in 2013 and 2014; and wage bargained increases should be linked to economic activity from 2014 onwards;
- An overheating of the labour market due to housing bubbles or excessive labour costs in the public sector must also be avoided. This was an issue in a number of Member States, including Denmark, Ireland, Greece and Spain;
- We support measures to reduce the tax wedge on labour. Employer social security contributions account for the majority of the tax wedge in many Member States. Targeted cuts in employer contributions can play an important role in stimulating demand by encouraging employers to hire more staff. OECD estimates show that a 1% reduction in employer's social security contribution leads to a 0.6% increase in employment;
- OECD estimates suggest that a 10% reduction in the tax wedge, the difference between total employment costs and net take-home pay, would increase employment by 3.7%.

2. EMPLOYMENT CONTRACTS

➤ **AGS recommendations**

- *Reducing the gaps in employment protection between different types of work contracts should also help to reduce labour market segmentation, as well as undeclared work in several countries.*

➤ **Joint Employment Report findings**

- *Evidence shows that among young people, temporary jobs may to some extent serve as a stepping stone for permanent employment, but this is not the case in a number of other Member States, where the transition rates from temporary to permanent contracts are particularly low;*
- *Since the start of the economic and financial crisis in 2008, the number of jobs lost now totals 5 million, of which 4 million were lost in the euro area. The fluctuations in overall employment since the outset of the crisis have been mainly driven by part-time work and temporary contracts, but permanent contract jobs have also been affected*



➤ **BUSINESSEUROPE positions**

- Over-protection of permanent contracts risks adding to labour market segmentation. Unduly high employment protection legislation of permanent contracts can stifle job creation by discouraging employers to recruit new workers and can particularly affect young people;
- A balanced level of employment protection for all contracts is the most effective way to combat labour market segmentation. For example, we support the efforts currently under way in several southern European countries to make permanent employment contracts more attractive and affordable;
- On 10 February 2012 a programme of comprehensive labour market reforms was approved by the Spanish government. This includes a reduction in dismissal costs to address labour market duality and encourage employment creation under permanent contracts;
- Different forms of contractual arrangements are needed by employers and workers as a means to stimulate job creation by companies, achieve higher employment rates, and to better reconcile work and family life;
- Evidence from Italy shows that, following the Treu and Biagi reforms of the later 1990s and early 2000s, the unemployment rate fell from 11.8% in 1997 to 6.1% in 2007 as a result of greater flexibility in work organisation through a variety of flexible contract arrangements.
- Temporary forms of employment can act as a stepping stone to permanent work both for young people and as a mode of entry into the labour market for the unemployed and are, therefore, not a precarious form of employment. For example, in Germany, more than 50% of fixed-term employees move directly into a permanent work relationship. Between 2005 and 2011, the transfer rate increased markedly – from 39% to 56%;

3. NATIONAL STRUCTURAL LABOUR MARKET REFORMS

➤ **AGS recommendations**

- *To continue modernising labour markets by simplifying employment legislation and developing flexible working arrangements, including short-time working arrangements and work environments conducive to longer working lives.*

➤ **BUSINESSEUROPE positions**

- Labour market reforms are much broader than contracts. The principles of flexicurity remain valid and necessary. We need to promote a new balance which leads to more employment security through flexible arrangements on labour markets;



- We believe that national labour market reforms are the primary instrument through which labour can become more competitive, contributing significantly to job creation;
- In view of changes to Europe's demography over the next 40-50 years it is imperative to implement policies that ensure a sustainable labour supply and sustainable pension systems;
- For example, in Denmark reform of the voluntary early retirement pension system is helping to increase labour force participation among older workers and aims to ensure a more sustainable pensions system by bringing forward the planned increase to the statutory retirement age and linking it to life expectancy;
- Another example is in France where the social partners have recently concluded an agreement on "Generation contracts" that will benefit young people and older workers by combining job-creation for the young while keeping older workers in active employment (the scheme will encourage older workers to train young entrants).

4. EU EMPLOYMENT POLICY

➤ **AGS recommendations**

- *To tap the job potential of expanding sectors, such as the green economy, healthcare and ICT, through a future-oriented and reliable legal framework, the development of adequate skills and targeted public support.*

➤ **Joint Employment Report findings**

- *For the ICT sector, by 2015, it is expected that up to 700 000 unfilled vacancies will be available for ICT practitioners. ICT and health and social care sectors face similar challenges to replace an ageing workforce with younger workers. Significant skill shortages are generally reported within the sectors of the green economy, the ICT sector and the healthcare especially for occupations with a high degree of technical specificity.*

➤ **BUSINESSEUROPE positions**

- The main priority of EU employment policy should be to achieve the Europe 2020 target of 75% employment by 2020;
- The EU is faring worse when compared with the US, which is posting stronger job creation rates. For example, the US created 753,000 jobs in the private sector during the third quarter of 2011 - the largest net job gain since the first quarter of 2006;
- The key for a successful EU employment policy is to outline a coherent framework for national labour market reforms. The Council common principles



on flexicurity of 2007 remain valid and must be fully implemented in all Member States in order to obtain more convergence on European labour markets;

- Moreover, BUSINESSEUROPE believes that a more comprehensive EU employment policy focusing on key areas for job creation should be proposed by the Commission;
- We support a more horizontal approach towards the EU's industrial policy. European industrial and employment policy should converge to re-industrialise Europe, which would help bring competitiveness and job creation to all sectors of the economy;
- Completing the Single Market in areas such as services, the digital economy and energy would add €800bn to EU GDP and is, therefore, also a key area to focus on for job creation. Implementing the Single Market Act II will be vital in this respect;
- International trade agreements with third countries can have a significant positive impact on job creation in Europe. For example, EU-US trade negotiations, based on a comprehensive package covering trade in goods and services, investment, procurement, protection of intellectual property rights (IPR) and regulatory issues, will generate huge growth possibilities and new jobs in Europe;
- If EU exports to US increase by 7%-18% due to tariff elimination an estimated 200,000 to 520,000 new jobs could be created in the EU;

II. AVAILABILITY OF SKILLS NEEDED ON THE LABOUR MARKETS AND MOBILITY

➤ AGS recommendations

- *To boost public employment services and step up active labour market measures, including skills upgrading, individualised jobseeking assistance, support for entrepreneurship and self-employment, and mobility support schemes.*
- *To reduce early school-leaving and facilitate the transition from school to work by developing quality traineeships, apprenticeships and dual learning models - classroom-based education combined with hands-on experience in the work place. Efforts to develop entrepreneurial skills are needed to support new business creation and improve employability levels of the young.*
- *To develop and implement "youth guarantee" schemes whereby every young person under the age of 25 receives an offer of employment, continued education, an apprenticeship or a traineeship within four months of leaving formal education or becoming unemployed. Such schemes can be co-financed by the European Social Fund.*



➤ **BUSINESSEUROPE positions**

- Public Employment Services should deliver more effective active labour market policies. To achieve this efficient labour market services are needed. An important element is to foster cooperation with private and non-for-profit actors in order to deliver more personalised and targeted services to jobseekers;
- Entrepreneurship and self employment are also key aspects. The EU and national authorities should put in place regulatory and policy frameworks conducive to entrepreneurship, such as improved access to finance, simple procedures to set up and close a company and improved e-administration services;
- There should be close cooperation at the member state level between employers' organisations, companies and education and training institutions to ensure that education and training resources are spent effectively and that curricula match companies' skills needs and reflect the distinctiveness of national labour markets and industrial relations systems.
- Addressing the skills mismatch are rightly important aspects of the AGS. This can be aided by :
 - Strengthening ties between business and educational providers, such as in the development and enhancing of dual-learning systems. The proposed EU Alliance for Apprenticeships, which was published as part of the youth employment package on 5 December, can play an important role in this and we are ready to play an active part in this initiative;
 - The youth guarantee also includes substantial provisions for longer-term actions that are grounded in building partnership based approaches. This long-term approach represents a focus on adapting education to labour market needs. In this respect, there are a number of positive elements that BUSINESSEUROPE can welcome in the Commission's approach.
 - At the same time, the youth guarantee carries a significant financial commitment and Member States may be constrained by their budgetary capacity;
 - Encouraging more people to study STEM skills. The number of graduates specialising in STEM subjects falling in relation to the total number of university graduates from 24.8% in 1999 to 22.7% in 2005;
 - EU worker mobility initiatives, such as the European Employment Services tool (EURES), can play an important role in supplementing national efforts to match labour supply with demand;
 - For example, responding to labour market needs in countries experiencing labour shortages can be facilitated by mapping unused human resources in countries with high levels of unemployment.



III. SOCIAL PROTECTION GEARED TOWARDS EMPLOYMENT PARTICIPATION

➤ AGS recommendations

- *Active inclusion strategies should be developed, encompassing efficient and adequate income support, measures to tackle poverty, including child poverty, as well as broad access to affordable and high-quality services, such as social and health services, childcare, housing and energy supply.*
- *The link between social assistance and activation measures should be strengthened through more personalised services ("one-stop shop") and efforts to improve the take-up of measures by vulnerable groups. Once the labour market recovers, it will be important to phase out crisis-related measures, while ensuring that essential safety nets are preserved.*

➤ BUSINESSEUROPE positions

- In 2011, according to Eurostat, almost 50% of general government total expenditure in the EU was devoted to the redistribution of income through social transfers in cash or in kind. We have generous social systems in place. In fact, with around 7% of the world population, the EU spends 56% of the global public spending on social protection;
- BUSINESSEUROPE supports our European model of solidarity. But there is one prerequisite, which is economic growth.
- In order to create growth, it is important to limit social security spending where possible. Beyond the reduction of employers' contributions already mentioned, the tax burden on employees should also be reduced. It is essential that work is an economically attractive option for low-income earners, compared with welfare beneficiaries. Having people in work creates economic growth and vice-versa. It also contributes to a broader base for income through taxation;
- Tax and benefit systems should be reformed to avoid unemployment traps. Systems should be designed in such a way that they facilitate activation, participation and re-integration into employment (this was a common position in the 2007 joint labour market analysis);
- For example in Denmark, intensification of active labour market measures has been accompanied by financial incentives for welfare recipients to find employment. A cap on social security has been introduced, which sets an upper limit on how much an individual can receive in total benefits. The cap applies after 6 months;
- Active labour market policies should focus in priority on the two groups that are most in need: Young unemployed people, and the long-term unemployed.