



15 October 2014

## **European cross-industry employers' contribution to the Annual Growth Survey 2015**

### **Introduction**

This contribution aims to provide employers' inputs to the Annual Growth Survey 2015, with a focus on its employment and social aspects.

It reflects the points made orally by BUSINESSEUROPE, UEAPME and CEEP during the consultation meeting with the European social partners held on 23 September 2014.

European cross-industry employers welcome the practice of consulting the EU social partners before publication of the Annual Growth Survey.

For such consultations to be meaningful, it is essential that the consultation document prepared by the European Commission is strategic and future-oriented towards identifying every year the right EU's employment and social challenges and policy priorities.

Employers are concerned that the consultation document prepared this year did not sufficiently take into account the interests and needs of enterprises as the main providers of employment.

For an effective consultation it is important to put in place a process that each year allows enough time for organisations to consult their members when they receive the background document from the European Commission before the consultation meeting.

### **Initial remarks**

- The crisis has brought out the structural weaknesses in EU Member States, including a longstanding problem of unemployment with noticeable differences according to Member States.
- To a significant extent, Europe's unemployment problem stems from the inefficiency and underperformance of labour markets, with certain providing better and more resilient frameworks than others.
- Today's social problems in Europe are not due to a deficit of social policy, but to a lack of global competitiveness.
- There is ample evidence that labour market reforms pay off. Those countries that implemented structural labour market reforms prior to the start of the crisis, such as Germany, have fared better in recent years than those that failed to act. But even more recently, the positive growth figures for Spain and Portugal are an encouraging signal for other countries.

- Unemployment is the key challenge. Being unemployed has a strong negative effect on life satisfaction and health. Long-term unemployment is particularly concerning as it leads to demotivation, benefits dependency, poverty and social exclusion. Youth unemployment in particular can have scarring effects in the long term.
- The European working conditions surveys (EWCS) delivered by the Eurofound show that more than three quarters of Europeans perceive their working conditions as good confirming that working conditions of those who work are rather satisfactory in the EU.
- The urgent priority is to create more jobs for the unemployed. It is therefore essential for EU and national policy makers to focus on job creation. This means to boost labour demand and at the same time employment participation.
- Creating jobs is the primary task of enterprises. To do so, they need a supportive business environment. The specific needs and situation of SMEs need to be thoroughly considered and taken into account. Public employers and providers of public services need sufficient and stable public resources to provide high-performing public services.

#### **Focus needed on delivery of reforms for a job-rich recovery**

- During the last few years, the Annual Growth Surveys focused on a twin-track agenda of growth-friendly fiscal consolidation and job-rich economic growth. These priorities are still relevant today. In addition, more focus on public and private investments is needed.
- The Commission's employment package of 2012 had the merit to shed light on the need for demand-side policies for enterprises to create jobs. But this was not enough to trigger the reforms needed.
- The key target for EU employment policies for the medium term is and remains the Europe 2020 employment rate target of 75%.
- The actions taken to achieve this target are largely insufficient. According to BUSINESSEUROPE's reform barometer 2014, only 23% of the country specific recommendations (CSRs) issued in 2013 have been implemented adequately. The implementation gap remains one of the key concerns to be tackled.
- We have distanced ourselves from the 75% target In the last six years, 5.2 million jobs were lost in the European Union, while the US economy has registered a positive net creation of 0.8 million new jobs. There are currently 24.6 million unemployed people in the EU-28, of which about 5 million are under 25 years old.
- Growth is indispensable to create employment. In this respect, EU actions should aim to increase significantly its long-term annual growth rate. As part of the review of the Europe 2020 strategy, a new ambitious and realistic growth target is needed alongside the 75% employment rate target. Europe 2020 will succeed if it delivers growth and jobs and these are the targets where this strategy should focus on.

- EU and national employment regulations and policies should encourage employers to hire more workers and to do so more easily, with a view to maximising the job content of growth.
- As a matter of priority for the first year of the next Commission, the EU should focus on building consensus on a European framework for national labour market reforms. The Council common principles on flexicurity of 2007 are a good basis for this.
- Moreover, in consultation with the European social partners, the existing open methods of coordination on employment and on social protection and inclusion need to be reinforced and better integrated into the European semester process.
- European cross-industry employers welcome the progress made in involving the EU social partners in the work of the Council's Employment Committee. A similar approach is now needed in the Social Protection Committee. Furthermore the involvement of national social partners should be strengthened notably on development and implementation of CSRs and National Reform Programmes.

### **Thematic priorities**

- Competitiveness must drive the EU policy making for the next five years. It is essential to ensure that the EU puts competitiveness first in all domains of its activities, including in the field of employment and social affairs.
- Investment is essential for long-term growth and employment. But private investment fell following the onset of the crisis in 2008 and did not bounce back yet. Furthermore EU public investment is less than 5% of overall public expenditure. In contrast, in the US, public investment is over 10% of public expenditure. We must boost private investment and also optimise public investment in Europe.
- We welcome President Juncker's proposal to come up in the first three months of the next Commission with an investment plan of 300 billion euros over 3 years. If this figure relates to both public and private investment, it seems realistic - implying an average growth rate for investment of just over 2% each year.
- To support job creation, the priority is to shift taxation away from labour: The ability of European enterprises, especially SMEs, to generate employment is challenged due to comparatively high taxes on labour. For example, the average tax wedge on low income workers is 40% higher in the EU than in the US and Japan. Non-wage labour costs need to be reduced to promote investments and job creation while ensuring a sufficient tax base to finance social expenditures and public services, such as in education or healthcare. It is up to the Member States to find effective ways of doing so, taking into account their overall tax regime. We therefore welcome the recent Eurogroup common principles for reforms which recommend reducing the tax wedge on labour. We really hope that this lead to concrete measures at national level.
- It is also key that employment policies, at all levels, put internal and external flexibility on an equal footing. Employment prospects are being hindered by insufficient labour market flexibility. During the crisis, in order to maintain employment, short-time working schemes focused on internal flexibility. External

flexibility is also an essential tool to address Europe's unemployment and adapt to fluctuating demand, in particular for SMEs.

- Enterprises and workers must be able to choose between a variety of contracts when entering into an employment relationship. Avoiding overly strict employment protection legislation, in particular for contracts of indefinite duration, is crucial to encourage employers to hire more staff when economic prospects are favourable and to tackle labour markets' segmentation.
- To boost employment participation, the key is to increase the performance of Active Labour Market Policies, including assessing the cost effectiveness of Member States' spending. Despite costly employment policies, both in terms of passive and active support, the EU underperforms in terms of activating the unemployed. To achieve better outcomes, the right incentives need to be put in place to encourage active job search behaviours, making use of the complementarities of public and private employment services. The available offer of training for the unemployed should be assessed to ensure that it provides the right level of employability in order to meet employers' needs.
- Deliver the skills needed by companies: Modernising education and training systems is necessary to be more responsive to labour market needs notably through Quality Vocational Education and Training including Higher VET and work-based learning and apprenticeship. It also comprises further cost-effective investments in continuous training on a shared basis.
- Provide a well-functioning general school system: There are still too many school dropouts and a lack of basic skills. Member States should ensure that primary and secondary education prepares pupils properly for further education and training.
- To keep on improving the perspective for youth employment. The youth guarantee is in itself not a structural reform but its implementation is an opportunity to start structural reforms in every Member States. These reforms should aim at improving:
  - the functioning of labour markets by easing the transition between school and workplaces by removing barriers at the entrance of labour markets for young people – i.e. employment friendly regulations; wages; and contracts,
  - education and training systems to ensure a better match between skills provided and labour markets needs.
- More efficient social protection through well-targeted spending to tackle poverty: During the crisis, the share of total EU GDP absorbed by government expenditure increased from 46% to 50% in 2012. Social spending accounts for 2/3 of government expenditure. A more cost effective use of the resources spent in social protection is necessary to fight poverty that increased in the last years as a direct consequence of unemployment. There is a substantial leeway for improvements in the efficiency of social spending instead of increasing spending which is hardly possible with already high pressure on public budgets.

- Address demographic change challenges now: Given the demographic evolution, social systems will have to deliver more with less or stable resources. Continuing and intensifying reforms to pension and healthcare systems in the next years will be essential to ensure sustainability, adequacy and intergenerational solidarity. The EU should also work to improve employment perspectives of an ever ageing population by encouraging flexible forms of work, and return to the labour market.
- Employers support the Commission's renewed approach based on social investments. The main goal is to ensure that social spending effectively contributes to activate employment, for example, childcare facilities have an important role to increase employment participation levels in Europe, in particular of women. Moreover well-targeted social investments could strengthen social participation, social cohesion and stability. Overall provision of education, healthcare or transport services creates territorial, economic and social cohesion and constitutes a clear commitment for future economic development and future employment prospects.

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