



ANNUAL GROWTH SURVEY 2016
EUROPEAN SOCIAL PARTNERS CONSULTATION
EMPLOYERS' VIEWS

7 October 2015

1. Introduction

- European cross-industry employers welcome the continuing social partners' consultation before publication of the Annual Growth Survey.
- The present document reflects the points made orally by BUSINESSEUROPE, UEAPME and CEEP during the consultation meeting with the European social partners on 23 September 2015.
- Generally, we very much welcome the continuity of approach and encourage the Commission to continue focusing on growth friendly fiscal consolidation, job-rich growth based on structural reforms and a greater emphasis on public and private investments.

2. Economic and labour markets situation

- Financial markets have clearly experienced a turbulent summer. Whilst the situation on the Chinese stock market may to a large extent reflect the bursting of an unsustainable bubble that had grown through the first months of the year, it is also clear that we can no longer expect China to grow at quite the levels it has experienced during the last 20 years. It needs to develop a new growth model based more on sustainable private domestic consumption and less on over-investment, debt and foreign demand.
- Developed economies, including the EU, are clearly going to experience some negative impacts in the coming months as growth in many emerging markets is slowing down. The impact on the EU can be expected to come especially via lower extra-EU exports. The effect on extra-EU exports could come from a combination of reduced foreign demand and higher foreign prices (while still at low levels, the euro nominal effective exchange rate increased by more than 5% between mid-March and mid-September 2015).

- However, we see that recovery in the EU continues, boosted in a number of countries partly by national structural reforms, but in particular by a supportive monetary environment and low oil prices. To ensure we 'lock-in' the recovery for the long-term, we need to increase the pace of structural reforms in many Member States.
- Latest Eurostat data appears to support the view that a moderate recovery is continuing; real GDP rose by 0.4% in both the euro area and the EU during the second quarter of 2015, compared with the previous quarter and by 0.5% in both areas in the first quarter (compared to the fourth quarter of 2014.). In addition, industrial production was up by 1.5% in the Euro Area and 1.7% in the EU in the first 7 months of 2015 compared with the same period in 2014. During this period, retail trade increased by an annual rate of 2.3% in the Euro Area and 2.9% in the EU.
- BUSINESSEUROPE's latest Spring Economic Outlook¹ forecast GDP to grow by 1.9% in the EU in 2015, and by 1.5% in the Euro Area. In view of the latest economic data, the European business community believes that the EU economy will continue its moderate recovery.
- CEEP's latest Pulse of Public Services² reflected the expectations of providers of public services about the economic forecasts, respondents expressed for the first time positive expectations about the economic expectations for the year ahead.
- The preliminary data of the UEAPME Crafts and SME barometer³ are relatively positive. The climate index is expected to be up to around 75 – the best ever seen since the beginning of the crisis which should have first positive results on employment, at least in some sectors. Furthermore it is also important to notice that according to that Barometer the divergences between north and south countries as regards business climate is closing.

3. Competitiveness as the first priority to address

- The priority, to achieve sustainable growth and job creation in Europe, is to set in place the policies and framework conditions that will increase Europe's competitiveness globally. This is also true for employment and social policies.
- In this respect, we would like to highlight that the In-depth Employment Analysis recently concluded by the European social partners include a joint definition of competitiveness, as follows:

"As part of the concept of competitiveness an enabling environment for enterprises is key. It encompasses a wide number of factors that ultimately influence a country's growth and jobs performance favourably such as: macroeconomic fundamentals, labour market policies, innovation and investment in R&D, business environment including infrastructure, skills, education and training, labour cost and high performing public services".⁴

¹ <http://bit.ly/1LWd7vk>

² <http://bit.ly/1O7M8gA>

³ <http://bit.ly/1RjHSuc>

⁴ In-depth Employment Analysis, ETUC, BUSINESSEUROPE, CEEP, UEAPME, July 2015, p. 26 (<http://www.businessseurope.eu/content/default.asp?PageID=568&DocID=34268>)

- The recovery that is under way will only translate into jobs if more is done at EU and national levels to address and improve the cost and non-cost competitiveness of European markets.
- Competitiveness is the main driver for growth. Therefore, all efforts should be taken for making private investments in Europe more attractive to investors and companies in Europe and globally. It is also important to contribute to the public investments that are needed by making the best of the flexibility within the limits of the Stability and Growth Pact.
- Enhancing access to finance for SMEs is still a key priority for productive investments. It should be done through new financial instruments with a special focus on risk finance for innovation and long term finance for investment.
- Investment in public services remains subdued despite the important role of high-performing public services for Europe's competitiveness. Public expenditure should be more focused on investment. Amongst others, investment in health and education services is necessary to achieve a productive workforce over the life course during longer working lives. The European social fund and other dedicated financial programmes such as the Youth Employment Initiative or Erasmus +, are important vehicles for EU financial support to necessary social investments.
- In relation to the proposal made in the 5 Presidents report about the creation of a euro area system of Competitiveness Authorities:
 - Setting up bodies made up of independent experts could be helpful in encouraging greater awareness of both the need for reforms and their potential impacts on competitiveness.
 - However, when it comes to wage setting, it is fundamental that any initiative fully respects national wage setting structures and the autonomous competence of national social partners in terms of wage setting.
 - While productivity and wage developments in relation to main trading partners is a very useful measure of competitiveness, it is important that the issue of competitiveness is not simply reduced to wages.
 - We should remember that the crisis had very different causes depending on countries, such as for example excessive labour costs increases, overheating of the economy due to fiscal or credit laxity, or the bursting of housing price bubbles.

4. Important issues to be covered by the upcoming Annual Growth Survey

- European employers draw the Commission's attention to four key issues for the future of Europe's labour markets, bearing in mind that the overarching aim should be to improve the business environment so as to create more growth and jobs:
 - a) The challenges for labour markets related to the digitisation of the economy, **industry or work 4.0**: Digitisation is changing our society, our economy and our working world. Digitisation stimulates specialisation and the division of labour. The importance of industrial and other services and the importance of work and service contracts as well as associated business models will therefore increase. In relation with this, organisation and flexibility requirements are also changing. Workers are gaining more autonomy thanks to flexible working hours and flexible use of equipment, enabling a better balance of work and private life. Further developing E-government could also improve the work environment in the public sector while also addressing administrative burdens and accessibility issues for services.
 - b) The ongoing **refugee crisis's impact on labour markets**: once the decision of accepting or not accepting refugees will be taken, the next step will be to envisage the measures needed to ensure a smooth integration of the newcomers who are granted authorisation to stay in Europe legally. Their access to the labour market will be an important factor of integration. At the same time, it should be dealt with in a controlled and responsible manner to avoid potential distortions. Social partners and public services will play a critical role for managing this integration smoothly, taking into account the needs of the domestic workforce especially in the many countries where unemployment is very high. A key requirement will be to train linguistic skills in the host country. Given that integration policies are a national competence, European countries may also have an interest in coordinating their approaches on how to deal with the challenging situation for labour markets. This includes the conditions under which migrants will have access to the training activities provided by public employment services. One critical question for employers when making hiring decisions is to know how they should understand and further recognise the qualifications acquired in the countries of origin, such as Syria and Libya. Beyond the current refugee crisis, and in view of an ageing continent and a shrinking workforce, it is also essential not to lose sight of the need to devise a united, smart and constructive approach towards legal migrations, reflecting labour markets needs in Europe. To face our demographic, productivity and labour market challenges, we need, among other issues, more talented people from around the world to regard Europe as an attractive destination to study, work and live in.
 - c) Eurofound collects information on a yearly basis related to collectively agreed pay developments. In the last years, Eurofound has pointed out to a noteworthy reversal in trend by which almost all the 14 countries monitored have experienced in 2013 and even more so in 2014 **a return to growth of wages in real terms**. For example, real wages increased in 2014 by 2.1% in Czech Republic, 2.3% in Germany, 2.0% in Sweden and 3.3% in Slovakia.

- d) **Skills mismatches:** Persisting vacancies combined with high unemployment rates show that this remains a key challenge in many European countries. The economic downturn and the effects of the financial crisis did not erase the problem many companies face in terms of being able to fill vacancies and find staff with the right skills. New European approaches are needed to **improve the data gaps** that currently exist. For example, data on vacancies from Member States is not reliable and does not always meet common criteria, as recognised by Eurostat itself. Data on skills needs is also scarce and hard to collect due to rapidly changing needs. There are some general trends at EU level showing an increase in employment in health and social work, education and professional, scientific and technical activities, in recent years (Eurostat). However, with the exception of the ICT sector for which detailed studies have been conducted it is difficult to know in which sectors and to what extent migrant workers can help address employers' labour needs.

5. On the key employment and social challenges identified by the European Commission

Promoting convergence

- The Commission pinpoints to the need to address growing divergence, notably in terms of employment and social performance, through renewed EU policy approaches fostering convergence.
- As mentioned in the 5 Presidents report, what is important is that all Member States *“pursue sound policies so that they can rebound quickly from short term shocks, are able to exploit their comparative advantage within the single market and attract investment, thereby sustaining high levels of growth and employment”*. For this, it is important to progress with country specific reforms while at the same time keeping in check the Euro area aggregate stance.
- Strengthening the Economic and Monetary Union through among other issues closer economic coordination can help EMU members strengthen their competitiveness and increase their capacity to adapt to economic shocks. If implemented successfully, this will lead to more convergence towards growth and more economic, social and territorial cohesion and solidarity among Member States across the EU. But this will only work if all EU countries embrace a policy approach to restore competitiveness, and boost growth and jobs.

Strengthening the employment recovery

- Contrary to other regions worldwide such as the US, employment levels in Europe remain below those of 2008. The increase of activity rates is not only an imperative because of the demographic ageing, it is also a condition to generate demand and private consumption, hence fostering growth.
- Since the vast majority of jobs are created by SMEs, it is essential to further improve the business environment and to take into account the specific needs of SMEs along the principles of the Small Business Act.
- Labour market recovery will depend on many factors, from regulatory aspects to the tax wedge on labour costs. On the regulatory front, most progress is needed at national level.

- A challenge for many European countries is to organise employment protection in a way that it, to a larger extent, more evenly distributes the risk for unemployment among workers. Today certain groups are facing a larger risk of unemployment, while others face a low risk, due to the design of employment protection. This creates a dualism in the labour market which among other things hampers mobility.
- As shown by countries that have reformed in recent years, particularly Ireland, Italy, Portugal and Spain but also the Baltic states, reforms do pay off. These countries are starting to benefit from increasing growth and job creation. Fighting unemployment, which was far too high before the crisis hit Spain remains a key concern. However, Spain started growing again in 2014 with a rate of 1.4%, which has led to the creation of new jobs. Ireland experienced the strongest Eurozone growth rate in 2014: 4.8%, with an increase in employment of 2%. In Latvia, real GDP grew by 2.4% in 2014, after a strong rate of 4.2% in 2013. This was a turnaround from the previous years, continual drop in growth rates since 2011. Although the employment rate in Latvia is still well below pre-crisis levels (75% in 2008), it has been gradually picking up – from 64.3% in 2011 to 70.7% in 2014.
- In Italy, the "Jobs Act" package of reforms, combining more flexible regulations for both fixed-term and open-ended contracts (in particular on dismissals) with cuts in social security contributions for permanent employment is encouraging employment creation. According to Istat, in the second quarter of 2015, employment creation has continued, importantly under all types of contracts, at a rhythm of 1.1% annually (235.000 new jobs).

A renewed flexicurity strategy

- The priority is and remain to establish at European level a **European framework for national labour market reforms based on renewed common principles on flexicurity.**
- European employers are ready to discuss with the Commission and the ETUC the key benchmarks to achieve higher levels of employment and social performance in Europe.
- To contribute to the objectives of job creation and employment participation, such benchmarks need to address the following key challenges:
 1. Remove barriers to integration of new entrants on labour markets, such as rigid employment regulations;
 2. Ensure attractiveness of different forms of employment contracts and provide a framework to facilitate transitions between them;
 3. Increase the performance of active labour market policies, including assessing the cost effectiveness of Member States' spending in achieving employment outcomes;
 4. Improve learning outcomes in line with labour market needs, by reforming education and training systems, anticipating skills needs and improving data on job vacancies;
 5. Tackle demographic challenges and ensure sustainability and adequacy of pension systems.

- In relation with the need to reduce the tax wedge on employment, we have noted with interest and support the progress made by the Eurogroup towards a strengthened benchmarking approach.
- More attention should be paid to ensuring higher levels of economic and social cohesion in Europe. An important issue related to this challenge, which this Commission is to address, is mobility. The key challenge is to achieve more mobile labour markets at EU and national levels, and address abuses where they exist. Employers stress the need to promote free movement by overcoming barriers to worker mobility, fostering mobile workers' employment participation and encouraging circular mobility to maximise the benefits of mobility for countries of origin and destination.
- In line with the objective of fiscal consolidation, social systems need to be based on a close link between contributions and benefits. Investing in people means that social spending should encourage employment participation. Social security systems with employment-friendly conditions, notably in terms of benefit entitlement and time limits, strengthens individual's possibilities to return to work.

Social dialogue

- This European Commission has made one of its top priorities to **restart the European social dialogue**.
- As part of this, social dialogue has to be an integral part of the renewed economic governance process. We have seen improvements in the involvement of European and national social partners in the European semester process in the last year, including the first time consultation on country reports.
- Social dialogue is about acting responsibly and adapting labour market regulations and practices when needed. It is worth noting that several reforms have taken place thanks to the involvement of social partners on both sides. However, where social partners do not agree on the way forward, it is important that governments act.
- This is an issue we also need to look at in the context of the thematic group 1 on social dialogue, economic governance and capacity building, under the priority of *"identifying priority areas for reforms"*. In this respect, we see an important role for the EU bipartite social dialogue. We believe that there is a lot to gain from organising a process of mutual learning among national social partners.
- The way social partners are involved by the European Commission in the European semester process at national level is still patchy. There is still room for improvement to ensure consultations take place in a more coordinated way and following a similar pattern throughout Europe. For instance, sometimes employer organisations are consulted together with the civil society and NGOs; also some member federations were contacted at national level and European level in parallel. We need to ensure consistency throughout the process. It is also important to streamline the role of the European semester officers in the various Member States as our members have also reported different proceedings and consultation formats.

- We have taken good note of the new set of **Employment Guidelines**, and the inclusion of the possibility for the Commission and Council to issue in the future recommendations to Member States *“to support an improved functioning and effectiveness of social dialogue at national level and to closely involve social partners in the design of reforms”*. It is important that the Commission’s approach that will derive from this fully respects the autonomy of national social partners in setting the social dialogue priorities at national level. It is not the role of public authorities, be it at EU or national level, to make recommendations relating to the “effectiveness” of social dialogue.
- The Eurofound 2014 European Restructuring Monitor highlighted that in the public sector, in many cases, social dialogue was not able to shape the reforms. Decisions were often not well prepared and processes carried out in a hasty manner and lacked transparency. Both workers and employers were left out of these processes.
- In some countries, it is true that governments may need to play a more supportive role to ensure the development of an autonomous social dialogue and/or a fruitful tripartite dialogue that reflects the specific role of social partners on labour markets in comparison with other stakeholders. An important area for progress is to devise effective mechanisms at EU and national levels, for example in the context of the European Social Fund to support the development of the capacity of social partner organisations. We are looking forward to making rapid progress on this with the Commission and the ETUC.
- The trend towards further decentralisation as outlined in the issues paper actually precedes the crisis. It is embedded in the structural adaptation of our economies to technological change, individualisation of work patterns and the changing skills content of occupations, with increasing levels of autonomy for many jobs. Employers continue to believe that there is no clear link between the level of wage bargaining and wage outcomes. Each country, and social partners therein, are best placed to define wage setting mechanisms in a way that respects the autonomy of social partners, ensures that wages are in line with productivity, and that there is a sufficient level of wage flexibility to deal with changing economic circumstances.
- The Commission should take greater account of the clear and long-established role of social partners in the Member States. For example, social partners at company level are engaged daily in finding solutions as regards the negotiation and implementation of important aspects of working conditions. The 3rd European Company Survey published by Eurofound at the beginning of 2015 clearly shows the dynamism of social dialogue across Europe.

Long-term unemployment

- We have taken good note of the publication on 17 September 2015 of a draft Council recommendation providing guidance to Member States on how to strengthen the services that are offered to long-term unemployed to help them to re-enter the labour market.

- As highlighted by employers during the consultation seminar with social partners held on 28 April 2015, we would like to stress again that to reduce long-term unemployment, it is crucial that certain systemic factors are in place:
 - Flexible labour markets characterised by an appropriate number of different forms of contractual arrangements that can simultaneously help encourage employers to create jobs and foster the labour market integration of the long-term unemployed;
 - Coordinated, efficient and well-targeted tax, benefit and activation systems which encourage more people to work;
 - Education and training systems that are more responsive to labour market needs, in particular in relation to up-skilling and re-training opportunities that are delivered as part of active labour market policies.
- The urgent challenge posed by the refugee situation also needs to be taken into account as part of the long-term unemployment initiative to develop preventive approaches in order to avoid that those who are allowed to stay become long-term unemployed.

Skills and lifelong learning

- It is important that the Commission clarifies the objectives of its future skills strategy. In the past years, the Commission has developed a lot of tools and instruments which have multiplied to an extent that the EU policy field of education and training has become difficult to grasp even for an expert audience.
- This Commission has the chance to come up with a renewed approach, streamlining the various policy processes to ensure that the European Union really adds value to the actions of Member States and social partners at national level. For that, it is important to analyse where the priorities are for Europe to increase productivity growth in the future.
- European employers suggest the following building blocks for a future EU skills strategy:
 - A coherent EU strategy for digital learning and open educational resources should be mainstreamed across all education and training sectors. This would favour a more efficient use of resources, both public and private, and could make a significant contribution to broadening participation in education and training;
 - The Commission and CEDEFOP should organise an exchange of best practice on how the short-term anticipation of skills needs can be improved in order to encourage mutual learning between Member States and/or regions;
 - The Commission should develop a policy framework that will promote STEM subjects and encourage Member States to learn from each other on how to increase the number and improve the quality of STEM graduates in conjunction with employers' skills needs;
 - There needs to be a higher level of cooperation between the private sector and education and training institutions. Companies, employers' organisations, and, where appropriate, social partners, need to be involved in the design of curricula across all levels of education and training and particularly secondary and tertiary.

In-work poverty

- The Commission regularly documents an increase in the rates of people in situation of in-work poverty from 8.5% in 2008 to 9% in 2013. It gives reasons such as reduction of working hours, reduction of hourly wages and low work intensity at household level, as well as the combination of these.
- From a statistical perspective, the rate of in-work poverty is the share of persons who are at work and have a disposable income below the risk-of-poverty threshold, which is set at 60% of the national median disposable income (after social transfers). In that way it concerns individuals. The household dimension is highlighted as a factor which can cause in-work poverty, as are wages and working hours, but they are not part of the calculation to come up with the figure.
- Whilst having a job is still the best route out of poverty, we note that finding a job does not always automatically mean that an individual escapes poverty. This may be due to a variety of factors, which will be different from one person to another and one member state to another.
- But it is not appropriate to define poverty in narrow income terms. Poverty depends upon other personal circumstances than income (wealth as well as income – e.g. do they have own home), and circumstances related to the household e.g. family support.
- Regarding pay, Eurofound published in 2014 a report 'Pay in Europe in the 21st century', which compares minimum wages and poverty. The report states that when looking across the population as a whole, most poverty in Europe is related either to not working at all or to the composition of the household rather than the wage earned by its members. Whether an individual in work experiences poverty depends very much on whether others in the household are working or not.
- Another important consideration is making sure that work pays in comparison to welfare benefits and allowing for adequate income support during the transition from social assistance/support to work. Activation measures must be efficient and designed to foster (re)integration in and progressing into the labour markets.
- Public services are likely to also produce secondary redistributive effects. Elderly (and child) care services, for example, favour female employment which entails higher earnings for the family and higher employment levels in the economy.
- Regarding reduction of working hours, it is important to make a distinction between when this is voluntary and in-voluntary, as well as taking into account the need for companies to remain competitive and therefore retain jobs. When working hours are reduced, this can have a negative impact on earnings, however as the crisis showed this can also be a way to ensure that workers keep their jobs. Ultimately, this is still the best way to avoid poverty. We also believe that as the labour market gradually recovers, this will help bring down poverty, including in-work poverty rates.
