



# ANNUAL GROWTH SURVEY 2019

## SOCIAL PARTNERS CONSULTATION

### EMPLOYERS VIEWS

12 October 2018

#### 1. Employment and social challenges and opportunities

The economic recovery is continuing and this is having a positive impact on labour markets and social progress. To ensure the coherence and stability of the reform process across Europe, European employers support the continuation of the 'virtuous policy triangle' of boosting investment, pursuing structural reforms and ensuring responsible fiscal policies. As part of this, a stronger focus is needed on improving the performance of labour markets and social systems, in a cost-effective way, and for the mutual benefits of employers and workers.

Positively, the strengthening of economic growth has led to a further improvement in labour markets. [Eurostat's latest unemployment figures](#), released on 31 August 2018, show that EU unemployment is with 6.8% in July 2018 back to pre-crisis levels, and well below the 11% in March 2013 at the peak of the Eurozone crisis. Economic growth is supported by private consumption, due to the improving employment situation and rising disposable incomes, which is also testament to wage growth, in particular towards the end of 2017.

At the same time, enterprises are increasingly concerned that EU growth is at risk of peaking and may even slowdown in 2019. Also, risks to the outlook remain in particular in form of a high level of policy and political uncertainty in Europe and globally, with the danger of increasing protectionism. In this context of political uncertainty, the EU should encourage more forcefully positive attitudes to entrepreneurship in society, through education, and by supporting entrepreneurs to realise their ambition.

Despite improvements, there are substantial differences between Member States and across different regions, in terms of economic recovery and progress. For example, unemployment rates still remain uneven across EU countries, with three EU Member States facing rates (well) above 10%. This is due to pre-existing structural weaknesses in several Member States notably in the field of employment but also productivity. These weaknesses were made even more evident with the crisis. Further gradual convergence across the EU also needs to address divergence within Member States, as regional disparities have a deep impact on the European growth potential, as many policies and services are delivered at a regional level.

Of particular concern this year is the confirmation of a structural skills mismatch, where enterprises across the EU increasingly report difficulties in hiring workers. This is due to a shortage of relevant skills in the EU, which is increasingly acting as a constraint on production capacity. It is important to recognise that the skills gap not only exists in countries with high levels of employment, but in a wide range of Member States, including those with high levels of unemployment. Skills shortages are stronger in some sectors, such as manufacturing, services, construction, ICT, engineering and financial services. More forceful action is needed to address this, by reforming education and training systems as a priority in most countries, as well as fostering an approach based on learning outcomes in higher education.

Despite the continuing economic recovery, development of real wages remains dependant on enterprises' competitiveness. To have sustainable pay increases, we need to increase Europe's rate of long-term productivity growth. Otherwise, this simply leads to job losses and falling growth. We therefore strongly advocate for more flexible labour markets, including the use of flexible forms of employment (especially considering the changing needs deriving from digitalisation), with an important role for collective bargaining at all appropriate levels to deliver solutions that are tailored to diverse economic and social realities across Europe. At the same time, the EU needs to use all possible levers to improve its long-term competitiveness globally and at home and ensure the sustainability of public finances. However, there remains a lack of urgency amongst the majority of Member States to put in place the growth-enhancing reforms recommended by the EU, with only 22% of reforms implemented satisfactorily in 2017 (according to BusinessEurope reform barometer).

To make progress on implementation of labour markets reforms, the way forward is to foster the European semester process and make it more result-oriented. More progress is needed to step up social partners' involvement in particular in thematic discussions on the labour market reforms needed across Europe. Social partners are uniquely well-placed to assess whether and which reforms are needed and to design the appropriate measures.

Where social dialogue works, social partners play a key role in finding solutions that contribute to economic and social success by closely associating labour market with economic policies. A common understanding of the global economic challenges and a cooperative attitude of social partners based on mutual trust and shared interests are key factors for successful social dialogue at all levels.

A key challenge ahead for policy makers and social partners is to increase productivity growth in Europe. This requires maximising productivity through more targeted investment in physical and human capital and exploiting technology advances in industry and in a service economy where data is increasingly central to wealth creation. This requires making progress in innovation and openness to change; reducing administrative requirements and making them less onerous; taking further steps to complete the single market; helping Member States address relatively low levels of R&D spending; improving national policy frameworks for skills training; and reducing labour taxes. It is also important to increase productive investments in innovation and key growth-enhancing projects as well as in physical and social infrastructures, such as ICT networks and care facilities. High performing public services and public-private partnerships can generate positive externalities for the private sector, while contributing to the wellbeing of households and the productivity of enterprises.

We also note that despite the recovery, working hours are not increasing to the same extent as employment rates, either as a result of underemployment (people want to work more but are unable to), or that people are choosing to work less hours, for example to fulfil caring duties. To increase employment and fulfil the potential of the labour market,

investment in childcare and other care services is important, to give people with caring duties the possibilities to return to or enter the labour market.

Providing the right framework for enterprises to create jobs and hire workers is also important, including by reducing non-wage labour costs, increasing the availability of flexible forms of employment, and avoiding overly restrictive employment protection legislation for 'standard' forms of employment. This adaptability in labour markets differs between Member States. Ensuring that tax systems are designed in a way which does not create disincentives for the second earner is also important.

The impact of digitalisation on the world of work is growing year by year in particular on the production processes of enterprises, organisational models of the labour market, working conditions and the nature of work. This evolution is bringing opportunities and challenges. Digitalisation has the potential to increase our competitiveness and raise living standards. But to ensure that it brings opportunities for all, we need to have strong lifelong learning and training programmes to reskill/upskill the workforce, so that those who find their jobs being displaced by new technologies are quickly able to find new appropriate employment and move into the new jobs that will be created by digitalisation. A key issue for employers, especially for SMEs, is therefore to recruit and /or help workers to be equipped with the necessary digital skills, to ensure continued employability and mobilise all available human resources.

To tackle labour market challenges due to digitalisation, the main approach should be to find practical solutions within the existing national social systems and labour market rules. In particular, discussions at EU and national levels should clearly recognise differences between employment and self-employment.

Ensuring access to social protection to all active persons, in a financially sustainable way and in full respect of national competences, is an important aspect. We need to find the right balance between providing access to social protection schemes, whilst not deterring employers, workers and individuals from using diverse contract forms, becoming self-employed, transiting between or combining different forms of work.

Finally, addressing income inequality in the EU remains an important priority both between and within Member States. Having said this, the Commission's analysis should better take into account and reflect the catching up by several new Member States that is under way, thanks to the single market, as well as internal structural policies.

## **2. The 2018 European Semester and the European Pillar of Social Rights**

The current economic juncture represents a window of opportunity to reignite economic and gradual social convergence through growth-enhancing investments and increased reform efforts.

The timely and meaningful involvement of social partners in the design, sequencing and implementation of reforms can improve ownership, impact and delivery. This follows on from the commitment taken in the quadri-partite statement on 'a new start for the social dialogue'. In this respect, social partners and social dialogue should be clearly distinguished from civil society and civic dialogue, recognising and respecting their specific role on labour markets, in implementing structural reforms, and in the European Semester process.

We hope that this will lead to further progress towards effective reforms through a renewed partnership between social partners, the Commission and Member States, to discuss priority areas for coordinated actions leading to better labour market outcomes across Europe.

The European semester is the main tool for implementing the European Pillar of Social Rights. It can provide a reference framework to support Member States' and social partners' efforts to improve the performance of national employment and social policies, including through well-designed benchmarks. However, this must not interfere with national competences, including those of social partners. Delivering on the principles and rights defined in the pillar cannot be made a responsibility of the social partners, as this is not in line with their autonomy.

- **Improving the quality of education and training systems and ensuring equal access.**

European countries continue to have a problem with low attainment of basic skills. While being aware of the progress made in the last years, it is important that Member States continue to work on reducing early school leaving. Many countries still need to ensure a solid foundation of basic skills at primary and early secondary school level, so that pupils are well prepared for secondary and further education and training.

At upper secondary and tertiary levels, it is essential that governance structures are put in place which foster the quality and effectiveness of education and training, including through working in partnership with employers, social partners and education and training providers. This will help to ensure a better alignment between education and training systems and labour market needs.

Employee training also has an important role to play in upskilling and reskilling workers in view of digitisation and other trends, such as demographic change and the greening of the economy. We call on the European Commission to act upon social partners' recent recommendations on employee training, in particular making use of future ESF+ to support investments in education and skills to adapt to the current and future needs of the economy and designing the future Erasmus programme to support the modernisation and reform of education and training systems.

- **Ensuring access to adequate and sustainable social protection systems**

Social protection and labour market reforms are required to make systems sustainable in view of a shrinking workforce and demographic change, including increased life expectancy. This is essential to ensure that systems can provide adequate support for future generations. This means not only raising employment levels of older workers, but fulfilling labour market potential overall.

Reforms to social protection systems must aim to facilitate labour market participation of all those who can work, by making work pay compared to welfare benefits, whilst providing income support to those most in need.

In a context of growing labour and skills shortages, employers already support and will continue deploying efforts to ensure that vulnerable groups and inactive persons, often less qualified and at risk of social exclusion, have better access to the labour markets. This notably includes the recently arrived migrants, including refugees, but also a better targeting of migration policies in coming years to attract in Europe third country nationals that have skills responding to our unmet and diverse labour market needs across the continent.

The first step of social inclusion is to provide access to social services in a way that fosters labour market participation. Making an honest diagnosis of the situation of marginalised people is necessary to create the conditions for their return to work. For people who are detached from the labour market, re-embarking on a structured life, with increasing individual responsibilities and recognition in a social environment is a key

challenge. This needs to be addressed to foster the conditions for a renewed access to the labour market.

Whilst transformations in the labour market bring challenges in terms of the sustainability of social protection systems, it is equally relevant to further promote entrepreneurship and self-employment.

Self-employed in the EU28 in the last decade remained stable at around 15% of all employment; and the number of people engaging in work via online platforms, for example, is estimated at around 0.5%-1% of the working age population across the EU but is increasing. Member States should be encouraged to give the possibility to individuals to have an easier access to social protection, taking into account the diversity of situations, national social protection systems and respecting individual choices. Such an approach would allow for targeted actions at national level to broaden coverage of certain branches of social protection to those forms of employment, for which there is an unjustifiable lack of formal or effective access.

- **Achieving well-functioning labour markets**

The efficiency and effectiveness of active labour market policies (ALMPs) needs to be further improved. For better labour market integration of job seekers, we need policies which support employability and adaptability, promote a variety of forms of work and flexibility for example in work organisation and working time.

To increase female employment, as well as employment overall, it is important to invest in efficient and accessible childcare services, and tackle gender stereotypes in education and training, which have a direct impact on career choices, in particular related to STEM professions.

Most urgent is the need to address rapidly growing skill shortages which, despite the relatively recent recovery, are already at their highest in over 20 years, posing a real risk that the falls in unemployment seen in recent years will soon slow. The impact of digitisation across all sectors is making it difficult for enterprises to find the right candidates to fill their evolving vacancies. Enterprises are best placed to identify the skills, competences and qualifications that are necessary in new and emerging occupations, which is particularly important in responding to digitisation.

A better alignment between education and training systems and labour market needs will help to reduce skills mismatches. A key part to this is the ability to update curricula in a timely way, something which tends to be faster in vocational education and training, such as apprenticeships, than with university education.

As well as a fundamental drive to improve work-orientated learning for all age groups, broader efforts to ensure that regulation, collective-bargaining structures and the tax system all support employment creation must be a priority in this year's Annual Growth Survey.

The Commission should also consider in the next years how best to adapt its work on youth employment. The youth guarantee was designed as a response to the crisis at a time when youth unemployment skyrocketed in a number of countries. Now that the economic and employment situations have improved, it is important to reorient available resources at EU and national levels to address the real causes behind structurally high levels of youth unemployment in many European countries. One part of the response resides in better aligning skills training with labour market needs. Member States also need to look at their minimum wages to ensure that they don't undermine youth employment prospects.

- **Promoting effective social dialogue**

In some countries, social partners play a direct role in designing the content of labour market reforms. Moreover, they play a role in implementing labour markets reforms in all countries. Therefore, timely and meaningful involvement of social partners throughout the European semester is key to improve engagement in policies, thereby facilitating their successful implementation in a way that balances the interests of workers and employers. As part of this, more regular exchanges and collaboration between social partners can be a driving force for successful, sustainable and inclusive economic, employment and social policy-making.

Social partners can come up with innovative solutions to deal with societal and labour market developments, such as demographic change, digitalisation and the impact of globalisation. Such approaches can be stifled where labour regulations are too rigid and obstruct the development of innovative approaches to work organisation, for example. The legislative framework at national and EU level should rather create the space for innovations at enterprise, sectoral and national level, for example to provide for flexibility in the interests of both workers and employers, and to stimulate social partners to evolve.

The 2016 quadri-partite statement on “a new start for social dialogue” highlighted the important role that the European Social Fund (ESF) can play in providing capacity building support for social partners, which was confirmed by a recent project by the European social partners. The Commission and Member States are encouraged to work on the implementation of this project’s recommendations.

Employers welcome the intention in the draft ESF+ regulation to strengthen the link between the ESF and the European semester process, notably the implementation of country specific recommendations. The participation of social partners in the European semester also requires further capacity building support if they are to appropriately contribute at the different stages, including on the implementation of reforms. Similarly, enhancing the capacity of social partners is important in a number of countries for better implementing EU social dialogue outcomes.

The European social partners will raise this issue in the framework of the ESF Committee to see how it could be possible to strengthen the partnership approach with managing authorities when it comes to the allocation of funding so as to ensure that an appropriate amount is granted to social partners.

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