ANNUAL GROWTH SURVEY 2020

SOCIAL PARTNERS CONSULTATION

EMPLOYERS VIEWS

17 October 2019

1. **Economic and social context**

Over the last few years Europe has experienced an economic upturn with economic growth and falling unemployment. Growth is now beginning to falter, but remained relatively strong in 2018, with GDP growth in the EU28 of 2.1%, down from 2.5% in 2017.

These developments have had a positive impact on labour markets, with unemployment dropping to 6.3% in July 2019 – below pre-crisis levels and employment reached an all-time high of 73.5% at the end of 2018. This has also contributed to reducing the number of people at risk of poverty and social exclusion.

However, the economic situation has deteriorated and we are now expecting another downturn, with some economies likely to enter into recession. The OECD in its September economic outlook is now forecasting growth to be lower in 2020 than in 2019. This shows that the economic recovery is fragile. While some Member States are likely to be more resilient due to a good labour market situation, others, due to a lack of necessary structural reforms earlier on, are likely to fare worse. Due to the fact that economies are now very much inter-connected, a recession in one or two Member States is likely to have a negative impact across the EU, e.g. trade tensions have caused a serious slowdown in the German manufacturing sector, and a recession in one large Member State would be felt across the EU.

In addition to stark differences between Member States, there is a growing trend of disparities between regions within countries. This is due to the fact that not all EU countries and regions labour markets are performing to the same level, including in terms of employment outcomes and productivity. This is also having an impact on social cohesion across Member States and regions, in some cases contributing to stagnating levels of inequality and poverty. This situation represents underlying structural weaknesses that Europe continues to face, which are hampering our future growth prospects.

2. **Key priorities**

In this current economic and social context, it is more important than ever for governments to prepare for a new downturn. European employers therefore call for a continued commitment to growth-enhancing reforms by the EU and Member States. This should continue to be based on the ***virtuous triangle of the European Semester process: boosting productive investment; pursuing structural reforms; and responsible fiscal consolidation policies.*** In this context, we call for action on a number of ***priority areas***:

- **Improving productivity**

Whilst productivity has increased, productivity growth has been at a slower pace in Europe in the last 10 years than in the United States. There are also marked differences between Member States. Bearing in mind that in the context of an ageing population with less people active on labour markets, increasing productivity will be the EU's main source of overall economic growth, a good mix of measures is necessary to rapidly increase productivity.

This is even more crucial if we compare developments in productivity and in wages. Wage growth has accelerated across the EU – it increased by 2.8% in 2018 compared to 2.1% in 2017. In Czechia, growth in the average real wage was 4.6% in the first quarter of 2019, whereas rises in whole-economy labour productivity were lagging behind at 1.3%. In Germany, labour productivity per hour is estimated to decline by 0,2% in 2019, whereas effective hourly wages are estimated to increase by 3.1%. Whilst employers support increasing real wages in line with productivity, this needs to be done in a way that is economically sustainable to maintain enterprises' global competitiveness, for job creation, and investments in future growth.

Important factors of productivity growth are productive investments.

The EIB pointed out in its investment report 2018/2019 that investment growth is consolidating across the EU. Investment grew by 4% on average in 2017 and the first half of 2018. The European Commission also assesses that private consumption and investment made the largest contributions to growth in 2018, each accounting for approximately 40% of the expansion. However, even though the situation improved over the past few years this is not reflected in productivity growth or growth in the productive capital stock, which has been around 1% since the sharp decline in 2010.

We therefore support the call from the European Commission for quality and effective public and private investment in productivity enhancing areas such as skills and education, research and innovation and future-oriented infrastructures. We also need investment policies to support enterprises, in particular SMEs, with digital transformations and the transition to a climate-neutral economy.

- **Tackling skills gaps and labour shortages**

Labour and skills shortages remain a serious growing issue and are already limiting production and growth. Enterprises increasingly report difficulties in hiring people with the right skills, including basic skills. In Sweden for example, the Swedish Employment Service has highlighted that 8 out of 10 professions are short of labour.

Despite a number of Member States receiving Country Specific Recommendations related to education and skills, European employers call for more urgent action by Member States to reform education and training systems in line with labour market needs, to ensure that people entering the labour market have good basic skills and further appropriate skills to remain employable. There is also a need to fill the gap in investment in skills and in education and training with a higher emphasis on vocational education and training and on learning outcomes. Member States should also support strengthened partnerships between enterprises and education and training systems, to better understand the labour market needs.

Such measures are even more important in view of the digital transformation of the economy and the transition to a low carbon economy. Both will bring opportunities and challenges for labour markets, where depending on the specific sector, it will also lead to job creation as well as changing jobs and tasks. However, to ensure that the benefits are well distributed across sectors of the economy and different groups of workers, adapting education and training systems so that workers have the right skills to take up the new job opportunities and adapt to new tasks (e.g. increased human-machine interaction) will be essential. Investing in further and continuous training, learning and reskilling is a shared responsibility of employers, workers/individuals and public authorities.

- **Improving the functioning of labour markets**

To ensure that more people become active on labour markets, we need to continue strengthening the effectiveness, but also efficiency of Active Labour Market Policies (ALMPs). Recognising that higher investment does not always result in better outcomes, it is important to analyse the different levels of expenditure on active and passive labour market policies and how this helps labour market integration or not. Crucial to this is for ALMPs to better take into account employers' and labour market needs.

Welfare systems and social support measures need to be designed in a way that makes work pay. Appropriate income support should be available for people who cannot work or find employment, who are experiencing poverty and social exclusion, or who are transiting on the labour market. This will be even more important given the likely increases in people experiencing transitions as a result of the digital transformation and the shift to a low carbon economy. At the same time, welfare systems should not create unemployment traps and should be targeted at getting people (back) into work, including by better combining social support and activation services. Public employment services should be reformed, where necessary and cooperation between public and private services strengthened.

Further action should be taken at national level to activate inactive parts of the population, including women, younger and older workers. The different national situations should be taken into account, bearing in mind the difficulty to further activate parts of the population where their employment levels are already high. One of the possibilities to be looked into further is economic migration.

Reducing non-wage labour costs is required. Excessive levels of labour taxation hinder enterprises to hire workers and can reduce incentives for workers to enter the labour market if net gains after taxes and benefits are too low. An interesting example is Sweden. As a small open economy, it is strongly dependant on its exporting industry. This makes it important for the cost of labour to not deviate too much from that of competing countries. However, data shows that for 2011 – 2018 labour cost increases in Sweden were 2.8% yearly, compared to 2.1% on average in the EU, 2.5% in Germany and 1.9% in Denmark. Also, productivity (measured as GDP per hour worked) fell more in Sweden than in the EU overall. A depreciating currency has, in the short-term, helped to reduce the competitiveness loss that would otherwise have occurred. However, as value chains are becoming ever more integrated, the benefits from such fiscal measures are decreasing.[1]

The growing trend of workers combining different employment statuses, also linked to the development of new business models (e.g. due to digitalisation of the economy) reflects a growing need of both employers and workers for diverse forms of work. This should be encouraged as part of creating more dynamic labour markets, by ensuring that employment protection legislation is not overly restrictive and by allowing for a diverse range of employment forms.

In the coming years, a key challenge for the European Commission, Member States and social partners is to find realistic solutions to better measure and evaluate the effect of national labour

[1] Based on data from the Swedish Riksbank (central bank) and Eurostat.

market and social protection reforms, notably by better involving national social partners and improving mutual learning schemes.

- **Ensuring social dialogue remains a tool to responsibly manage change**

Social dialogue is a success factor in designing and implementing policies effectively and is the best tool to responsibly manage the changes in the world of work. For this, social partners' autonomy must be respected, they should be involved and consulted at the appropriate level(s), and given space to develop solutions in line with national industrial relations systems.

As highlighted in the 2016 quadripartite statement on 'a new start for the social dialogue', the timely and meaningful involvement of social partners in the design and implementation of reforms will improve ownership and delivery. We therefore appreciate the efforts made over the last few years to more closely involve EU and national social partners in the European Semester process, including on specific thematic discussions, in particular in cooperation with the Council's Employment Committee. However, in view of the lack of implementation of the Country Specific Recommendations, further progress could be made by stepping up in particular national social partners' involvement in specific thematic discussions at EU level. This could be done by improving the way that the existing Open Method of Coordination works by involving EU and national social partners more deeply, broadly and more often in discussions with national governments on employment and social protection issues. For this purpose, the format of advisory committees such as the Advisory committee on Vocational Training have been valuable tools in fostering better cooperation between Commission, Social Partners and Member States.

We support the fact that the European Semester process aims to encourage improvements in the functioning of social dialogue in those countries where this is necessary, including better involvement of social partners in the design and implementation of reforms and involvement in the European Semester process itself. At the same time, the EU could do more to support capacity-building of social partners, as a lack of or insufficient capacity is often a root cause of weakness of social partner organisations. Sufficient capacity is crucial for social partners to appropriately contribute at the different stages of the semester process, for implementing social dialogue outcomes and to foster collective bargaining, in line with national industrial relations systems. In this context, we recall our request to the Commission and the European Social Fund managing authorities to foresee a dedicated track for social partners' capacity building. Given that the need for capacity-building support to social partners is concentrated in a number of countries[2], the European semester combined with financial instruments is the best policy approach to obtain the necessary improvements in the countries concerned. The European Commission, in line with its mission to support social dialogue, has an important role to steer the process and provide the necessary conditions and support for the concerned Member States to act responsibly.

3. <u>Specific issue of sustainability</u>

We acknowledge the global importance of the UN 2030 agenda, including the Sustainable Development Goals (SDGs), as a positive and well supported approach to ensure economic, social and environmental sustainability across the world. The way the EU implements this agenda must take into account the starting point of Europe, including compared to other parts of the world, the progress already made in implementing the SDGs, and the need to safeguard European enterprises' global competitiveness.

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[2] European social partners agreed to focus their bipartite capacity-building activities on the following nine countries: Bulgaria, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia

Any actions taken to integrate the SDGs into EU governance processes, including the European Semester, must be framed by an overarching EU strategy for sustainable growth. The overall goal must be to ensure that our economies have the capacity to generate economic growth, as a precondition to generate the investment needed for social development and environmental protection.

It is also important to take account of the many indicators that are part of the SDG implementation process in the UN system itself and at EU level through the Eurostat monitoring tool. Also, a number of social indicators are already part of the Semester process with the integration of the social scoreboard as part of implementation of the European Pillar of Social Rights. Whilst no environmental indicators *per se* are part of the Semester process, it already contains messages on environmental challenges. Furthermore, the new Regulation on the governance of the energy union and climate action, with the monitoring process of National Energy and Climate Plans, covers some important environmental aspects. It is important to avoid duplicating or unnecessarily adding to these existing monitoring systems, rather looking at where there is an added value. For example, the implementation of the Pillar of Social Rights' principle 20 on access to essential services through the European semester, could be considered as a way to address several of the SDGs.

Commission Directorate-Generals should be driven in their actions by an overarching EU strategy on sustainable growth, whilst taking into account the impact on EU implementation of the SDGs, where relevant for specific policy measures. This should include looking at mutual benefits as well as trade-offs between actions related to different SDGs.