ETUC position on the 2020 European Semester - Autumn Package

Adopted at the Executive Committee Meeting of 9 - 10 March 2020

NB: This document was drafted and approved before the COVID-19 crisis hit Europe. In light of recent developments and ongoing emergency new analysis needs to be conducted when the EU economy starts making a recovery to understand what are the measures that need to be taken to get the economy, employment, social security and health care back on track.

Summary of the Annual Sustainable Growth Strategy of the EU

The Annual Sustainable Growth Strategy (ASGS) 2020 and the proposal for a Joint Employment Report (JER) set out the economic and employment policy strategy for the EU, which aim at delivering President Ursula von der Leyen's Political Guidelines and focusing on prioritising the European Green Deal.

In October 2019, ETUC set its priorities for the upcoming Semester, aiming to strengthen the conditions that support wage growth through collective bargaining, respecting the role of social partners; and to address labour market segmentation and ensure adequate social protection systems. The implementation of the European Pillar of Social Rights (EPSR) was considered crucial. ETUC asked for an increase in public expenditure for a green and social agenda to trigger selective investments, urgently needed in the perspective of a new Green Deal and a just transition in the digital era. SDGs have to be the policy framework, Goal 8 being pivotal in the implementation of the SDGs in the EU Semester.

The economic agenda in the ASGS stresses the need for investment, using the full flexibility of the next EU budget to focus on the areas with the greatest potential. These investments should be directed towards climate change and social progress. In terms of macroeconomic policy, the ASGS recognizes a worrying growth outlook, but avoids suggesting 'austerity', encouraging budgetary flexibility, particularly where there are budget surpluses – recognizing the role of revenue as well as spending in balanced budgets.

The ASGS 2020 recognises that the EU is approaching uncertain economic times and that governments may be called upon to use additional resources to support economic growth. This positive fiscal stance should be used for productive public investments committed with an ambitious Green Deal and with the European Pillar of Social rights.

By recognising the challenges posed by climate change, environmental degradation, demographic change and technological progress, the ASGS tries to respond to the need for structural shifts and a new growth model that respects natural resource limitations, and ensures job creation and prosperity for the future. The ASGS, then, positively emphasizes that the EU's economic agenda must drive the twin climate and digital transitions, and brings together four dimensions: 1) Environmental Sustainability, 2) Productivity Growth, 3) Fairness and 4) Macroeconomic Stability.

The ASGS encompasses many of the priorities set by the ETUC as result of an enhanced dialogue at European level. However, some mismatches remain.

Among the challenges identified, we are particularly concerned by:

- real GDP growth to be 1.5% in the EU and 1.2% in the euro area in 2019 (slowing pace);
- investments dynamics, both for private and public, where the levels of net investment as share of the GDP are still below the pre-crisis rates;
- such low levels of investment have strong repercussions on productivity development.

Environmental sustainability

ETUC welcomes the change of name from "*Annual Growth Survey*" to "*Annual Sustainable Growth Strategy*"; it announces an important shift in the narrative that should be matched with concrete actions. ETUC supports the "sustainability first" principle; however, it must always be accompanied by a strong social dimension to make sure that no one is left behind, but that most of all, the green transformation would lead to a general improvement of working and living conditions of European people.

ETUC also welcomes the strong statement that "*Economic growth is not an end in itself. An economy must work for people and the plane*t". Today the monitoring of SDGs shows a negative correlation between Goal 8 (sustainable growth and decent work) with the environment-related goals. It is a sign that the way we produce and consume need radical changes. However, we note that even though the statement is clear, it is not reflected in the rest of the document where economic growth and productivity gains remain the priority indicators but it falls short identifying the "game changer" that invert the negative correlation between growth and environmental impact.

The ASGS also clarifies that it refers to sustainability in '*all its senses*', not just environmental. We expect to see substantial action to implement this balanced vision in National Plans 2020. ETUC welcomes the fact that the EU will help MS to identify and address key trade-offs in the Country Reports 2020. The European Commission proposes that Member States should produce Just Transition Territorial Plans. These have to be well integrated or at least coordinated with other National Plans issued in the framework of the European Semester.

The fair transition mechanism needs a stronger social dialogue, both at European and national levels. The ASGS does not provide clear indication on how to improve social dialogue for just transition and fairer distribution of welfare stemming from the implementation of the Green Deal, nor identifies measures to reinforce social dialogue to implement CSRs in the social field.

There should also be a strong solidarity mechanism between regions/sectors/people that benefit from transition and those most affected by climate neutrality actions. Funds for fair transformation should be larger and do not undermine the Community's cohesion funds. It would be appropriate to explore the ways in which resources of the transition mechanism are increased, especially requalifying public expenditure, through a revisited calculation of investments in governments' budgets. In this regard, it could be appropriate to introduce measures that prevent "social washing", similar to the approach taken for "green washing".

If we want to achieve a just transition to a climate neutral economy, the Sustainable Growth strategy should promote fair and inclusive policies to invest massively in: infrastructures, research & innovation and education (including further education and re-training, given the transformation process), circular economy, and new green technologies. Massive social investments should also be promoted to tackle, in particular the issue of energy poverty. The use of public procurements, public investments, fairer taxation and fight against tax fraud and tax avoidance should be part of the recommendations to countries.

Second, these investments should be combined with an appropriate political framework such as industrial, trade and economic policy. These policies should promote sustainable innovations and ensure that they can establish themselves on the market. It is crucial to prevent social and environmental dumping. These activities are key to maintaining the competitiveness of the European industrial base, which has rightly been identified in the ASGS as the focal point of the EU's economic program. A solid industrial base is the EU's competitive advantage, a place of employment for thousands of employees and a source of innovation. Therefore, solutions at the EU level should be prepared to ensure the competitiveness of industrial sectors and thus enable a just transition of EU economies.

Fairness

The ETUC welcomes that “Fairness” becomes one of the 4 pillars of the upcoming economic policies. ETUC will monitor the social dimension mentioned as “*transition is fair and inclusive and puts people first*.” We will remain anchored to the principle of upward convergence of working and living conditions (main message of the EPSR). Just transition cannot be limited to the mitigation of harmful effects of transitions but has to reduce inequality and poverty improving living conditions of all EU citizens, building democracy at work and open participation of workers in the economy.

The narrative of the focus on fair working conditions and in-work poverty is positive. The European Unemployment Benefit Re-Insurance Scheme (SURE) could play a key role to ensure workers receive support in times of ‘economic shock’, addressing “all forms of irregular employment that contribute to ‘social dumping’ and exploitation of workers”. ETUC welcomes the encouragement in investing in “*adequate and sustainable social protection systems, fighting exclusion*”, “*social protection systems need to be adapted to protect all those in need, irrespective of work status*”, underlining the need for social protection for all forms of employment, covering irregular and atypical work. Nevertheless, social protection is not sufficiently underlined as a social right nor as a social investment, which would better reflect a new sustainability approach, but is still mainly referenced as a leverage for labour market participation. Sustainability of social protection systems is still prominent over coverage, effectiveness and adequacy.

The positive recognition that more equitable, fair and democratic societies are built on free, universal, high quality public education for all should go hand in hand with a call to boost growth-enhancing public investment in education equally across Europe. The dominance of economic prerogatives over educational objectives compounded with budget restrictions in countries with limited fiscal space, risks eroding the capacity of public education to enhance fairness in the development of economies and societies; overshadowing broader societal and collective objectives of equity, social justice, inclusion and cohesion; and undermining the capacity to implement the UN SDG 4 in its entirety.

The core issue of Fair Taxation is clearly underlined – particularly tax evasion, avoidance and avoiding the race to the bottom. It also confirms the role of tax to finance welfare states and ensure revenues for public investments in education, healthcare, child and elderly care, social benefits, etc.

Affordable and social housing is not mentioned in the ASGS, although it is one of the key messages of the Joint Employment Report, and the shortage of social housing is increasing alarmingly across Europe. This is quite surprising, considering that increasing the supply of decent, affordable housing, including through buildings’ renovation, is a key part of reducing CO_2 emissions through the European Green Deal, including increasing investment in funding for homelessness services.

Macroeconomic stability and Refocusing the European Semester on the Sustainable Development Goals (SDGs).

It appears that the ambition on the architecture of the Economic and Monetary Union rests on the ongoing proposals of the Banking Union and the Capital Markets Union. The volume of financial assets in the non-bank sector is increasing which pose systemic risks in the EU. ETUC believes it is important for the Commission to consider non-bank sector and its risks while developing the Banking Union and the Capital Markets Union. Moreover, the necessity to complete the current system with a fiscal capacity such as a stabilisation function for public investment or a European Treasury is not present in the document. Considering the challenges at stake for the new decades to come and the huge amount of investment needed in infrastructure and renewable energy systems, ETUC considers essential that the European Union be equipped with central fiscal capacity, ensuring joint liability, and therefore political commitment, to the European Union project.

ETUC has still concerns that the main focus is on economic and employment aspects (as tool for economic governance). The adoption of UN Agenda 2030, as a long-term economic policy strategy, especially the environmental dimension, aligns the European Semester more closely to the ETUC proposal for Growth and Social Progress 2020. The European Commission calls on Member States to engage on very ambitious goals. Member States have to solve, in the current institutional and economic situation, the following trilemma:

- Re-orientation of the European growth model, specifically productive standards; regulation in the markets of goods, services and labour; and consumption patterns.
- Restrictive fiscal rules that constrain Member States, which can count on few own financial resources.
- Redistributive impact between social groups and regions.

In the new paradigm of economic growth, and to deal with the three-fold sustainability framework, ETUC propose a virtuous triangle instead:

- boosting investments for a green transition (1 trillion euro per year),
- achieving social progress with upward convergence of living and working conditions
- reinforcing social dialogue.

In 'Refocusing the Semester' on competitive sustainability (including a "reinforced analysis and monitoring on the SDGs," beginning in its 2020 Country Reports), the risk is that main focus on the SDGs will remain on macroeconomic growth rather than social rights. A much clearer road map is needed to indicate how 'competitive growth policies' can contribute to achieving an 'end of poverty', reduce inequality, improving living conditions, full and productive employment and decent work for all. Social sustainability and European citizens' support risk to further deteriorate.

When introducing the SDGs in the EU Semester we nurture the ambition to endorse a long-term view for rethinking our economic and social model toward a model that is based on climate-neutrality, inclusiveness and quality jobs. ETUC proposes a "**Goal 8 centred development model"**, pinpointed on the EPSR[1]. The European Semester, starting from the current 2020 cycle, has the task of building on synergies and change the trade-offs and enable decisions that are potentially creating progresses in some SDGs but are not deteriorating other areas of sustainability.

The involvement of social partners has to be enhanced. Social partners can play a greater role. Collective bargaining is crucial to anticipate change and implement solutions for the productive transformations we need. Collective bargaining and employee involvement

[1] *The ETUC is actively engaged in the worldwide trade union campaign "It is time for 8"* https://timefor8.org/

should be two pillars of the just transitions concept. Social dialogue is able to build political capital that national governments may use to win consensus of citizens for sustainable change.

The incorporation of the SDGs in the Semester has to be consistent with the new European fiscal framework to ensure a proper financing of the European Green Deal. However, it should be stressed that the Just Transition Fund has limited resources for such an ambitious project. The Commission's intention to work with Member States on the greening of national budgets should meet the expectations and needs of European citizens and territories. The revision of the current investment clause within the Stability and Growth Pact and the introduction of a golden rule in the European fiscal framework, excluding public investment in favour of green transition from the calculation of Member States' public deficits, are ways to ensure a new sustainable economic model. One which combines social and environmental progress, reduces inequalities and improves the well-being of all, having care of leaving no person and no place behind, because transitions have to lead to new forms of redistribution of wealth that will benefit all.

Joint Employment Report

The Joint Employment Report depicts a too rosy picture of the labour market. It indulges too much on quantitative aspects (employment at record levels) overlooking quality of jobs. Even though the quality (or lack of quality) of employment is not neglected, it is certainly given less importance. As demonstrated by ETUC in its document ETUC for Growth and Social Progress, good employment performances do not match with a general improvement of working conditions (including wage dynamics), a reduced segmentation of labour markets and accessibility and adequacy of social protection systems. It was explained that it is a thread for long-term fiscal and economic sustainability of member states and the EU.

The JER is positive when encouraging a shift of approach about skills shortages despite the high unemployment rate. This is now fine-tuned, and the report explained that labour shortages occur in those countries with low unemployment rate. Another argument which is demystified is that temporary employment is a steppingstone towards open-ended contracts: those countries with the highest temporary rates (e.g. Spain, Portugal) have the lowest rates of transition from temporary to open-ended contracts.

A welcome focus is given to fair employment and ensuring decent wages to tackle in-work poverty, but a better analysis could be provided for 'precarious forms of work'. There is also a need to make sure that the 'make work pay' approach is not encouraging punitive conditionality which can result in increased poverty in relation to income support schemes (both minimum income and unemployment benefit), as it is used to lead people into low paid, low quality jobs, under threat of sanctions of reduced or cut benefits. These jobs do not provide sustainable living conditions over the life cycle and evidence shows they are not supporting mobility out of poverty and are a likely cause of stagnant productivity. If the EU economy is to be innovative and climate neutral and at the same time convergent, its competitiveness cannot be based on low labor costs. Therefore, initiatives to improve the quality of jobs, i.e. employment security and fair remuneration for employees, should become a key tool implemented in ASGS, monitored as part of Country Reports and, if necessary, the subject of Council Recommendations.

The report evidences that Europe is facing a problem of inequality: growing income inequality between the richest 20% households and the 20% poorest; gender inequality (in terms of employment rates and wages); rise of in-work poverty and overall wage growth (which is below the productivity rate in almost all countries of the EURO area).There is also a strong call for reinforcing social dialogue as a mechanism for strengthening social market economy.

However, the approach taken towards digital labour platforms is very limited. Its impact and the precarious working conditions are downplayed by insisting that there is a very small percentage of workers who work through platforms in comparison to the overall workforce (1.4% of the working population and above 2% only in Spain and the Netherlands). Job quality is not tackled, and it is linked to employment relation and status. The ETUC will reinforce its proposals for quality jobs to influence the JER and the identification of policy drivers going beyond traditional GDP-based indicators, to pinpoint the political agenda on a wider monitoring of well-being of people, efficiency of the labour market, labour vulnerability and respect of labour rights. European and national policies, especially under the flagship under the Youth guarantee are insufficient and that young people are facing specific challenges entering the labour market.

Involvement of Social Partners

Our first mission is to reinforce the involvement of social partners in the EU Semester[2]. This is a requirement deriving from the EPSR, principle 8. The peer review exercise running in EMCO delivers poor results. ETUC asks the Commission to encourage national governments to seriously engage in appropriate, accurate and timely consultation with social partners at the milestones of the Semester and in the implementation of Country Specific Recommendations. ETUC also asks that an EU rule be introduced to oblige national governments to consult social partners at the milestones of the Semester. National Reform Programmes, in April, should report in detail how social partners have been involved during the current Semester.

EURO Area Recommendations

We agree when the Euro area recommendation calls on member states to implement the EPSR. An Action plan is urgently needed.

The ETUC considers the following as a key sentence: '*Increasing the growth potential while ensuring environmental and social sustainability and driving real convergence among euro area Member States requires structural reforms to enhance sustainable growth and investment in tangible and intangible capital to increase productivity'*. But not a perfect sentence because, according to the proposed text, social is "sustainable" and not "upward converging"; and convergence is inferred in a macroeconomically way, while in our view, convergence concerns to wellbeing of people, inequalities, inclusive labour markets and improved rights for workers.

Moreover, '*setting up public investment strategies*.' is a priority and it has to be done. We need to support this strategy with the golden rule for investment, increasing fiscal space and investment for green and social objectives established at EU level, within the EU Semester, for policy coordination, monitoring outputs and assessment of impacts. Public investment also means adequate expenditure on employee remuneration and improvement of employment conditions in public institutions. Investments in this area are necessary for well-functioning countries and maintaining the administrative potential and qualifications of employees, which ASGS mentions.

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[2] *For displaying the ETUC Trade Union involvement Index from 2017 to 2019, click [here]*

Fighting tax dumping, avoidance, evasion and fraud is a priority if we want to preserve the tax income that is needed for growth, investments, social convergence and green transition. In this regard, it is crucial also to combat undeclared and irregular work.

Conclusion

We conclude by quoting the European Commission's Annual Sustainable Growth Strategy 2020 stating that "in time of global tensions, the EU Single Market offers Member States multiple opportunities" but adding important conditions. The European policy framework must evolve in a way that allows additional public investment and strongly incentivises private companies to re-invest more of their profits. In other words, it is high time to re-orientate our economy towards internal drivers of growth for ecological transition, fiscal and social upward convergence, rather than pursue the chimera of yet unknown concept of "competitive sustainability"!