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AK Position Paper

Annual Growth Survey 2016

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About us

The Austrian Federal Chamber of Labour is by law representing the interests of about 3.4 million employees and consumers in Austria. It acts for the interests of its members in fields of social-, educational-, economical-, and consumer issues both on the national and on the EU-level in Brussels. Furthermore the Austrian Federal Chamber of Labour is a part of the Austrian social partnership. The Austrian Federal Chamber of Labour is registered at the EU Transperency Register under the number 23869471911-54.

The AK EUROPA office in Brussels was established in 1991 to bring forward the interests of all its members directly vis-à-vis the European Institutions.

Organisation and Tasks of the Austrian Federal Chamber of Labour

The Austrian Federal Chamber of Labour is the umbrella organisation of the nine regional Chambers of Labour in Austria, which have together the statutory mandate to represent the interests of their members.

The Chambers of Labour provide their members a broad range of services, including for instance advice on matters of labour law, consumer rights, social insurance and educational matters.

More than three quarters of the 2 million member-consultations carried out each year concern labour-, social insurance- and insolvency law. Furthermore the Austrian Federal Chamber of Labour makes use of its vested right to state its opinion in the legislation process of the European Union and in Austria in order to shape the interests of the employees and consumers towards the legislator.

All Austrian employees are subject to compulsory membership. The member fee is determined by law and is amounting to 0.5% of the members' gross wages or salaries (up to the social security payroll tax cap maximum). 560.000 - amongst others unemployed, persons on maternity (paternity) leave, communityand military service - of the 3.4 million members are exempt from subscription payment, but are entitled to all services provided by the Austrian Federal Chambers of Labour.

Rudi Kaske
President

Werner Muhm
Director

The AK's position in detail

The European Commission's Annual Growth Survey 2016 is being published in an economic situation that continues to be strained and fragile. Unemployment in particular remains at a historical peak and long-term unemployment has doubled since 2008. The Austrian Federal Chamber of Labour (BAK) is of the opinion that a fundamental change of economic policy is necessary in the EU. However, despite some positive approaches, the **Annual Growth Survey generally adheres to "business as usual"**. The **"independent Annual Growth Survey (iAGS) 2016"**[1] which is co-authored by the Vienna Chamber of Labour is an alternative to the analyses and recommendations of the European Commission.

It is noteworthy that the Commission also refers to the "devastating social consequences for those affected and negative implications on growth and public finances" in relation to sustained long-term unemployment. Of special concern is the far too slow reduction in unemployment: for example, the iAGS (independent Annual Growth Survey) 2016 has calculated that the rate of unemployment will not fall again to the level of 2007 until 2022.[2] Little progress has been made in reducing youth unemployment; the extent of poverty and numbers of those threatened by social exclusion appear to have settled at an unacceptably high level. Without a change in policy this trend will leave deep scars and damage Europe's productive potential. **Europe should not become a synonym for high unemployment, growing poverty and inequality and a lost generation of youth without any prospects.**

Even the European Commission has stated in its Work Programme 2016 that the European Union "is at a defining moment" and is faced with "several unprecedented challenges" such as the refugee crisis, unemployment, the jobs and growth gap and the need to deepen the Economic and Monetary Union. According to the Commission, "this is no time for business as usual" in view of these challenges.

In the meantime, the fact that Europe has a massive investment problem has become a hot topic in Brussels. The Investment Plan for Europe is a step in the right direction but is not ambitious enough in its scope; furthermore, it is primarily geared to private investments. The more flexible interpretation of the Stability and Growth Pact planned by the Commission is also a positive step but is far from sufficient to stimulate public investment. And finally the Alert Mechanism Report 2016 underlines that domestic demand is important for economic recovery, and in particular a more significant stimulation of investments.

The fact that the Commission is focusing again on expanding investments in its Annual Growth Survey is basically to be welcomed. However, we do not share their optimism that the recently adopted Investment Plan for Europe can "bring investment back to sustainable precrisis levels". The target volume of the European Fund for Strategic Investments (EFSI) is - even if it is reached, which appears questionable - too low in order to bring about noticeable effects in the economy and the labour market.

However, we welcome the reference to intelligent investments in education and the emphasis on the importance of social investments in health care, child care, social housing and rehabilitation. We have repeatedly made the argument that "social investment offers economic and social returns over time, notably in terms of employment prospects, labour incomes and productivity, prevention of poverty and strengthening of social cohesion"[3] and substantiated it with studies.

However, what continues to be persistently ignored in connection with investments is the necessity to make fiscal policy more investment-friendly. On the contrary: the Commission is determined to hold onto the Stability and Growth Pact, even though it will take into account the budgetary impact of "the exceptional inflow of refugees" in its application. That is important, but far from sufficient. The refugee problem, which has revealed deep divisions in and between the EU Member States, has once again shown the need for a change in economic policy. **The EU is urgently called upon to link the management of the refugee crisis with a new direction in economic policy which will give its citizens new hope and confidence. It is a question of implementing the following core elements of a new wealth and distribution model where stimulation of domestic demand, investments in a sustainable social and ecological infrastructure and general questions of distribution policy lie at the heart of European policy:**

- **Fighting unemployment and social exclusion** must take priority in all EU countries; this applies especially to combatting the alarming high unemployment among young people.

- The **scope for action in fiscal policy** to combat deflation tendencies and mass unemployment must be extended in order to stimulate public investments, which have fallen dramatically in Europe. Public investments are the most effective instrument to stimulate the economy, particularly in times of severe economic crisis. This requires the softening of the EU fiscal rules by the introduction of a **Golden Rule of Public Investment**, which exempts public investments in the future from EU deficit rules.

- The **EU budget** must be oriented more closely to the need to tackle the refugee crisis, combatting the social consequences of the economic crisis and investments in the future.

- The **fight against inequality** must be brought to the core of the political debate. Correcting the imbalance in distribution in Europe is one of the key challenges of the present and an indispensable prerequisite for overcoming this crisis. An important measure would be a coordinated wage policy across Europe which, while guaranteeing the autonomy of the social partners, allows real wages to increase in line with productivity while at the same time maintains price stability.

- A policy of the Member States which implements a **coordinated approach** is needed more than ever, especially with regard to **taxes on assets, high incomes, capital gains and corporate profits**. This will create the necessary resources for an expansive growth and employment policy. Collective action against tax fraud, tax evasion and aggressive tax planning, as well as the rapid introduction of the planned financial transaction tax, would open up future sources of financing for urgently needed public investments.

- The **social dimension** of European integration must be strengthened substantially. This means firstly bolstering minimum social standards. Furthermore, a "Social Progress Protocol" must be laid down in primary law in order to unequivocally stipulate the supremacy of fundamental social rights, including trade union rights, over market freedoms.

- **European economic policy-making** must be made **structurally more democratic**. The European Parliament should be given the right of co-decision when it comes to the adoption of the Annual Growth Survey. Furthermore, organisations of European civil society – in particular the social partners – and national parliaments must be involved to a greater degree.

Below is our response to the three political priorities of the Annual Growth Survey 2016 as proposed by the Commission.

1. Relaunching investment

Regarding the sections "Implementation of the Investment Plan for Europe" and "Investing in human capital" we refer to the above.

The Annual Growth Survey regards the problem of low lending to the real economy primarily from the supply side. In our opinion this ignores that companies are faced with a problem of demand due to weak domestic demand. We see the **establishment of a Capital Markets Union as a new risk to financial stability in Europe** since controversial financial instruments such as securitisation are to be revived. Securitisation of and trading with loans contributed significantly to the crisis. It is foreseeable that the Capital Markets Union will benefit primarily the financial sector, while there are no guarantees that European companies and SMEs in particular would have easier access to funds.

In our opinion a **structural reform of the banking system** that addresses the "too big to fail" problem by separating the risks of investment banking and proprietary trading from those of retail and commercial banking is a prerequisite for further deepening the Banking Union. We view the establishment of a European Deposit Insurance Scheme as a possible element of the deepening of the Banking Union only after a structural reform of the banking sector and the regulation of the shadow banking system has been completed.

2. Pursuing structural reforms to modernise the economy

The plans of the Commission for better coordination of and support for structural reforms would exacerbate the problematic onesided focus on competitiveness, which is a main reason for weak demand above all in the euro area, in addition to the austerity policies of recent years. In particular the concept of **"common standards"** repeated by the Commission in the Annual Growth Survey again follows the aim of making the **implementation** of so-called **"structural reforms" mandatory**. Although the Annual Growth Survey does not deal with the announced "common standards" in detail, nevertheless the remarks of the Five Presidents' Report reveal that these are "a set of common high-level standards which would be defined in EU legislation[...]"[4]. This is intended to make the convergence process "more binding"[5]. Against the background of the neoliberal understanding of the term "structural reforms" which has dominated to date,[6] it is to be feared that the proposed application of the standards in question to labour markets would aim at further deregulation and flexibilisation of labour markets, and that the setting of standards regarding competitiveness and business environment would take on a one-sided bias at the expense of workers. The Austrian Federal Chamber of Labour decidedly rejects this proposal which would force through the mandatory implementation of so-called "structural reforms" which had been previously foreseen in the form of pacts for competitiveness. Ultimately the question remains unanswered as to the legal foundation on which such binding standards should be based.

In this context, the objective of the Commission to link the utilisation of the **European Structural and Investment Funds** more closely to compliance with the **requirements regarding economic governance** must be rejected. The intention to use cohesion policy as a means of applying pressure to comply with the system of economic governance, which has repeatedly been criticised as completely imbalanced, clearly undermines the efforts to achieve social, economic and territorial cohesion.

Surprisingly, the Commission presented the draft Regulation COM(2015) 701 together with the Annual Growth Survey 2016. According to the draft, in the period 2017-2020 EUR 143 million are to be made available for EU Member States to buy expertise on the **implementation of structural reforms**. This expertise, in the form of on-site experts, workshops, studies etc., is intended to help implement structural reforms as they were formulated above all in country-specific recommendations for member countries. Expertise can also be bought to better implement the European Structural and Investment Funds (regional development, social and rural development funds) and the European Investment Fund. The expertise can cover practically all areas of policy. Implementation of the Capital Markets Union is also mentioned explicitly. EU countries must submit an application by 31 October in order to be able to benefit in the following year. There is no specific description of the process included; furthermore, this is a voluntary undertaking.

However, the intention behind this idea of the Commission is clear. The Five Presidents' Report already announced a strengthened implementation of the

Macroeconomic Imbalance Procedure. The corrective components are to be implemented "forcefully" so that the implementation of structural reforms can be better monitored. The proposed National Competitiveness Boards are also to check whether economic reforms to increase competitiveness have been achieved. This draft regulation is a further piece in the puzzle which the Commission is using to try and give its recommendations on structural reforms more weight vis-à-vis Member States. A tight web is being spun in order to **increase pressure on Member States.**

In the text reference is also made to the fact that in the evaluation of the task force for Greece it was explicitly mentioned that technical assistance is to become a "normal activity" in order to share and implement best practice applications. Furthermore, the legal foundation is missing to date for the Commission to cooperate with Member States on the implementation of structural reforms unless a Member State requires financial support and therefore is subject to an economic structural adjustment programme.

The BAK is sceptical of this draft. The hidden agenda is clear to see. The **scope for domestic action of national states** for implementing country-specific recommendations is to be further limited. This has been a problematic approach by the Commission for years, particularly with regard to pensions. If the Commission would like Member States to agree to this regulation, it should provide proof that this really does have added value for Europe. The activity of the troika certainly does not count as that.

In the opinion of the BAK it is self-evident that the creation of jobs must remain "a key focus of reform efforts" - as formulated at the start of the section on "Fostering employment and inclusive social policies". However, without a change of direction in economic policy, it will not be possible to create enough jobs. We welcome the mentioning of the importance of **real wage developments** by the Commission. However, a **solidarity based wage policy** is required, increases in real wages across all sectors of the economy should be in line with macroeconomic productivity growth.

We agree with the findings of the Commission regarding the effects and the dimension of **long-term unemployment**. It is also important that a clear focus has been placed on this subject in recent months with the survey on long-term unemployment and the subsequent recommendation of the Council on reintegration of the long-term unemployed into the labour market. However, their recommendations do not go far enough. The recommendation to implement reintegration measures up to the 18th month of unemployment is not ambitious enough. At this point unemployment has already become so entrenched that positive results are difficult to achieve. A further step must be to introduce a preventive approach, which is already standard in Austria. Combatting long-term unemployment is one of the focal points of the European Social Fund. However, this is addressed as a financial instrument for many problem areas mentioned in the report, including funds for the youth employment initiative. Therefore, the mid-term review of the Multiannual Financial Framework of the EU must also focus on a sufficient endowment of the ESF.

We do not share the view that additional **flexibility of labour markets** is an appropriate tool to create jobs. The additional "flexibility" of the labour market is posited by politicians, above all at the EU level, as sensible in a paradigmatic sense. In order to counter criticism of the social consequences of this concept, it was developed to become the concept of "flexicurity"; by this is understood an "integrated strategy for enhancing, at the same time, flexibility and security in the labour market[...] as an instrument to overcome the current weak labour market"[7]. According to *Tichy*[8], this concept has, however, failed. He shows that this has resulted in a dismantling of elements of protection for workers in labour law in a one-sided way, which did not lessen the insider/outsider problem in the labour market, but aggravated it. Permanent jobs were replaced permanently by temporary employment. Outsiders remain cut off permanently from stable segments of the labour market. Newcomers face ever decreasing chances of entering stable segments. For example, in Germany more than half (!) and in Austria one third of 15-24 year-olds only find work through temporary work contracts. For Tichy, this results in later losses of productivity, intensity of continuing training and the quality of life of those affected. At the same time, contrary to the concept of flexicurity, this has not led to an expansion of safety nets in EU countries but in their dismantling. For example, in most EU countries the duration and amount of unemployment benefits has been reduced and sanctions intensified. **In this situation we consider it to be essential that the flexicurity approach is revised and the security part in particular is being realised.**

The inclusion in the labour market of people affected by poverty and social exclusion as demanded in the Annual Growth Survey is principally to be welcomed. Also the necessity to create a financial incentive to enter the labour market reflects the thinking of the BAK - as long as this is done via respective allowances for (re-) entering the labour market and not via especially low benefits for those in need of assistance. However, it must first be stated clearly that incentive mechanisms can only be used sensibly when - and only when - the situation in the labour market so allows. However, this is not the case at present. A very large percentage of the people affected by poverty and social exclusion in Europe have a level of education no higher than that of compulsory schooling. These people in particular are in an especially difficult position in the labour market, where there are few opportunities for those with few qualifications as a result of the financial crisis and a rising supply of labour. It cannot be the aim of the EU to push for the sustainability of public finances with particular emphasis when it comes to this part of society which is already facing enormous financial pressure. Rather the EU should consider both the human factor as well as the economic factor in relation to social support measures: **Benefits for low-income groups generally flow back entirely into the economic cycle**, increase consumption and hence finance themselves.

Reducing the tax burden on labour and a more equitable distribution of the tax burden between labour and capital should be supported in general. However, this should not lead to cuts in benefits by any means, especially in the social insurance system. Instead the focus should be on a sensible financing structure for social protection systems, i.e. a

balanced and targeted relationship between financing funded by social insurance contributions and funded by taxes, in order to avoid errors in financing. A reduction of the tax burden on labour must therefore always be financed through other means, for example via corresponding additional sources (see below). Only in this manner can **social protection levels be maintained or extended**.

3. Responsible fiscal policies

An **appropriate fiscal policy** for Europe or the euro area as a whole continues to be neglected. The Annual Growth Survey does not call for a new wave of consolidation and supports a neutral fiscal policy stance. However, this recommendation remains contradictory as at the same time almost all countries would be required to adhere to a more restrictive orientation according to the fiscal rules and are also explicitly called on to comply with the fiscal rules. Furthermore, it must be said that a responsible fiscal policy must open up room for public investments in the future and ensure an expansive orientation - particularly in times of partly negative interest rates and continued deflation trends. A way must be found which allows Member States to pursue a budgetary policy that is less hostile to employment, does not block macroeconomically valuable investments and hence strengthens the potential for long-term economic development. The introduction of a **Golden Rule of Public Investments** mentioned above, which exempts certain public investments from the calculations of the budgetary deficit, would be a sensible step and should be discussed and implemented at the European level.[9]

"Increasing the effectiveness and fairness of the tax systems" is also important to us. The recommendation to lower the tax burden on labour is welcomed (see above). However, lowering the tax burden on labour must be linked with reforms of the fiscal structure in view of the strained budgetary situation. Care should be taken to make tax systems overall more conducive to growth and employment. This can best be achieved by **extending assetbased taxes**. Therefore, the BAK recommends taking steps towards a minimum taxation of wealth in the EU. The recommendation for Member States to take **measures against aggressive tax planning and to combat tax fraud and tax evasion effectively** is also welcome. However, what is missing in the report is a clear commitment to the mandatory introduction of a common consolidated corporate tax base which must be linked to a minimum tax rate. The action plan of the Commission described in the report does not go far enough in this respect and is not sufficient to get aggressive tax planning permanently under control. The measures to eliminate aggressive tax planning should also be harmonised with the BEPS project of the OECD.

It must also be ensured that automatic exchange of information in accordance with the common standard of the OECD is implemented within the EU and that its planned implementation at the international level actually happens as announced and that as many countries as possible participate in this effort.

The question of **debt bias in taxation** is also addressed. The basic principles of taxation of earnings mean that own capital and borrowed capital are treated differently, especially since borrowed capital interest rates can be offset against tax when determining business profits. These rules are sensible in principle; however, it cannot be denied that, particularly in the area of taxation of multinational corporations, this unequal treatment leads to unwanted configurations which should be eliminated. In our opinion, completely equal treatment of own and borrowed capital is not the right way. It would be more sensible to ensure that also interest on borrowed capital (in particular in connection with corporate groups) cannot be offset against tax when certain limits are exceeded. Many countries have the corresponding rules in place (CFC legislation, undercapitalisation regulations). In this context, a single standard to be implemented by Member States should be created.

What is missing completely in the Annual Growth Survey is the **financial transaction tax**. Eleven Member States, including Austria, have agreed in principle to introduce a financial transaction tax in the framework of enhanced cooperation. However, despite commitments to introduce this tax as soon as possible, negotiations between the participating countries are proving difficult and in the meantime the rapid introduction of a financial transaction tax that is worthy of its name is no longer expected. Therefore, the Annual Growth Survey should emphasise the importance of and justification for a financial transaction tax.

It is a positive fact that in the section "Responding to the demographic challenge" a recommendation to link the statutory retirement age to life expectancy is no longer mentioned explicitly. However, we have repeatedly rejected this automatic connection, which was last discussed in the Five Presidents' Report and hence will remain on the European agenda, and reiterate our position here. The aim should rather be to reduce the **gap between the factual and the statutory retirement age**. In order to retain older employees longer in employment, age-appropriate working conditions, improved health protection, expansion of rehabilitation and retraining opportunities for workers with impaired health and greater inclusion of older employees in corporate training are the right measures. In general terms, the best possible integration into employment of people of working age - across all age groups - is the best strategy to ensure long-term financing of high quality social security systems.

The consequences of the economic and financial crisis have shown that supplementary pension contributions from the corporate or private field can never be an adequate substitute for the first pillar of the financing of the pension system. They can only at the very most be the second or third best option to ensure broad social security at a high level and also favour primarily higher-income earners and employees in secure employment or in certain sectors. Therefore, in the opinion of the BAK, the public pension systems should be strengthened for the future, instead of demanding that they be cut.

Finally, we would like to emphasise our fundamental rejection of the proposed **National Competitiveness Boards**. This proposal has rightly met with criticism from many sides and should be removed from the Annual Growth Survey.

Footnotes

[1] http://www.iags-project.org/documents/iags_report2016.pdf

[2] Ibid.

[3] http://ec.europa.eu/europe2020/pdf/2016/ags2016_annual_growth_survey.pdf

[4] Juncker, Jean-Claude et al., Completing Europe's Economic and Monetary Union, 2015, p. 9.

[5] Ibid.

[6] Cf. Hermann, Christoph, Strukturelle Reformen in Europa: Vergangenheit, Gegenwart und Zukunft, 2015, http://media.arbeiterkammer.at/wien/PDF/studien/Strukturelle_Reformen_in_Europa_2015.pdf

[7] Cf. Tichy, Gunther, Flexicurity – ein an seiner Umsetzung scheiterndes Konzept. In WIFO-Monatsberichte, Vienna, 2014, 87(8), translated from German.

[8] Ibid.

[9] http://www.etui.org/content/download/21498/179983/file/Policy+Brief+2015.12+Feigl+Truger.pdf

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