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AK Position Paper

Annual Growth Survey 2018

COM(2017) 690

About us

The Austrian Federal Chamber of Labour is by law representing the interests of about 3.6 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 Transparency 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.

Rudi Kaske
President

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). 816.000 - amongst others unemployed, persons on maternity (paternity) leave, community and military service - of the 3.6 million members are exempt from subscription payment, but are entitled to all services provided by the Austrian Federal Chambers of Labour.

Christoph Klein
Director

Executive Summary

In its Annual Growth Survey (AGS) 2018 the European Commission notes that **“Social partners are essential stakeholders in the reform process. The timely and meaningful involvement of social partners in the design, sequencing and implementation of reforms can improve ownership, impact and delivery”**. In this context the Austrian Federal Chamber of Labour (BAK) wishes to go further into detail on some key statements in the Annual Growth Survey 2018.

The Annual Growth Survey again contains a series of statements and proposals regarding investments, the significance of wage trends, and social challenges which can be approved of from our point of view. Nevertheless, **there remains a great need for action in many policy areas** in order to make the economic upswing broader and longer-lasting, and to improve people’s living and working conditions. In this connection we refer to the **“independent Annual Growth Survey (iAGS) 2018”**, to which we contributed: the analyses and recommendations it contains should be taken into consideration by the Commission.

In our opinion, it is necessary to set the course of economic policy to ensure an upswing which encompasses everyone and hence reinforces itself. Starting points would be to **close the investment gap, raise wages**, and undertake measures to really **improve living and working conditions** for EU citizens. There still remains the need to extend the budgetary scope for public investment with the introduction of a Golden Investment Rule in order to

satisfy the enormous demand in many Member States for additional infrastructure, such as in the sectors of subsidised public housing, public transport, schools and nursery schools, energy networks, e-mobility, broadband networks, as well as research & development. Adequate minimum wages, strengthening collective bargaining systems across Europe, and strong trade unions are needed to herald a turnaround in wages policy for a Europe where it is not the elites who take centre stage, but those who create added value for Europe with their daily work.

In order to bring about substantive social progress in the EU we need to **extend binding minimum social standards, reduce precarious employment**, ensure all types of atypical employment are covered by labour and social legislation, and create urgently needed jobs and training opportunities for youth. Systematically linking the age of retirement to life expectancy is to be decidedly rejected.

Once more we propose a **new “virtuous triangle of prosperity-oriented economic policy”** as the key reference frame in the European Semester.

There is considerable need for modification in the proposed revision of the guidelines for the employment policies of the Member States; in particular we reject the references regarding the decentralisation of collective bargaining systems and linking the statutory pension age to life expectancy.

The AK's position in detail

1. The upswing in the EU

The Commission rightly points out that growth in the EU is gathering speed and that unemployment has dropped further. The economic landscape has in fact improved noticeably and this is reflected in the latest Eurobarometer survey². The majority of EU citizens said they were optimistic about the future of the EU, for the first time since the autumn of 2007 the position of the economy in Europe is more often seen positively than negatively, almost three-quarters of those interviewed in the euro area support the euro - more than at any time since 2004.

However, the consequences of the economic crisis have not yet been overcome and the recovery is showing a series of atypical features to which the Commission refers. The rate of unemployment, 7.5% in the EU and 8.9% in the euro area, is still above the unemployment rate before the economic crisis. This applies to an even greater extent to the under-employment rate (i.e. unemployment plus involuntary part-time workers and those without a job who are willing to work but are not recorded as unemployed), which was still above 21% in the euro area in 2016.³ And youth unemployment still shows excessive rates in numerous countries. According to an analysis by the European Court of Auditors, the EU Youth Guarantee is falling short⁴ of expectations. The Commission is also of the opinion that youth unemployment poses a major potential risk for the future - with negative consequences for economic growth and the viability of social protection systems.

Furthermore, investigations have shown that the upswing is of "low quality" – many of the jobs created only offer part-time employment or temporary work contracts and are low paid⁵.

The social situation in the EU continues to be characterised by the persistence of a comparatively severe disparity in income and wealth. And although the number of people in the EU threatened by poverty and social exclusion continues to decline, almost a quarter of the population of the EU (more than 115 million people) are still affected by this⁶.

In this situation the course must be set in terms of economic policy to bring about an upswing which will benefit all and hence will reinforce itself. Starting points would be to close the investment gap, raise wages, and undertake measures to really improve living and working conditions for EU citizens. However, in our opinion this can only be found in part in the AGS, as is explained below on the basis of some of the priorities proposed by the Commission.

ad) Closing the investment gap

We very much welcome the fact that the Commission again underlines the key **significance of investment to encourage growth and employment.**

Even though investments have increased recently, nevertheless there is a danger that the potential for growth will be curbed by the investment gap. We fully agree with the Commission that "Tar-

geted investment in areas such as infrastructure, education, training, health, research, digital innovation, and the circular economy, can increase both productivity and employment". We also welcome the fact that the section on investment indirectly refers to the significance of investment in the social infrastructure, such as childcare, access to healthcare, and housing.

However, many of these investments are public investments which are limited by European fiscal rules. Greater stimulation of private investments through the European Fund for Strategic Investments (EFSI) does not address this problem. The extension of the EFSI to 2020 with a corresponding increase in its volume is a step in the right direction, but it will remain inadequate as long as the direct lever available to Member States - namely public investment - remains essentially unused. **Driving Public-Private Partnerships (PPP)** in the Juncker Plan remains problematic. It can be proved from many projects that, ultimately, they turned out more expensive than if financed from the public purse only. Furthermore, PPP models often prove to be a covert backroad to the privatisation of public services, or to cutbacks in social benefits and wages.

We need more public investment to close the investment gap and protect the fragile economic upswing. Even the Commission recommends "safeguarding of public investment and increasing it in some Member States" in order to strengthen the growth potential of national economies. However, we see the need for a **general expansion of public investment**. Public investment represents an important contribution to social prosperity, improves wealth distribution and employment, and helps to achieve ambitious climate and energy objectives.

Therefore we still consider it necessary to increase the budgetary scope for public investment through the introduction of a **Golden Investment Rule**⁷ in order to satisfy the enormous need in many EU Member States for additional infrastructure, for example in the sectors of social housing, public transport, schools and nursery schools, energy networks, e-mobility, broadband networks, as well as research & development. This rule would largely eliminate the contradiction between the need for investment and fiscal rules through a long-term, sustainable and clean solution. It would also be a sensible component in the process to deepen the Economic and Monetary Union and should be introduced actively into the ongoing debate about the future.

ad) Wage trends

In recent years wage trends were characterised by a new interventionism⁸ in wages policy which resulted, in some countries, in a **significant decline in industry-wide collective bargaining agreements** and their binding force. The results were a clear decline in actual wages and increasing disparity in earnings, especially in South and East Europe.

Although the economic environment continues to improve in Europe, wages are rising slowly⁹. It is positive that in the meantime the Commission and even the European Central Bank¹⁰ have joined the demand of European trade unions for more effective wage dynamics in Europe. The fact that actual wages must rise with growing productivity "in order to reduce inequalities and ensure high standards of living" could be interpreted as the Commission approaching the concept of a **productivity-oriented wages policy**,¹¹ which is oriented to the

medium-term trend in pertinent macro-economic labour productivity and the price stability objective of the ECB. However, this contradicts the recommendations of the Commission on wages policy contained in the accompanying document to the AGS. For example, it argues in favour of the decentralisation of collective bargaining agreements in the revision of the guidelines of the employment policies of the Member States (see below). According to the recommendation on economic policy of the euro area, only Member States with high current account surpluses are called on “to support wage growth”.

Adequate minimum wages, the strengthening of collective bargaining systems across Europe, and strong trade unions are needed to herald a turnaround in wages policy for a Europe where it is not the elites who take centre stage, but those who create added value for Europe with their daily work!

ad) Measures to improve living and working conditions

Again a series of priorities, which should be supported in our opinion, can be found in the AGS under the heading “Structural reforms for inclusive growth, upward convergence and competitiveness”. We agree with the Commission when it calls on Member States to promote a work-life balance, fight youth unemployment and bring about further progress in the integration of disadvantaged groups - including refugees and migrants - into the labour market, and with the high value placed on high-quality general education and professional training accessible to all. We would like to highlight the reference to the planned **European labour market authority**, the creation of which could

contribute significantly to finally and effectively combatting cross-border wage and social dumping. We have summarised our ideas and proposals on this important initiative of the Commission in a position¹² paper.

The **refugee question** is a major challenge for the labour markets in many Member States. The European Social Fund (ESF) is a key instrument to promote the integration of refugees in the labour market. However, the funds currently available have already been allocated and will be needed for today's major challenges in the labour market, such as fighting poverty through measures to integrate people in the workplace. Therefore, the ESF should be increased by 10 billion euros for a new **employment initiative for refugees**. Funds should be distributed on the basis of the number of refugees accepted and the measures planned.

The measures proposed in the AGS to **combat youth unemployment** show that the Commission is continuing to focus primarily on improvements on the supply side (more information on available jobs, relevance of training, increasing mobility, etc.), instead of addressing the problem of youth employment by creating urgently needed jobs and apprenticeship and training positions.

The welcome commitment to **gender equality** in the AGS will be without effect without specific objectives and measures. It gives cause for concern that, in view of the major gender-related disparity in incomes across Europe,¹³ reference is merely made to the fact that Member States have taken measures to reduce the disparity in income between men and women, but without going into detail on whether these measures are having an effect, or which

measures would be necessary in order to bring about progress in this respect. This is even stranger given that the EU Action Plan 2017-2019 on Tackling the gender pay gap, published recently¹⁴, contains a major set of measures and has identified eight major strands of action. The non-binding recommendation of the EU for wage transparency issued in 2014 should be given legal force since an evaluation has shown that, in one third of Member States, not a single one of the proposed initiatives has been introduced, and in many others the response has been unsatisfactory.¹⁵ We emphatically support the Commission's concern to declare wage transparency as mandatory since a lack of transparency is one of the greatest obstacles to equal pay for equal and equivalent work.

We view the flexicurity approach still favoured by the Commission very critically. We do not share the view that additional **flexibility of labour markets** is an appropriate tool to create jobs.

There are numerous studies on the labour market in particular which refute the claim that deregulation would bring more employment and reduce unemployment. For example, a study published in May 2017 by¹⁶ the European Trade Union Institute (ETUI) was unable to find "any empirical evidence" that "deregulation has increased employment or lowered unemployment for certain groups". On the contrary, reforms were "accompanied by an increase in precarious employment, particularly in countries which have deregulated particularly energetically". 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. In most EU Member States, the duration and amount of unemploy-

ment benefit was shortened and penalties increased. In this situation we consider it necessary to review the flexicurity approach correspondingly.

The AGS refers to the fact that **more flexible and atypical forms of employment** are increasing. However, the Commission is presenting this in a positive light by arguing that this allows "companies to adjust their business cycle and for individuals to adjust their career patterns towards their desired work-life balance". Nevertheless, the Commission recognises the danger that this development can lead to the loss of social protection. In our view it is absolutely essential to reduce the extent of atypical employment in Europe and to ramp up the efforts already undertaken at the EU level to extend protection in terms of labour and social legislation for those in atypical employment. All forms of atypical employment must be covered by labour and social legislation.

Unfortunately, there is absolutely no mention in the AGS that the **improvement of living and working conditions** requires binding minimum social standards to be extended in order to strengthen workers' rights. We can see the need for urgent action in many spheres (e.g. general protection against dismissal, protection against involuntary relocation or the prohibition of zero hours contracts, continued remuneration during illness, quality of internships, etc.). We also need minimum standards to strengthen social security protection. Social security benefits must be designed so that if a risk event occurs, such as illness, old age, occupational disability or unemployment, an appropriate standard of living and protection against poverty are ensured. Since the unemployed are threatened

to a particularly high degree by poverty, social exclusion and a massive drop in their standard of living, a process of upwards convergence should be initiated through social minimum standards, mandatory across the EU¹⁷, for unemployment insurance systems.

The **question of pension systems** is an important aspect in this respect. The recommendation that “Member States should ensure the sustainability and adequacy of pension systems for all” is beyond dispute. However, what we continue to reject roundly are proposals such as, for example, linking retirement age automatically to increased life expectancy, even though the Commission has for the first time attempted to “sell” this as a measure to increase retirement income. Member States must be free to decide how they want to ensure the financial sustainability of their pension system.

The best strategy to ensure long-term financing of high-quality social protection systems is to ensure the best possible integration of people of working age in the labour market throughout all age groups.

However, a **comparison with Germany** also shows clearly that a strong state pension system ensures better results.¹⁸ The reform path in Austria equally allows for the key objectives of pension policy to ensure an adequate income in old age and long-term financial sustainability. Despite the changes in the age pyramid pension expenses **will only increase very moderately** in relation to GDP, even though a very broad and high-quality pension system will continue to be ensured in future by the Austrian pension system. In this regard the Commission itself refers repeatedly to the Ageing Report 2015, which

forecasts a total increase in public pension expenses by a full 0.5 percentage points of GDP by 2060 - for us, this is clear proof that the Austrian pension system is sustainable.

2. General comments on the “virtuous triangle” of economic policy proposed in the AGS

In the Annual Growth Survey, the Commission again commits to a “virtuous triangle” of boosting investment, pursuing structural reforms, and ensuring responsible fiscal policies”. As we already criticised in our opinion on the last Annual Growth Survey, this triangle falls too far short to be able to ensure a balanced economic policy. We propose a new **“virtuous triangle of prosperity-oriented economic policy”** that should be enshrined in the European Semester as a key reference framework. Social, economic and environmental focal points should be determined at the start of the Semester, in a much broader discussion process than hitherto, based on the four major objectives of prosperity-oriented policy (equitable distribution of material prosperity, full employment and good work, quality of life, intact environment). Instead of the current scoreboard, which largely focuses on the four stability objectives (financial markets, price trends, government activity, foreign trade stability), a broader set of indicators is required. Assuming that all objectives of the virtuous triangle are in fact measured appropriately, a much better foundation, based on facts, for a discussion of economic policy at the European level could be created. This could mean the European Semester would be introduced by an **“Annual Prosperity Survey”**. At a national level the implementation of this orientation to prosperity could be monitored by a national prosperity board to replace

the one-sided approach of the planned productivity boards or the current fiscal boards.

In relation to this, the **effective and systematic fight against tax fraud, tax evasion and tax havens** should be pursued at the European level in order to create additional funds for public benefits that generate prosperity. It is positive that this aspect is addressed directly in the recommendation on the economic policy of the euro area presented, together with the AGS, by the Commission¹⁹. However, two essential components are missing: Firstly, in addition to a common consolidated corporate tax base, a minimum tax rate must be agreed and, secondly, the Commission should address the financial transaction tax in the AGS. The fact that previous efforts to introduce a financial transaction tax were not yet successful does not call into question the importance and purpose of this tax!

3. The proposal to change the guidelines for the employment policies of the Member States COM(2017) 677 final ANNEX

We welcome the revision of the guidelines for employment policies determined in 2015 in the light of the European Pillar of Social Rights. However, the revision of the guidelines should be used to dispel some basic concerns. We would like to express our opinion on the individual guidelines as follows:

Guideline 5: Boosting the demand for labour

The sentence “These mechanisms [wage setting mechanisms, ed. note] should take into account differences in skills levels and divergences in economic performance across regions, sectors

and companies” must be viewed very critically. The system of industry-wide collective bargaining at a central level, as practised in Austria, is essential for the direction of a wages policy that is oriented to macroeconomic factors and is a necessary prerequisite for the high rate of cover by collective bargaining agreements of 98% of workers. The recommendation to orient wage-setting mechanisms to the varying economic performance levels of regions (e.g. federal states) and individual companies means a push towards the decentralisation of collective bargaining systems. This must be roundly rejected, both because of its content, as well as for reasons of competence (intervention in the autonomy of social partners in wage bargaining). **Furthermore, this recommendation does not have any foundation in the European Pillar of Social Rights.**

Guideline 6: Enhancing labour supply: access to employment, skills and competences

The emphasis placed on basic and advanced professional training is welcome. However, the requirements are lacking the aspect of living costs during training. In order to make basic and advanced training possible for adults in particular, living costs during basic and advanced training must be ensured, as well as work-life balance.

As BAK has stated in previous opinions on the subject of combatting long-term unemployment, once again we wish to emphasise that the period of 18 months before measures are initiated to end unemployment is much too long since by this point unemployment has clearly become entrenched.

Guideline 7: Enhancing the functioning of labour markets and the effectiveness of social dialogue

The sentence “Employment protection rules, labour law and institutions should all provide a suitable environment for recruitment” can be understood in the sense that it is aiming in the direction of the deregulation of employment protection and labour law and the corresponding institutions. Such an approach is not acceptable, **nor does it have any foundation in the European Pillar of Social Rights.**

Guideline 8: Promoting equal opportunities for all, fostering social inclusion and combatting poverty

The recommendation on pension systems goes well beyond the current guideline according to which Member States are to ensure the “sustainability and adequacy of pension systems for women and men”. This 2015 recommendation is acceptable because it leaves the specific measures to achieve this objective to the Member States. However, in the revision process the Commission is again trying to link the statutory pension age to life expectancy. We reject the specific recommendation in this draft on “increasing the statutory retirement age to reflect life expectancy gains”. Furthermore, this **recommendation does not have any foundation in the European Pillar of Social Rights.**

Footnotes

¹ https://www.iags-project.org/documents/iAGS-2018_Repair%20the%20roof%20when%20the%20sun%20is%20shining_04-12.pdf, 22.11.2017

² <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/ResultDoc/download/DocumentKy/81149>, 11/2017

³ iAGS 2018, page 55 et seq.

⁴ <https://www.eca.europa.eu/de/Pages/NewsItem.aspx?nid=8272>, 4.4.2017

⁵ <http://www.tagesspiegel.de/weltspiegel/sonntag/arbeitsmarkt-europas-neue-reservearmee/20301470-all.html>, 12.9.2017

⁶ <http://ec.europa.eu/eurostat/documents/2995521/8314168/3-16102017-BP-DE.pdf/3da913f0-fca5-4c2d-b88c-ffc7b03da797>, 16.10.2017

⁷ <https://blog.arbeit-wirtschaft.at/goldene-investitionsregel/>, 21.4.2015

⁸ <http://blog.arbeit-wirtschaft.at/europaweite-staerkung-der-kollektivvertragssysteme-gefragt/>, 2.12.2016

⁹ The publication "Europäischer Tarifbericht des WSI – 2016/2017" gives a good overview. <https://media.boeckler.de/Sites/A/Online-Archiv/21771>

¹⁰ <https://mobil.derstandard.at/2000066267214/Ewald-Nowotny-Notenbanken-treten-fuer-hoehere-Lohnsteigerung-ein?ref=re>, 19.10.2017

¹¹ <https://www.awblog.at/benya-formel-produktivitaetsorientierte-lohnpolitik/>, 2.12.2015

¹² http://akeuropa.eu/_includes/mods/akeu/docs/main_report_de_486.pdf, January 2018

¹³ The pay gap between men and women across the EU is a constant 16.3%; Austria continues to bring up the rear with 21.7% - despite very slow progress (gross hourly earnings, Eurostat 2015).

¹⁴ COM (2017) 678 final, EU Action Plan 2017-2019. Tackling the gender pay gap, 20.11.2017

Footnotes

¹⁵ http://ec.europa.eu/newsroom/just/document.cfm?action=display&doc_id=48361

¹⁶ <https://www.etui.org/Publications2/Books/Myths-of-employment-deregulation-how-it-neither-creates-jobs-nor-reduces-labour-market-segmentation>, 2017

¹⁷ <https://www.awblog.at/europa-sozialer-machen-mindeststandards-fuer-die-arbeitslosenversicherung/>, 28.12.2017

¹⁸ F. Blank, C. Logeay, E. Türk, J. Wöss, R. Zwiener: Alterssicherung in Deutschland und Österreich: Vom Nachbarn lernen?, WSI Report, No. 27, Düsseldorf 2016. https://www.boeckler.de/pdf/p_wsi_report_27_2016.pdf.

¹⁹ The recommendation says: "Simplifying and modernising tax systems and addressing tax fraud, evasion and avoidance are essential to make tax systems more efficient and fairer. This would help to promote investment and employment and also more social justice. This can free resources for public investment and, inter alia, education and healthcare, and contributes to supporting overall investment, quality employment and economic and social convergence. In particular, measures against Aggressive Tax Planning (ATP) are essential to secure government revenues, impede distortions of competition between firms, preserve social cohesion, and fight increasing inequalities. The Common Consolidated Corporate Tax Base (CCCTB) would contribute to the fight against tax avoidance, while improving the Single Market for businesses."

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