

László Andor

Commissioner for Employment, Social Affairs and Inclusion

"The key challenges of the crisis"

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National Union of General and Municipal Workers (GMB), Unite and Unison - Conference on "Sorting out the crises : what's the EU got to do with it?"

Manchester, May 3rd 2012

Ladies and gentlemen,

If we take the collapse of Lehman Brothers back in September 2008 as the key event triggering the crisis, then we are nearing the end of its fourth year.

That is a long time. Perhaps "crisis" is no longer the right word for it.

The last financial and economic crisis of this length we called the "Great Depression". I wonder what the historians of the future will call this protracted crisis.

As the International Labour Organisation (ILO) emphasised on Monday in its World of Work Report 2012, the employment slowdown we face is not a normal one. Clearly, the worsening situation partly reflects the predominant focus in the last two years on fiscal consolidation and internal devaluation, which has had a negative effect on aggregate demand. To move away from this "austerity trap", we need an alternative approach, a new jobs-centred approach.

Economic and employment situation

The macro-economic situation is far from bright. In the last quarter of 2011, real GDP in the European Union was only 0.6% above the figure for a year earlier, while eight Member States recorded negative growth.

And there is little indication of any improvement in the EU soon. On the contrary, the UK and Spanish economies have entered a double-dip recession since the end of last year. The overall outlook for Europe for this year is one of stagnation or mildly negative growth. This of course masks a severe recession in a number of countries.

The chief worry today is the rise in unemployment. Joblessness has hit record levels and is getting worse.

The number of unemployed people across the EU has risen by almost 1.9 million since February last year.

There were 700 000 more jobless in Spain, over 300 000 more in Italy and over 100 000 more in most other large Member States, including the UK.

Over time, the increase in unemployment will feed into higher long-term unemployment.

Out of the EU's 24.3 million jobless people, 43% have been unemployed for over a year.

Such long-term unemployment entails a significant loss of human capital, including depreciation of skills and loss of motivation, and thus of future employability, career prospects and earnings.

It can discourage people from looking for work and leaving the labour market for good.

Overall, it carries a high risk of poverty and associated social failure. But it also means an erosion of Europe's economic potential for the years ahead.

Among people younger than 25, the number of unemployed has risen by more than 50 000 in Spain and the UK since February last year, and a quarter of a million across the EU.

The EU average and the UK youth employment rates are both over 20%, and more than half of the young working population in Greece and Spain are without jobs.

Austerity measures in the UK

Ladies and gentlemen,

Here in the UK, the Government has applied strong economic medicine in terms of budget and job cuts.

Over the 12 months up to last October, I understand that about 250 000 public-sector jobs were axed in an effort to reduce the deficit.

Yet despite those cuts, Eurostat still puts the UK government deficit at 8.4% of GDP for 2011/2012 — a bare 1.1 percentage point less than the figure for 2010/2011.¹

And UK Government debt nonetheless went up to 86.8% of GDP in 2011/2012 — the fourth consecutive annual rise since the crisis began.

The UK Office for National Statistics report on the fourth quarter of 2011 says that the economy is in double-dip recession and highlights a fall in public-sector investment as contributing to the particularly large fall in the construction sector.

With UK unemployment standing at 8.2% in the first month of this year, one is entitled to wonder whether the medicine is curing or killing the patient?

Meanwhile, across the Atlantic, things are improving. While the unemployment rate has risen by 0.5 percentage points here in the EU since August 2011, in the US it has fallen by an even greater amount.

Growth differentials and a very low labour market participation rate in the US go some way towards explaining the difference.

But as the European Council noted three months ago, the fiscal consolidation measures that most Member States are applying concurrently should go hand in hand with determined action to boost jobs and growth, because sustainable growth is what we need to increase revenue and balance the books.

Austerity without growth is doomed to fail

Ladies and gentlemen,

A broad European consensus is emerging on the need to re-focus on the *Growth Agenda*.

People are beginning to question whether concentrating exclusively on consolidating public budgets is the right approach, or whether jobs and growth should not be among our top priorities, or indeed the top priority of economic policy.

Along with medium-term fiscal consolidation, financial sector repair and structural reforms, which will take a while to have an impact, we need to explore all avenues that can bring sustainable growth.

The high level of Member States' debt was not among the main causes of the financial and economic crisis. It was rather a factor which made them more vulnerable and less able to respond when the crisis hit.

¹ See Eurostat figures for government deficits and debt at http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-23042012-AP/EN/2-23042012-AP-EN.PDF.

In the Eurozone, another important source of vulnerability were the deficiencies in the institutional design of the Economic and Monetary Union and the absence of mechanisms for counter-cyclical transfers between euro area countries or, initially, even emergency rescue mechanisms.

Since the crisis erupted, Europe has been trying to address these design flaws to some extent, although there remains a long way to go.

Some Member States have a larger fiscal room for manoeuvre than others, but it is clear that overall the fiscal room for manoeuvre is not enormous, so I am not suggesting we can just spend our way out of this depression.

But we must put the search for growth and jobs on a par with a concern for fiscal discipline and sound governance.

That is why the EU's strategy to turn Europe into the sort of continent that Europeans want to live in by 2020 is all about smart, sustainable and inclusive growth and how to achieve it.

Today's varied but generally bleak economic outlook and the record high unemployment call for a closer focus on employment and growth priorities and determined action by the EU and the Member States. And we urgently need to take a fresh look at this.

The "Employment Package" which the Commission adopted two weeks ago responds to this urgency. This package identifies the most effective ways and tools for a job-rich recovery, and should be at the core of a future *EU Growth Agenda* which EU leaders will be discussing in the coming weeks.

Employment Package

The Employment Package comes as many countries undertake painful labour market reforms. Huge efforts have been made in several Member States, most recently in Italy, Spain, and Greece.

But we must look beyond the immediate term, by complementing the Annual Growth Survey. We need a solid medium-term EU employment agenda which responds to the critical present situation, and shows a way to reach the Europe 2020 goals, and in particular the employment target.

Economic growth comes about through improvements in employment and improvements in productivity. We need both. The Employment Package shows how employment policies can make it possible for labour to be a driver of growth.

The ideas we have set out for Member State policy and EU action cover three main areas:

Firstly, we emphasise the urgent need to focus policy efforts on the demand-side of the labour market and support job creation.

Supply-side policies are not sufficient to create the right conditions for job creation. To mobilise labour for growth, we need to boost labour demand.

This can be done by horizontal policy changes such as hiring subsidies for newly created jobs; a budget-neutral tax shift from labour to environmental taxes; or greater support for business start-ups, self-employment and the social economy.

The package also looks at the major structural challenges facing Europe: the move towards a low-carbon and resource-efficient economy, the demographic ageing of our societies and the rapid technological change.

Here, we identify the green economy, information and communication technologies, and health services as the three areas that can generate the most job opportunities. We are drawing attention to the fact that the economic and social needs over the next decade are set to be such that there is a significant growth potential in the green economy, health and care and the ICT sector, and that public policy needs to help in turning this potential into as many quality jobs as possible. We are therefore proposing concrete and detailed action plans to support and develop the employment potential of these areas.

For example, the green economy is expected to create over 20 million jobs in the next ten years.

Secondly, we have to make the European labour market much more dynamic. What does this mean?

To be dynamic, labour markets should be reformed in a balanced way.

Drawing on the lessons learned during this protracted crisis, the Commission urges the Member States to invest in successful transitions on the labour market.

To preserve and create jobs, labour markets need to be both more dynamic and more inclusive.

This means, for example, that employment policy should stimulate internal flexibility within companies which reduces insecurity for workers - and fiscal costs for state. Combining reduced working hours with extra training has proven to be a highly effective way of responding to the crisis, and a very good alternative to layoffs. Most of the solutions that have proven successful were based on a dialogue between employers, employees and governments. One of the important features of the Employment Package, which I would like to emphasise also because we have just celebrated Labour Day, is precisely its emphasis on the need for robust social dialogue.

Good social dialogue is essential if we are to deal in a sustainable way with problems such as segmentation, and if we are to find wage levels that are both decent and sustainable and that enable to prevent low-wage traps and in-work poverty.

But we need to strengthen also other labour market institutions and processes. We need efficient public employment services, we need good partnerships between the worlds of education and work, and we need innovative practices such as the pooling of resources between companies.

Because to be dynamic, labour markets need investment both in people and in the labour market institutions that support them. Investment in skills and re-skilling plays a crucial role in supporting productivity. Much of the lost competitiveness in many Member States can be explained by poor productivity growth – and investing in skills is an essential component towards addressing this.

Greater investment in skills is crucial, and the Commission plans to improve the forecasting and monitoring of skill needs at EU level, which could help better orientate the investments that are made.

For a labour market to be dynamic, there also has to be a high level of mobility. The Commission aims to remove any remaining legal and practical obstacles to the free movement of workers in order to make it easier for EU citizens to change countries for work purposes, because this benefits all our economies. Ensuring full portability of pensions is one aspect of this.

To build up a true European labour market, we propose to transform EURES, the EU's internet job-search portal, into a fully-fledged instrument for matching jobs and job-seekers across the Union.

Thirdly, the Commission wants to improve governance of employment policy through closer coordination with Member States to ensure that employment and social concerns are put on an equal footing with economic and fiscal concerns.

Furthermore, we want to *involve the EU social partners more closely in employment policy-making*. The Council of Ministers has been very clear on that point: we need the social partners to be more involved in setting priorities and shaping and implementing employment policies. This is why we have proposed to exchange views with social partners on growth and employment priorities in the context of the European Semester.

We also propose to set up, in full respect of the autonomy of social partners, a European tripartite format for the monitoring of wage developments. This proposal is new and the exact set-up should be discussed with social partners. The point is to be able to analyse wage developments in Europe in a coherent way and – overall - with the social partners having their say.

These proposals for improving employment governance at EU level will certainly help in rebalancing the economic governance introduced.

Lastly, the Commission's proposals stress the need to link Member States' labour market reforms more closely to investments involving the EU financial instruments — like the European Social Fund — in support of such reforms.

Conclusion

Ladies and gentlemen,

It has often been pointed out that the economy is there for people, not the other way around.

The fact that this should need saying illustrates the prevalence of a rather simplistic ledgerbook conception of the economy — as if all items fell into the red or black columns and could be added and subtracted precisely.

But intervention in the economy can have unexpected or unintended impact. Job cuts reduce spending, but they reduce tax revenue and increase social welfare benefits.

They also affect the self-esteem of those laid off and the income of families who depend on them.

That is why the EU's Europe 2020 strategy seeks to increase employment and reduce poverty *at the same time as* improving our economic competitiveness.

Europe is facing important challenges. Globalisation, the ageing society and an increased diversity following subsequent enlargements of the EU are putting our social model to the test.

With the current financial and economic crisis this test has taken dramatic proportions and we see that this can lead to social unrest and rising populism.

Our values of social justice, solidarity and equal opportunities must remain at the heart of the European construction and continue to be understood as pre-requisites for our future economic prosperity, for the well being of the European citizens, and for European cohesion.

The social partners and the Commission have a vital role to play in that task.

Thank you.