

# ECONOMIC AND EMPLOYMENT POLICY AFTER THE EUROPEAN ELECTIONS

EMPLOYMENT AND ECONOMICS COMMITTEE ETUC

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[RJANSSEN@ETUC.ORG](mailto:RJANSSEN@ETUC.ORG)

SKING@ETUC.ORG

# STATE OF THE ECONOMY

- ECONOMIC RECOVERY IS GONE IN THE SECOND QUARTER

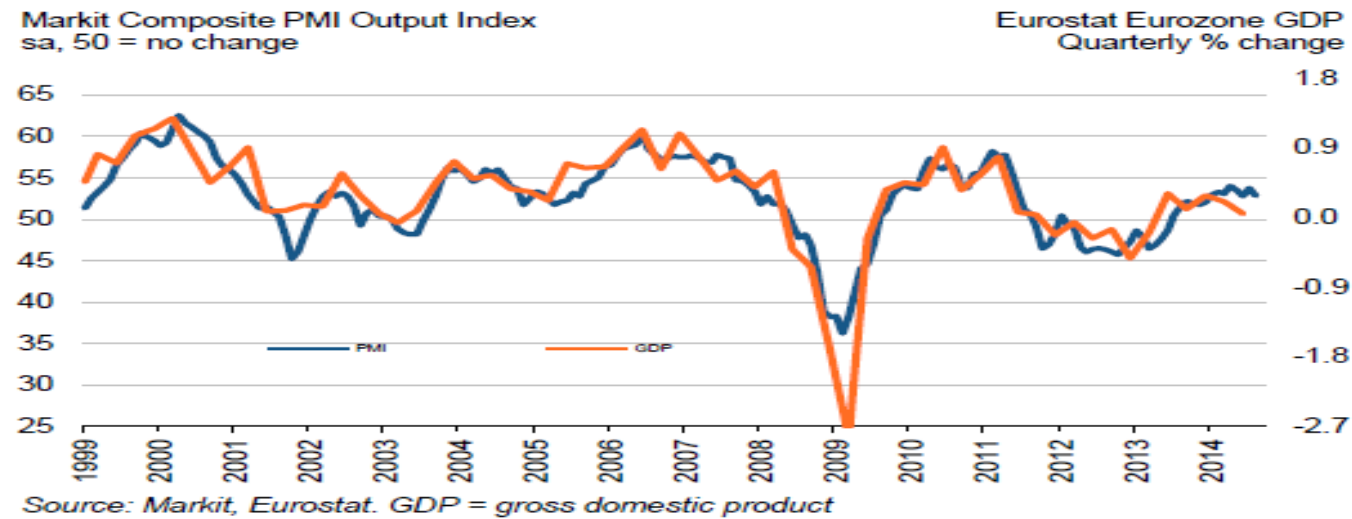
## Q on Q growth

	Euro Area		DE	FR	IT	ES	UK	PL	HU	SK
2014 Q1	0,2		0,7	0	-0,1	0,4	0,8	1,1	1,1	0,7
2014 Q2	0		-0,2	0	-0,2	0,6	0,8	0,6	0,8	0,6

Source: Eurostat

# PURCHASING MANAGER INTENTIONS NOT BRILLIANT EITHER

## Markit Eurozone PMI and GDP



## Nations ranked by all-sector output growth\* (Aug.)

Ireland	61.8	168-month high
Spain	56.9	89-month high
Germany	53.7 (flash: 54.9)	10-month low
Italy	49.9	9-month low
France	49.5 (flash: 50.0)	4-month high

# ECB PROJECTION DOWNGRADED

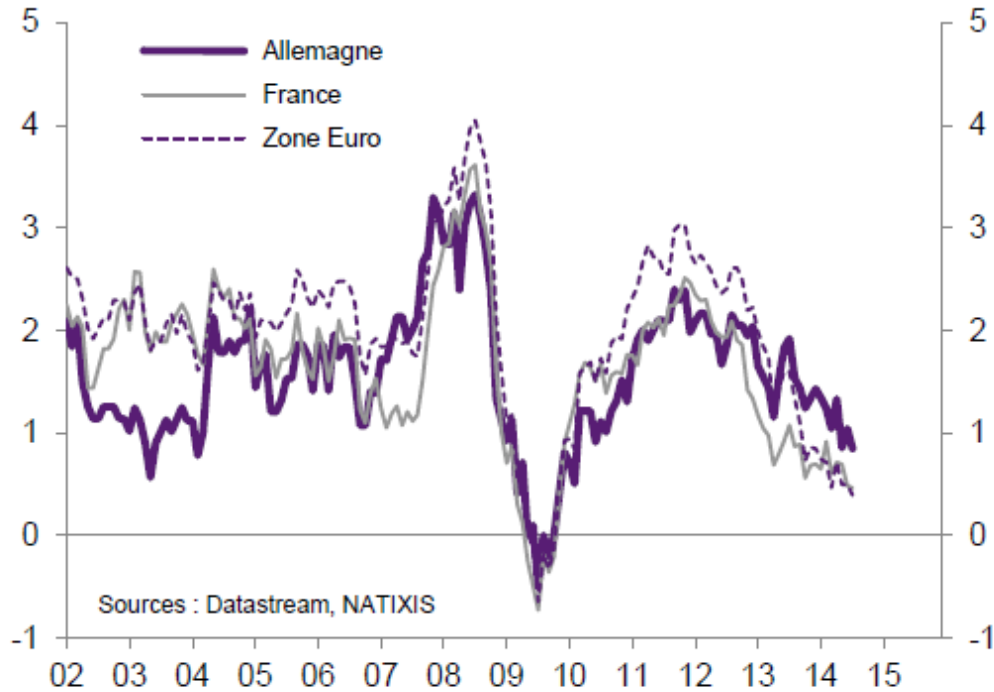
- Real growth 2014: 0,9
- Real growth 2015: 1,6
- Real growth 2016: 1,9
- Inflation below 2% target even up to 2016: 1,6%

# OECD REVISED FORECAST EVEN WORSE

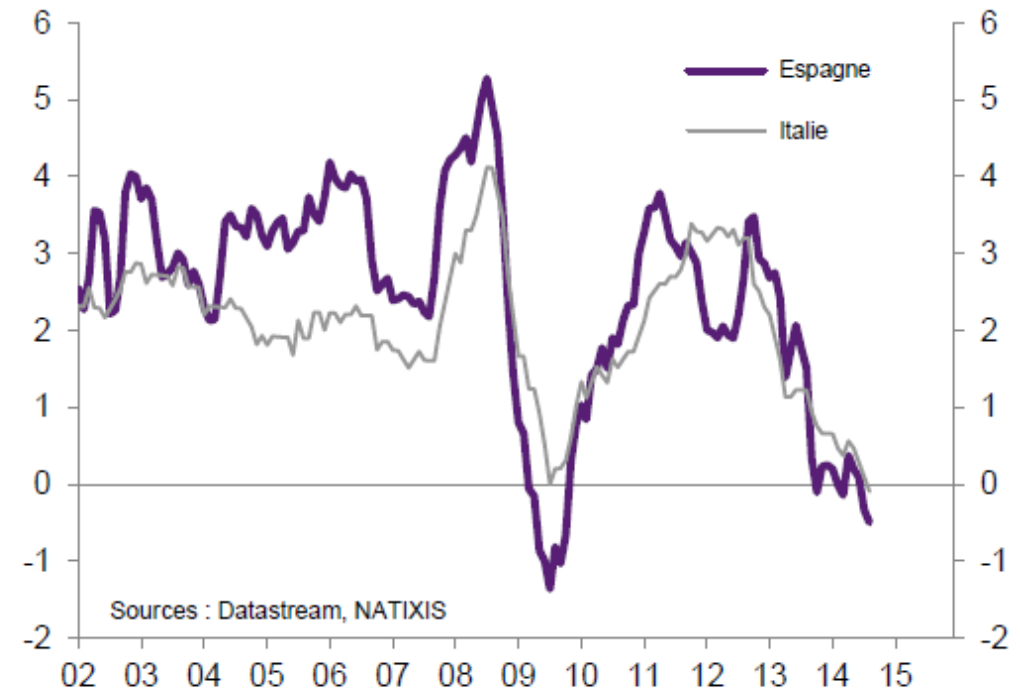
	2013	2014	2015
EURO	MIN 0,4	0,8	1,1
GERMANY	0,2	1,5	1,5
France	0,4	0,4	1
ITALY	MIN 1,8	MIN 0,4	0,1
UK	1,8	3,1	2,8

# ON THE ROAD TO DEFLATION, SOME ALREADY THERE

Graphique 2a  
Inflation (CPI, GA en %)



Graphique 2b  
Inflation (CPI, GA en %)



# ROLE OF AUSTERITY IN GROWTH

- Previous ECB numbers do not take into account additional fiscal tightening
- ECB expects additional 0,3% of GDP tightening in 2015 (plus 0,1% in 2016). To reduce growth by 0,2% in 2015 and 2016.
- Could however be more (see next slides)

# 2015 EUROPEAN DEFICIT TARGETS AND LIKELY OUTCOMES

	STABILITY PLAN TARGET	FORECAST (NATIXIS)
FRANCE	3	4,3
SPAIN	4,2	4,9
ITALY	1,8	2,9



# NEVER MIND RUSSIA.....

- VIVIDLY ILLUSTRATES DANGER OF ALLOWING INFLATION BECOMING TOO LOW....
- ....ANY ADDITIONAL NEGATIVE SHOCK WILL BRING US FROM LOWFLATION TO OVERALL DEFLATION

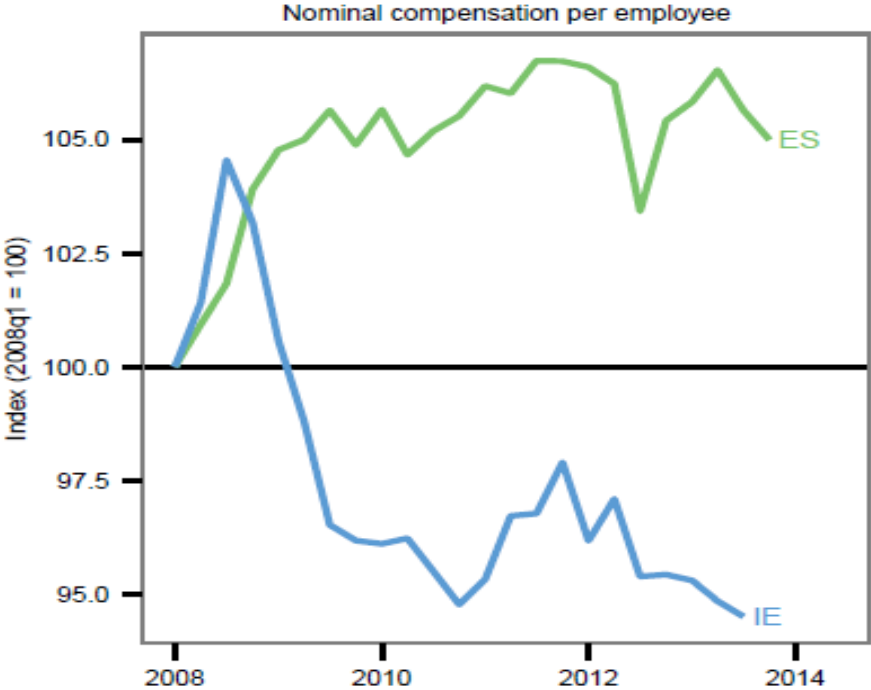
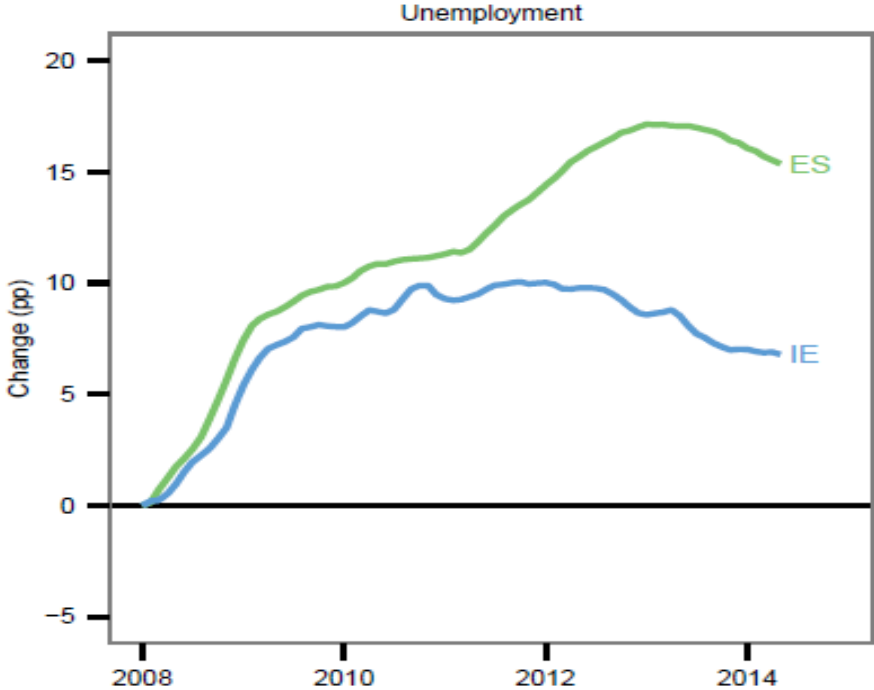
# STATE OF POLITICS AND POLICY AFTER THE ELECTIONS

- IS THERE SOME LIGHT IN THE HEADS OF EUROPE'S LEADERS?
  - JUNCKER SPEECH
    - 300 BILLION OVER 3 YEARS ADDITIONAL INVESTMENT INITIATIVE
    - MINIMUM WAGES EVERYWHERE
  - DRAGHI SPEECH JACKSON HOLE : OVERDUE RECOGNITION OF OUR PROBLEMS
    - RECOVERY NOT ON TRACK
    - PROBLEM WITH DEFLATION
    - DEMAND SIDE POLICY ALSO MATTERS
    - SORT OF NEW PROMISE FROM MONETARY POLICY « TO DO WHATEVER IT TAKES »
- HOWEVER, THERE ARE ALSO FAR LESS POSITIVE MESSAGES HERE.....

# STRUCTURAL REFORMS ARE EVERYWHERE

- ECFIN, JUNCKER SPEECH, ECB (in particular text box: to 'impose radical' reforms)
- Most remarkable: Draghi's speech putting everything upside down
- Structural reforms of wages (firm level agreements) as a recipe against debt deflation?????

# THIS IS HOW DRAGHI DOES IT



# AUSTERITY GONE: REALLY?

- READ THE DETAIL: USE EXISTING FLEXIBILITY OF SGP (NOT MORE FLEXIBILITY)
- WHAT FLEXIBILITY?
- RULE OF SGP: « IMPLEMENT THE FISCAL CUTS THAT ARE PLANNED, IF ECONOMY SINKS AND DEFICIT TARGET NOT REACHED, YOU CAN HAVE A DELAY IN REACHING THE INITIAL TARGET, PROVIDED YOU DELIVER STRUCTURAL REFORMS »
- HOW DOES THAT HELP?

# MOREOVER, PERVERSE ATTACK ON WELFARE STATES

- CUT PUBLIC AND SOCIAL EXPENDITURE TO CUT TAXES AND THE NET EFFECT WILL BE TO RELAUNCH DEMAND....
- NONSENSE...SEE IMF TAX AND BENEFIT MULTIPLYERS
- BUT.... THIS IS WHAT IS BEING IMPLEMENTED
  - FRENCH SUPPLY SIDE PROGRAMM
  - ECFIN THIS WEEKEND

# EUROPEAN INVESTMENT INITIATIVE

- WE HAVE BEEN THERE BEFORE
- DETAIL:
  - EXISTING EIB CAPITAL INCREASE (BUT LEVERAGED UP THREE INSTEAD OF TWO TIMES)
  - UNUSED STRUCTURAL FUNDS (HAVE ALREADY BEEN RECYCLED AT LEAST TWO TIMES)
  - QUANTITATIVE EASING BY THE ECB: PROVIDED MS SIGN GUARANTEES
  - TO DO ALL OF THIS, MS NEED ACCESS TO FINANCE: THEY DO NOT HAVE THIS

# GERMANY AS A LOCOMOTIVE?

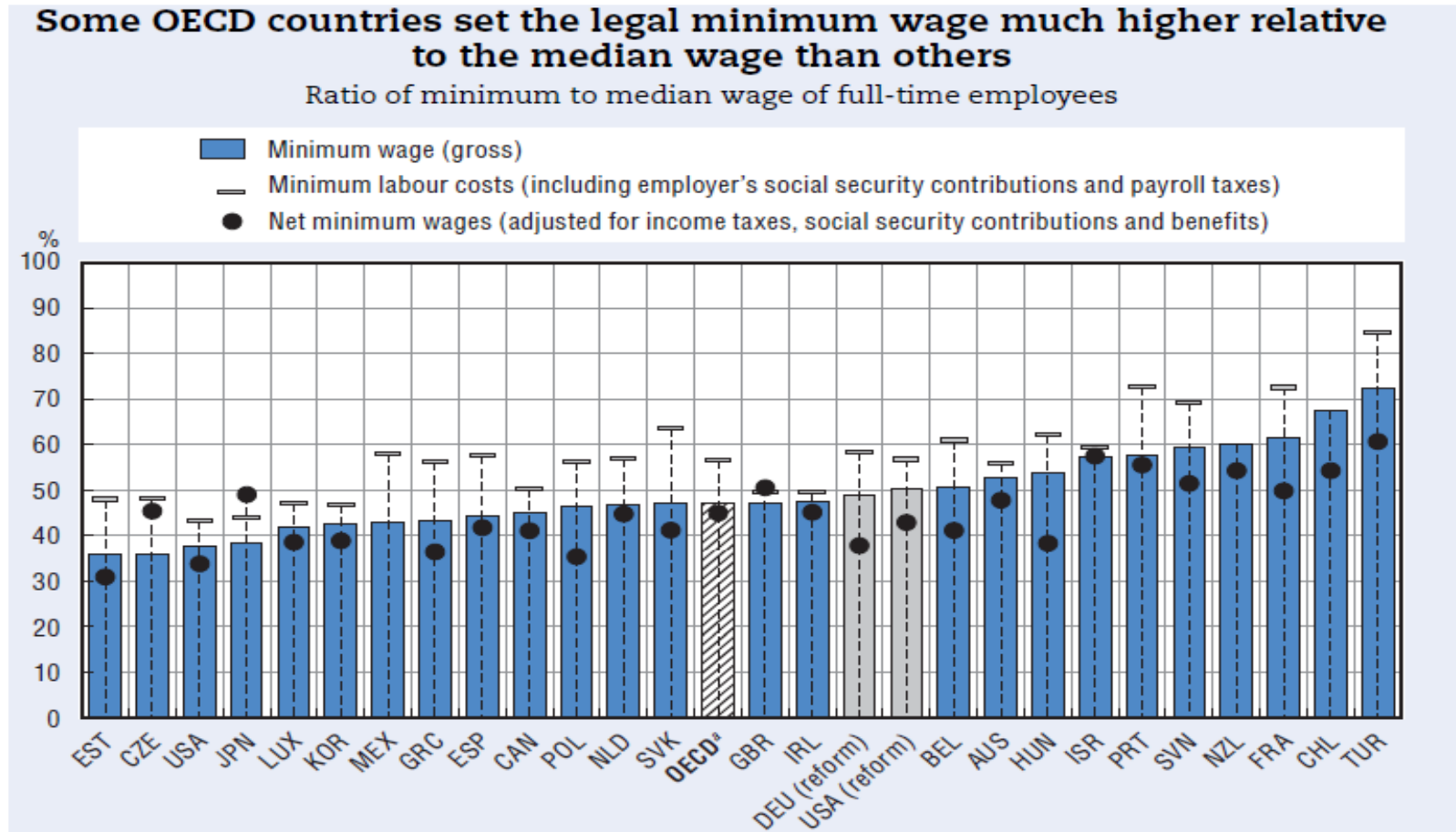
- 2% OF GDP OF FISCAL STIMULUS IN GERMANY AND OTHER SURPLUS COUNTRIES OVER TWO YEARS.....
- .... INCREASES GDP IN THE REST OF THE EURO AREA BY 0,25% OF THEIR GDP AFTER TWO YEARS
- .... SO RAISES GROWTH IN EACH YEAR BY..... 0,12% ONLY....
- GERMANY AS A LOCOMOTIVE: ANNUAL EXPANSION NOT 2 BUT 10%..... DESIRABLE?



# EUROPEAN MINIMUM WAGE : ARE WE MEASURING THE MINIMUM WAGE CORRECTLY?

- GROSS MINIMUM WAGE TO GROSS MEDIAN WAGE
- OECD: EMPLOYER SOCIAL SECURITY CONTRIBUTIONS ARE NOT INCLUDED IN GROSS..... IF YOU DO INCLUDE YOU GET A MINIMUM WAGE AS HIGH AS 70% IN FRANCE

# EUROPEAN MINIMUM WAGE ? OECD employment outlook



# QUESTIONS FOR DEBATE

- CHANGE IN TONALITY ....
- IS THIS A REAL CHANGE IN POLICY COURSE?
- HOW DO WE POSITION OURSELVES TO ALL OF THIS?
  - DO WE WELCOME THE CHANGE IN TONE?
  - DO WE MAINTAIN A STANCE OF CRITICISM?
  - DO WE TAKE A ROAD IN BETWEEN? HOW TO TRY AND STEER THE POLICY PROCESS IN THE RIGHT WAY? WHAT DO WE WELCOME THEN AND WHAT DO WE CRITICISE? WHAT DO WE PROPOSE ? ( GOLDEN PUBLIC INVESTMENT RULE ? INVESTMENT EASING BY THE ECB?)