ECONOMIC AND EMPLOYMENT POLICY AFTER THE EUROPEAN ELECTIONS

EMPLOYMENT AND ECONOMICS COMMITTEE ETUC
SEPTEMBER 2014 BRUSSELS
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STATE OF THE ECONOMY

- ECONOMIC RECOVERY IS GONE IN THE SECOND QUARTER

<table>
<thead>
<tr>
<th></th>
<th>Euro Area</th>
<th>DE</th>
<th>FR</th>
<th>IT</th>
<th>ES</th>
<th>UK</th>
<th>PL</th>
<th>HU</th>
<th>SK</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 Q1</td>
<td>0.2</td>
<td>0.7</td>
<td>0</td>
<td>-0.1</td>
<td>0.4</td>
<td>0.8</td>
<td>1.1</td>
<td>1.1</td>
<td>0.7</td>
</tr>
<tr>
<td>2014 Q2</td>
<td>0</td>
<td>-0.2</td>
<td>0</td>
<td>-0.2</td>
<td>0.6</td>
<td>0.8</td>
<td>0.6</td>
<td>0.8</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Source: Eurostat
PURCHASING MANAGER INTENTIONS NOT BRILLIANT EITHER
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

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURO</td>
<td>MIN 0,4</td>
<td>0,8</td>
<td>1,1</td>
</tr>
<tr>
<td>GERMANY</td>
<td>0,2</td>
<td>1,5</td>
<td>1,5</td>
</tr>
<tr>
<td>France</td>
<td>0,4</td>
<td>0,4</td>
<td>1</td>
</tr>
<tr>
<td>ITALY</td>
<td>MIN 1,8</td>
<td>MIN 0,4</td>
<td>0,1</td>
</tr>
<tr>
<td>UK</td>
<td>1,8</td>
<td>3,1</td>
<td>2,8</td>
</tr>
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</table>
ON THE ROAD TO DEFLATION, SOME ALREADY THERE
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

<table>
<thead>
<tr>
<th>Country</th>
<th>Stability Plan Target</th>
<th>Forecast (Natixis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>3</td>
<td>4.3</td>
</tr>
<tr>
<td>Spain</td>
<td>4,2</td>
<td>4.9</td>
</tr>
<tr>
<td>Italy</td>
<td>1,8</td>
<td>2.9</td>
</tr>
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</table>
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 MULTIPLIERS

• 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
Some OECD countries set the legal minimum wage much higher relative to the median wage than others.

Ratio of minimum wage to median wage of full-time employees.
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 WELLCOME 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 WELLCOME THEN AND WHAT DO WE CRITISE? WHAT DO WE PROPOSE ? ( GOLDEN PUBLIC INVESTMENT RULE ? INVESTMENT EASING BY THE ECB?)