

## 4. Austerity, Economic Governance, Annual Growth Survey

### (i) Addressing recent Economic Governance Measures

#### Background Note

This document covers the main developments in terms of economic policy and governance since the EPSU Executive Committee met in November 2011. It then briefly identifies the key challenges and the main responses at European and national level.

#### Developments since last Executive Committee

- Worsening economic outlook
- Treaty on Stability, Coordination and Governance
- “Six-pack” regulations implemented and draft “two-pack” regulations published
- Second Annual Growth Survey
- First Alert Mechanism Report
- Eurobond consultation
- Greek debt restructuring

**Worsening economic outlook:** The latest predictions for the European economy are that 2012 will see no growth overall in the EU and a decline of 0.3% in the Euro zone. The boost in confidence that is at the centre of the European Commission’s economic policy has failed to materialise and, as predicted by the trade union movement, co-ordinated austerity has undermined any progress towards recovery.

DG ECFIN briefing:

[http://ec.europa.eu/economy\\_finance/articles/eu\\_economic\\_situation/2012-02-23-interim-forecast\\_en.htm](http://ec.europa.eu/economy_finance/articles/eu_economic_situation/2012-02-23-interim-forecast_en.htm)

**Treaty on Stability, Coordination and Governance:** The Treaty is inter-governmental as the UK and Czech Republic have refused to endorse it. Its central element is the requirement to enshrine in law or even in the national constitution a limit on structural deficits of 0.5% of GDP (1% if the country’s debt is significantly below the threshold of 60% of GDP). The Treaty gives a role to the European Court of Justice in monitoring implementation of this rules and the power to impose sanctions on countries that fail to introduce the appropriate legislative or constitutional changes. It will also involve much closer surveillance of national budgetary plans and economic policies, effectively running alongside and reinforcing the parts of the “six-pack” regulations covering excessive deficits. The ETUC made a clear statement opposing the Treaty for focusing on austerity budgetary rigour while failing to make any proposal on employment and growth.

European Council information on the Treaty:

<http://european-council.europa.eu/eurozone-governance/treaty-on-stability>

ETUC position: <http://www.etuc.org/a/9762>

**“Six-pack” plus “two pack”:** The “six-pack” became law in December 2011 just two weeks after the Commission issued drafts of two new regulations on economic governance aimed at strengthening surveillance in the euro area. One regulation requires Euro member states to submit budgetary plans to the Commission that can demand revisions to the plans if they show serious non-compliance with the Stability and Growth Pact. The second regulation focuses specifically on Euro member states experiencing or threatened with serious difficulties and needing support from the European Finance Stability Facility (EFSF) and future European Stability Mechanism (ESM). They will be required to adopt measures to tackle instability and there will be regular review missions to assess progress of a macro-economic adjustment programme. If a country does not comply with policy recommendations it would risk losing the financial support from the EFSF/ESM. The ETUC has put forward

amendments to this second regulation that focus on protecting wage determination and collective bargaining, a greater role for social partners and removal of sanctions that would see countries losing access to a range of European funds.

Gauzès report (ETUC proposed amendments 75-78, 91, 94, 95, 117-119, 165):

[http://www.europarl.europa.eu/meetdocs/2009\\_2014/documents/econ/am/895/895612/895612en.pdf](http://www.europarl.europa.eu/meetdocs/2009_2014/documents/econ/am/895/895612/895612en.pdf)

DG ECFIN briefing on regulations and Treaty:

[http://ec.europa.eu/economy\\_finance/articles/governance/2012-03-14\\_six\\_pack\\_en.htm](http://ec.europa.eu/economy_finance/articles/governance/2012-03-14_six_pack_en.htm)

**First Alert Mechanism Report:** Under the regulations on macroeconomic imbalances, all EU Member States are assessed against a scoreboard of economic indicators. The report identifies 12 countries that require an in-depth analysis on the basis of their relative performance in relation to overall indebtedness, exports and competitiveness. An ETUC discussion note on the report warns that for eight countries the issues highlighted are wages and price competitiveness and that the process is weighted towards wage moderation rather than taking a more balanced approach.

DG ECFIN page on Alert Mechanism:

[http://ec.europa.eu/economy\\_finance/economic\\_governance/macroeconomic\\_imbalance\\_procedure/index\\_en.htm](http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm)

ETUC Discussion Document: <http://www.epsu.org/a/8563>

**Second Annual Growth Survey:** The second Annual Growth Survey (AGS) was published earlier than expected and includes five key policy areas in contrast to the 10 main objectives of the 2011 AGS. While acknowledging the short space of time between the two documents, the 2012 AGS warns that not enough has been achieved in key areas. There is some recognition of deteriorating economic prospects and so fiscal consolidation has been refined into the notion of “differentiated growth-friendly fiscal consolidation”. The 2012 AGS makes some general and positive points about the need to tackle youth unemployment and focus on skills and training. However, it also opens up a whole new policy area in its discussion of “modernising public administration”. The problem is that the focus is on the need for deregulation with public administration seen as a drain on the “real economy” rather than a part of a potential positive agenda involving investment in quality public services. Overall the document is still very weak on a strategy for investment, employment and growth.

EPSU statement on second Annual Growth Survey: <http://www.epsu.org/a/8160>

EPSU statement on modernising public administration: <http://www.epsu.org/a/8442>

Annual Growth Survey and related documents:

[http://ec.europa.eu/commission\\_2010-2014/president/news/documents/2011/11/20111123\\_documents\\_1\\_en.htm](http://ec.europa.eu/commission_2010-2014/president/news/documents/2011/11/20111123_documents_1_en.htm)

**Eurobonds consultation:** In a welcome move, the European Commission at least initiated a debate about debt financing through Eurobonds – stability bonds, although with the consultation finishing on 8 January 2012, this is not the urgent response that the trade union movement had hoped for. The Green Paper asked about three options that would involve different approaches to whether national debt is fully or partially replaced by Eurobonds and the extent to which there is joint or separate guarantees behind the bonds.

DG ECFIN documents on Eurobonds:

[http://ec.europa.eu/economy\\_finance/articles/governance/2011-11-23-green-paper-stability-bonds\\_en.htm](http://ec.europa.eu/economy_finance/articles/governance/2011-11-23-green-paper-stability-bonds_en.htm)

**Restructuring of Greek debt:** By early March, protracted negotiations over a restructuring of Greek debt produced a result with private sector interests agreeing to a significant cut to their debt entitlement. While this is a step towards stabilising the situation and unlocks further financial support, it remains to be seen whether there is any real strategy to try to rebuild and strengthen the Greek economy. A discussion note from the ETUC warns that the restructuring might provide some temporary relief but is unlikely to provide an escape from the long-term debt dynamics.

ETUC discussion document on Greek debt: <http://www.epsu.org/a/8560>

ETUC statement on Greece: <http://www.etuc.org/a/9771>

EPSU statement on Greece: <http://www.epsu.org/a/8440>

### **Main challenges**

While some of these policy responses are heading in the right direction they are either inadequate in relation to the crisis facing Europe or raise more fundamental questions about the role and responsibilities of the European institutions. To summarise:

- The Austerity Treaty is intergovernmental and undermines the community method;
- The focus in the Treaty and further legislation is still fiscal consolidation and budgetary rigour rather than the development of a European plan for investment in jobs and growth that will tackle, in particular, the weaknesses of the most vulnerable economies;
- The actions of the European Commission, European Central Bank in cooperation with the International Monetary Fund in countries like Greece and Portugal pose a threat to the autonomy of the social partners while raising serious concerns about their neutrality in relation to the provision of public services.
- The European Semester and the process of economic governance involve a number of processes – Annual Growth Survey, National Reform Programmes and Country-Specific Recommendations – that require responses and inputs from both EPSU and national affiliates. The forthcoming (Mid April) *Communication of the European Commission Towards job rich recovery* foresees “to improve the mechanisms for social partners’ participation in the coordination of economic and employment policies at EU level, for example as regards consultations on the Annual Growth Survey priorities” reflecting a demand of ETUC and EPSU. It will argue that “for European economic governance to be effective and inclusive, involvement of social partners in formulation and implementation of economic and employment policies needs to be commensurate with the developments in surveillance and coordination mechanisms.” In an even more far-reaching point, the Commission will make the point that “Europe is still far from having developed mechanisms for wage-setting coordination or consistent monitoring of wage developments at European level where aggregate EU-level effects would be considered and social partners involved. A disconnection between the on-the-ground responsibility of social partners and governance processes at European level could negatively affect policy implementation.”. EPSU will continue its work to monitor pay developments.

### **Responses**

- EPSU coordination: November 30 day of action and evaluation
- ETUC initiative: February 29 actions
- Continuing national responses
- Following the European Semester

EPSU affiliates across Europe, including those outside of the European Union, took part in a wide range of actions around 30 November. It was the first time that EPSU had attempted this kind of coordinated and decentralised action. The overall evaluation of the initiative is positive while including suggestions for how coordination could be improved particularly in the way we communicate the same message.

EPSU list of country actions: <http://www.epsu.org/a/8178>

Adopting a similar approach, the ETUC called for a decentralised day of action on 29 February on the eve of the European Summit on 1-2 March.

ETUC press release on 29 February: <http://www.etuc.org/a/9723>

Since the actions around 30 November, there have been strikes and major mobilisations in several countries in protest at continuing or deepening austerity measures and attacks on employment rights. In Spain in January and February there have been protests against labour reforms and regional demonstrations over public spending cuts. The two main confederations called a general strike for 29 March against the labour reforms. Trade unions

in Greece are maintaining their protests with general strikes on 17 January and 7-8 February. Austerity measures and attacks on pensions prompted two general strikes in Belgium on 22 December and 30 January while there were also anti-austerity demonstrations in Italy in December and Portugal in February.

EPSU message of support to Spanish unions: <http://www.epsu.org/a/8562>

EPSU convened its Economic Policy advisory group on 29 November 2011 and 7 February 2012 in order to discuss a range of issues related to economic governance. The early publication of the second Annual Growth Survey meant that the two meetings did not work so well as pre- and post-AGS discussions but they did provide valuable information for and feedback from affiliates including a discussion of the analysis of the 2011 National Reform Programmes by the ETUI commissioned by EPSU.

EPSU-ETUI report on National Reform Programmes: <http://www.epsu.org/a/8459>