



ANNUAL GROWTH SURVEY 2018

SOCIAL PARTNERS CONSULTATION

EMPLOYERS VIEWS

13 October 2017

1. Economic and social context

With GDP growth prospects close to 2% for the EU 2017, and encouraging indicators of business confidence, EU and national policy makers and social partners have an important role in the next year to ensure that the recovery is broad based and long lasting.

Reflecting the improved economic conditions, a better employment outlook has progressively taken shape over the last few years. The unemployment rate has come down to 7.6% in the EU and 9.1% in the Euro Area in August 2017.

To further reduce unemployment and inactivity rates, there is potential in fostering higher employment participation of young people, women and older workers in many Member States. Moreover, labour market integration of low-skilled refugees/migrants is a testing challenge for several Member States.

Labour market performance varies strongly across Europe:

- ✓ In some countries, unemployment is high due to a lack of growth and structural weaknesses that derive to a large extent from ineffective and/or too rigid labour market regulatory frameworks. In these countries, a lack of or insufficient labour market reforms is the main reason for high unemployment.
- ✓ Other countries are faced with increasing labour shortages, leading to a significant number of unfilled vacancies, and a growing need of external workforce and/or stronger participation of domestic unemployed or inactive workforce to meet the demand side on the labour market.

2. Key policy recommendations

To ensure open, dynamic and mobile labour markets, reforms must be implemented to facilitate job creation, in particular for young people, and employment participation.

In order to maintain and increase global competitiveness, the labour market regulatory framework needs to be clear, simple and flexible.

Non-wage labour costs should be reduced through targeted cuts in employer social security contributions to stimulate demand by encouraging employers to hire more staff.

To address serious skill shortages and mismatches, education and training systems need to be tailored to labour market needs. Acquisition of basic skills should remain a constant effort to avoid increases in low literacy skills. More STEM graduates (science, technology, engineering and maths) are needed as well as people with digital skills.

Reforms are required to encourage people to stay in the workforce longer, make pension systems sustainable in the long term, and ensure we properly integrate migrants into the workforce.

3. Employment and social priorities for AGS 2018

3.1 Investing in skills development and care infrastructures to increase labour productivity and employment participation

The capacity of the EU's economy to drive long-term growth is below that of our major competitors. The Commission estimates that potential growth (i.e. the long-term sustainable rate) is around 1.4% in the EU, compared with over 2% in the US.

It is important to reinforce the Economic and Monetary Union by supporting EU Member States' efforts to converge towards the desired outcomes of competitiveness, growth, employment and productivity. In this respect, the recently created productivity boards can be helpful to inform policy decisions at national level.

Employers believe that the Annual Growth Survey 2018 should put emphasis on fostering productive investment in skills and an enhanced employment participation of women and men through improved care infrastructures.

Firstly, education and training is an important driver of productivity growth. And productivity growth is the only sustainable way for enterprises to be able to generate more growth and offer more jobs and improved conditions to workers.

Improved skills training policy frameworks are needed to encourage companies and workers to invest resources and time in developing skills that fit with labour markets requirements and unlock labour productivity growth. High quality initial and continuous vocational training programmes that deliver technical and transversal skills are particularly requested by SMEs which have more and more difficulties to recruit skilled workers.

The acquisition of STEM skills (science, technology, engineering, mathematics) is an important challenge. Bridging the gap between supply and demand for those skills is in the interest of all citizens and all enterprises, not only in the IT sector, but across all sectors of the economy.

The digital revolution can increase job creation, employment opportunities and our prosperity. But for that to happen we need to adapt our labour markets, our education and training systems and work organisation to the fast-changing needs of our economies.

Ensuring people are equipped with digital skills is a priority. Eurostat shows that 40% of EU citizens have no or very low digital skills. At the same time, 90% of jobs are estimated to soon require some level of digital literacy. Closing that digital skills gap is of crucial importance.

Secondly, investments and coordinated national policies must be promoted to improve the availability and functioning of care infrastructures, hence supporting the application of Country Specific Recommendations where relevant.

This is because care infrastructures, including in particular for childcare and caring for the elderly as well as disabled/seriously ill relatives, should be made more efficient in terms of affordability, opening hours and quality of services provided. Public-private

partnerships are part of the answer in this area, which will also add new job opportunities for women and men.

What would be of added value is for the Commission to organise a mutual learning seminar with interested Member States, social partners and those public and private organisations providing childcare services to identify what actions are needed, by whom and at which level, to unlock the investments needed, as well as to learn from each other on how to make good use of public resources to maximise the return on investment in childcare.

3.2 Work contracts and employment protection

Businesses have different needs and ensuring the attractiveness of different contractual forms as well as avoiding overly strict employment protection legislation is essential.

Employment regulations should provide the right framework for employers to create jobs. New forms of work are more and more a reality in the context of digitalisation. Employers need to adapt to constantly changing economic circumstances. This should go hand in hand with providing appropriate levels of protection to workers and encouraging their mobility on the labour markets.

In some countries unemployment is high due to a lack of growth and/or structural weaknesses that derive to a large extent from ineffective and/or too rigid labour market regulatory frameworks. In these countries, a lack of or insufficient labour market reforms is one of the main reasons for high unemployment.

Most people who do work in part-time do so voluntarily. Fact is there was no increase in involuntary part-time during recent years. From 2013 until 2016 involuntary part-time employment in the EU-28 as percentage of the total part-time employment has actually decreased from 26.0 to 24.6 per cent (Eurostat, 2017). Involuntary part-time only constitutes an issue in very few countries (i.e. Greece, Bulgaria) while in many other countries (i.e. Belgium, Germany) involuntary part-time is not a problem and has been declining in recent years.

Employers fully agree with the perspective to better intergrate refugees in the labour market. In Member States such as Germany, Sweden, Denmark, which have taken up a significant number of refugees, their access to national labour markets can lead to an increase in unemployment figures and social expenditures. The manifold activities for labour market activation of refugees – language, qualification, training and employment support measures – put considerable strain on public finances. Experience shows that a full-fledged labour market participation of the mostly non qualified refugees will require an appropriate legal framework, incremental investments, taking into account the different skills levels of refugees and the time needed for an effective integration. It will also require involvement from a multitude of stakeholders, both public and private, and a coordinated effort, each in their respective areas of competence, in order to lead to impactful and sustainable results.

3.3 Social protection

Pensions and labour market reforms are required to make pensions expenditures sustainable in view of increased life expectancy. This is essential for intergenerational solidarity, to ensure that systems can provide adequate support for future generations.

While progress has been made by Member States, particularly in reforms of pensions systems and some labour market reforms, further efforts are likely to be needed to cope with the consequences of demographic change and avoid tensions between generations.

Reforms to social protection systems must aim to facilitate labour market participation of those who can work, by making work pay compared to welfare benefits. Income support should be targeted at those most in need.

Non-wage labour costs should be reduced through targeted cuts in employer's social security contributions to stimulate demand by encouraging employers to hire more staff.

We need to reflect on and if necessary rethink how careers are organized over the whole life course, e.g. facilitating flexible working arrangements, ensuring continued productivity, encouraging lifelong learning and ensuring health and safety at the workplace.

Facilitating longer working lives requires action by employers, including adapting work organisation, as well as efforts by individuals to adapt to potential changes in work and new skills needs on the labour market. These are some of the issues covered in our recent social partner's framework agreement on active ageing and an inter-generational approach.

Access to social protection

In a number of countries, there is no distinction between different forms of employment in terms of access and contributions to social protection. Member States have reformed their systems to provide broader access, by changing eligibility conditions, giving incentives for voluntary coverage, and including workers in wider tax-based social protection measures, irrespective of their employment status.

For self-employed, whilst access to social protection across the board is not guaranteed in all Member States, already 17 Member States give similar access as workers to most statutory social protection schemes. Self-employed also have possibilities for coverage through private insurance.

It is logical that there are some differences in coverage, as social protection benefits are relative to employment status. For self-employed, only one person is contributing in contrast to an employee, where the employer also contributes.

Whatever the national situation for self-employed in terms of access and contribution to social protection benefits and tax arrangements, it is important to make sure that the system is well conceived.

It is crucial to not create an overly economic burden through high social contributions that make self-employment less attractive due to an obligation to contribute to social protection.

Where differences in access to social protection exist and the impact is negative for workers, citizens, employers or the overall sustainability of the social protection system, these are issues to be solved at national level. Facilitating mutual learning at EU level between Member States on this would be useful in the context of the Open Method of Coordination.

3.4 Active labour market policies

We need to ensure that active labour market policies (ALMPs) are efficient and effective. ALMPs should also be designed to support mobility between sectors and the retraining of workers, which will become increasingly essential as our labour markets adapt to the digital transformation of our economies.

More money alone will not result in higher labour market integration rates. Therefore, public employment services (PES) and unemployment benefit systems should be reformed, where necessary.

Cooperation between PES, private employment services, mutual learning and benchmarking should be strengthened. The objective is to improve the performance of ALMPs in terms of employment outcomes, i.e. to reduce unemployment where needed, and reduce inactivity levels in particular in countries where unemployment is low already.

This concerns how national tax and benefit systems can be designed to make work pay and avoid unemployment traps; the cost-effectiveness of Member States' spending on

ALMPs, including as concerns specific support measures, notably job search assistance and training provision.

To enhance the overall effectiveness and efficiency of ALMPs it is also important to improve the capacity of PES. This can be achieved through reforming their structure and the nature of their service provision role, where needed; and strengthening partnerships with key stakeholders, notably social partners.

When designing and providing targeted measures supporting higher levels of employment participation, such as financial incentives to enterprises and/or workers in the form of tax reductions or in-work benefits, as well as in evaluating and improving them, employers' needs need to be better taken into account, notably in terms of skills.

3.5 Wage policy

Wage growth needs to be sustainable. Otherwise enterprises will lose competitiveness and unemployment will start to return. This means putting in place policies that can raise long term productivity, for example through supporting innovation, access to new markets, skills formation and the development of the digital economy as well as traditional industries such as manufacturing.

European debates on wages should fully respect the fact that wage setting is the competence of the social partners at national level in the context of diverse industrial relations systems. Designing an appropriate wage policy is a matter for consideration at national level. For social dialogue to play a positive role, it is important that national collective bargaining frameworks, including the respective role and coordination of sectoral and company bargaining, are geared towards productivity gains.

Despite improvements of recent years, in many Member States, unemployment remains very high (e.g. 17.1% Spain, 11.3% Italy, 21.2% Greece and overall Euro Area 9.1%), hence the need for continuing wage restraint.

In Member States which are near to or moving towards full employment and where productivity is increasing more strongly, there may well be scope for stronger pay increases in the coming years. We have already seen real wage increases averaging 1.8% in Germany over the last 3 years (real compensation per employee (consumer price deflator); 1.8% in 2014, 1.8% in 2015, 1.6% in 2016), over 1.7% in Sweden, and well above that in some Eastern European countries (e.g. avg. of 5.4% in Romania, 4.5% in Bulgaria, 2.9% in Poland, or 6.8% in Latvia).

In addition, given falls in recent months in average hours worked, as noted by the ECB, real wage growth per hour is actually slightly stronger than official data calculated on the basis of per worker would indicate.

4. Making progress requires an effective reforms partnership

Rather than trying to solve labour markets challenges across the board at European level, the European Union should focus on providing information, incentives and technical expertise for Member States and social partners to design, implement and evaluate policies really addressing the structural labour market challenges they face, in a way that is understood and acceptable to their societies.

Priority areas of coordinated action between the EU and Member States are to:

- Prioritise reforms to achieve open, mobile and dynamic labour markets. This is about securing at the same time the flexibility and security that both enterprises and workers need. The varying starting points of Member States in terms of economic development also needs to be accounted for;
- Reduce and/or shift the tax wedge on labour with a view to encouraging job creation;

- Create or adapt policy frameworks and make use of available public resources without adding to tax pressure on enterprises.

Employers welcome the existence of the Commission's Structural Reform Support Service (SRSS), aiming to provide assistance to implement projects for reforms in sectors from judiciary to digital, including labour market reforms. We look forward to learn more about how this Service is organised and to discuss the possible role for social partners bearing in mind that national labour market reform projects should primarily be driven by factors of competitiveness, growth and job creation. Examples of good practices involving social partners should be shared as well as the culture of assessing results and impact.

The thematic reviews with the Member States' representatives taking part in the Council's Employment Committee, the Commission, and trade unions should be continued to allow discussions on the state-of-play with respect to the implementation of labour markets reforms at national level is a positive step. This will definitely contribute to a better articulation between the EU and national agendas.
