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GMB BRIEFING: The Annual Growth Survey 2012

The European Commission published its 2012 Annual Growth Survey (AGS) on 23 November 2011, marking the start of the second European Semester for coordinating economic policies. The Annual Growth Survey sets out what the Commission considers to be the EU's priorities for 2012 in terms of economic and budgetary policies. It is accompanied by separate reports on the EU2020 strategy, the macroeconomic situation, employment figures & analysis and tax policies.

The publication of the second AGS coincided with a dramatic period in the ongoing Eurozone debt crisis, as fears of contagion to France, Germany and the rest of the Euro area appeared to hold some truth for the first time. The tone of the AGS reflects this, with the Commission recognising the full gravity of the economic situation, in contrast to its rather complacent and understated tone in the 1st AGS in January of this year.

Overview of the content

The Annual Growth Survey puts a strong emphasis on the need for implementation during 2012. It calls on Member States to meet the commitments made in the initial European Semester, the Euro Plus Pact and the new economic governance legislative package. It focuses on five priority areas:

1. *Pursuing 'growth-friendly' fiscal consolidation*: although the Commission has softened its approach, it is clear that austerity remains the fundamental priority of the AGS
2. *Restoring normal lending to the economy*: the Commission calls for measures to strengthen the capital positions of banks and ensure access to funding in order to restore investor confidence and the flow of credit to the real economy
3. *Growth and competitiveness*: this priority area covers the usual, unoriginal recommendations from the Commission to strengthen the internal market and pursue liberalisation, including for public services
4. *Tackling unemployment & the social consequences of the crisis*: as with the 1st AGS, the Commission recommends addressing the social impact of the crisis through deregulation of labour law including revising wage-setting mechanisms, cutting benefits and limiting pension rights
5. *Modernising public administration*: this highly worrying 'modernisation' agenda recommends public sector reform and deregulation for SMEs in areas such as health & safety and migrant worker rights

Additional reports: more of the same

The AGS is accompanied by four annexed reports and is also closely linked to an additional, separate report released the same day: the progress report on the Europe 2020 Strategy, the macro-economic report, the employment report, a report on growth-friendly tax policies and tax coordination, and finally a separate report on minimising the regulatory burden on SMEs.

The progress report on the Europe 2020 Strategy emphasises that the current commitments of Member States are insufficient to meet the EU-level targets on education, employment, research & development, poverty reduction and emissions reduction. The Commission stresses that further efforts are needed and lists a number of priority proposals, including minimising the regulatory burden on SMEs (see separate report), life-long learning, youth apprenticeships, modernisation of social protection schemes and conclusion of Free Trade Agreements.

The macro-economic report and the employment report both emphasise the gravity of the EU's current economic situation. The Commission highlights that despite signs earlier this year that the EU economy had started to pick up, economic growth is now faltering and unemployment has worsened, especially for young people.

However, as in the AGS, the solutions recommended by the Commission encompass little more than further austerity, labour market deregulation and pension system reform. This is despite the fact that these same prescriptions made in the first AGS less than a year ago have been followed by the EU slipping further into a new recession.

The final annexed report on growth-friendly tax policies and better tax coordination contains some positive recommendations such as shifting taxation away from labour and towards 'growth-friendly' taxes such as wealth, consumption and environmental taxes. The call for action on tax evasion and fraud, including tax havens, is also welcome.

The separate report published on the same day, however, is far more worrying. Entitled 'Minimising regulatory burdens for SMEs', this report outlines how the Commission will strengthen the use of exemptions or lighter legislation for SMEs, in the name of improving the business environment and competitiveness of the EU. The action plan is accompanied by a list of suggestions of possible exemptions or lighter regimes, including core health & safety legislation and requirements related to the employment of seasonal workers.

GMB's assessment

Overall, despite the change of tone, the second Annual Growth Survey represents more of the same from the Commission, despite the fact that its current policy agenda is contributing to the worsening economic situation and a possible return to recession in the EU.

1. The Commission continues to be obsessed with austerity, despite its failure to restore economic growth and employment in the EU

Unlike the first AGS which called for 'rigorous' fiscal consolidation, the second AGS uses more nuanced language, talking about the need for consolidation to be 'growth-friendly' and personalised to the specific situation of each member state.

However, this change of rhetoric does not mask the fact that the Commission continues to be obsessed with austerity as the key priority of the European Semester. This demonstrates the failure of the Commission to recognise the hugely negative impact that austerity has had so far and will continue to have on the chances of a sustainable, jobs-rich recovery from the crisis in Europe.

2. The positive aspects of the AGS are not enough, and often amount to little more than a change of rhetoric

Some positive elements of the new AGS can be welcomed:

- The report recognises that fiscal consolidation does not have to mean supply-side austerity, but can also encompass revenue-side reforms. The

Commission's proposals for tax reform is a much-needed shift away from their previous focus on simply cutting expenditure

- The Commission does emphasise that resources must be used for investment, and sets aside €347 billion for investment projects under the cohesion policy & structural funds. However, the scale of spending cuts across the EU is estimated to be at least €350 billion, meaning that the EU will only 'break even', rather than see substantial investment
- A number of measures to address youth unemployment are welcome, such as the development of apprenticeship schemes, but these are accompanied by 'flexibility' reforms, meaning that young people who do find work, find themselves in precarious employment rather than quality jobs

These positive elements are not only few and far between, but are also undermined by other reform recommendations by the Commission. Overall, the positive aspects of the report amount to little more than a change of rhetoric. The Commission's outspoken and steadfast support for austerity has begun to waver, but only in its choice of words.

3. The Commission continues to prescribe the wrong solutions to the EU's economic problems

As with the AGS 2011, GMB is disappointed with the solutions that the Commission puts forward in response to the EU's current economic problems. The wrong-headed focus on austerity is not the only negative aspect; the AGS contains a broad range of damaging policy choices and recommendations:

- Deregulation agenda: the Commission proposes a new regime to exempt SMEs from new regulation unless a convincing case for including them can be made, a dangerous reversal of the burden of proof
- Encouraging precarious work: the AGS encourages the use of insecure contracts and the reduction of the 'rigidities' of permanent contracts
- Benefit and pension reform: according to the AGS, unemployment benefits need 'modernising' and statutory retirement ages must rise, with further measures to discourage early retirement
- Wage-setting mechanisms: once again, the Commission interferes in wage-setting in order to push for wage deregulation
- There is no emphasis on quality jobs and the need for adequate wages

4. GMB warns the Commission that this dangerous obsession with austerity and deregulation of labour is driving the EU economy into a recession

The Commission must recognise that it cannot blame the current economic downturn solely on the Eurozone debt crisis. The harmful effects of austerity as prescribed by the EU institutions and national governments alike have had a hugely damaging impact. They are choking economic growth, stifling job creation and are having a destructive effect on society, especially the most vulnerable.

GMB believes that continuing to adhere to this wrong-headed strategy leaves Europe as far away as ever from achieving a sustainable and socially fair recovery from the crisis.