



**Proposed Theme for Discussion
at the Meeting of Presidents and Secretaries General of the Economic and
Social Councils
in Dublin in November 2012**

Theme: Labour Market and Welfare/Benefit Reforms

Across the EU, the crisis has focused attention on labour market and welfare reforms. In many member states, the severe recession has given rise to high unemployment, particularly among the young. At the same time, public finance pressures—and, in the case of some member states, reliance on programmes of EU, IMF and inter-state borrowing—has prompted governments to examine the resources available for welfare transfers and investment in labour market programmes. These pressures and reform trajectories may differ significantly across the member states: between those inside and outside the euro area, between ‘debtor’ and ‘creditor’ countries, and between those with different traditions and institutions of social dialogue. It may also be the case that the crisis has drawn attention to labour market and welfare problems which pre-date the current crisis, and were not adequately addressed during the years of strong growth.

As well as having a general discussion of this theme in November, some national Economic and Social Councils (ESCs) may wish to report briefly on the main directions of labour market and welfare reform in their country, and to describe the approach of the ESC to discussing and advising on these issues. In preparing for this discussion, it may be of value to consider some of the following questions:

1. Prior to the recession:
 - a. how urgently and with what effects were labour market and welfare reforms being pursued in your country?
 - b. how united and influential were your social partners in setting the long-term objectives of these reforms *and* the principal strategies and policies for attaining them?
 - c. was your Council particularly involved in discussing and offering opinions on these reforms?

- d. was participation in the European Employment Strategy (including the National Reform Programme, NRP) being used to significant effect in this national process (and, if so, by whom)?
2. How has the current recession affected:
 - a. the tradition of social dialogue or the formation of social pacts in your country (if this had been a practice beforehand)?
 - b. the urgency with which labour market and welfare reforms are viewed?
 - c. the particular strategies and policies that are considered desirable, timely and feasible to pursue?
 - d. the relative contributions being sought from private and public sector workers in bearing the 'burden of adjustment'?
 - e. the role and participation of your Council in responding to the pressures that have come on your labour market and welfare state?
3. Are particular **institutions** (e.g., the Public Employment Service, Social Insurance Funds, etc.) or **policy instruments** (e.g., Employment Legislation Pensions, Payroll Taxes, Further Education and Training, Direct Employment Programmes, Conditionality and Sanctions, etc.) being accorded larger roles at the current time?
4. Is a particular **discourse or paradigm** for communicating the overall strategy guiding labour market and welfare reform becoming more or less used in your country (e.g., 'flexicurity', 'activation' 'social investment', etc.)?
5. Do you expect the contribution and relevance of **how employment and social policies are monitored** by European institutions (including the Europe 2020 targets and the 'National Job Plan' that is to be part of a NRP) to become more or less significant in your national context in the years ahead?

Answers to the Questionnaire:

1. The Euro zone sinks into recession and increasing unemployment (11.1%, 17.5 million unemployed) under the weight of austerity programs and in 2012 is expected to deteriorate the conditions of vicious cycle of austerity – recession, given, as was proved during the period 2009-2011, that what saves in resources by austerity policies in order to reduce the deficit disappears from the economic downturn and a deepening recession.

More specifically, privatizations of public enterprises and institutions, reductions in wages and pensions, dismissals of public servants, shrinkage of welfare state, deregulation of labor relations and weakening of trade unions represent components, according to those who support the austerity policies, of improving the level of competitiveness and attracting foreign investments.

But nevertheless, the restrictive policies in 2009-2012 did not contribute to improving the level of competitiveness, the attraction of foreign investments and short-term halting of economic crisis and recession. In contrast GDP fell by 22% in the period 2009-2012, the level of poverty increased from 23%(2008) to 30% (2012) of the population (in 2001 the level of poverty in Argentina was 50% of the population), the level of unemployment from 7.8% in 2008 increased to 20% (1 million people) (November 2011) and is predicted to increase in 2012 at the levels of 23%-24%, i.e. 1.200.000 people.(in 1929 the unemployment in U.S.A was 25% and in Argentina in 2001 was 30%).

At the same time, the democratic functioning of institutions, particularly those related to labor, the autonomy of collective bargaining and collective contracts and any limited economic democracy based on the indicators of income inequality and the data redistribution of income are shrinking alarmingly and are threatening for working conditions, living conditions and living standards of Greek citizens. These observations demonstrate that international organizations, Greece and Europe were oriented in austerity and recession, putting in the margin the expectations for growth.

On the contrary, the Greek ESC emphasizes that the country should obtain “developmental targeting”. Otherwise, the Greek economy will continue to wobble in an environment of prolonged deep recession and high unemployment. In addition, through the ESC is expressed the strong anxiety of all stakeholders arising from the limitation and constant degradation of the importance and the role of social dialogue on economic development and social cohesion. Given that the Memorandum 1 and 2 passed by the Greek Parliament in express processes and were not sent to the Greek ESC for its opinion, the Greek ESC notes that the exit from crisis should not only passes through governmental choices, but also through the wider use of the creative forces of the country, both in Greece and in international arena that will create the necessary acquiescence for acceptance, implementation and vision. Therefore, active and meaningful participation of the whole society is required. All social and productive forces of the country are called upon to come to an understanding without negligence and delays and to agree not only on goals, but also on specific policy measures. Regarding the implementation of the Strategy for Employment through the National Reform Program is characterized today in Greece of successive Memorandums of paradoxes and interventions of dubious effectiveness which are contrary with the European Strategic: for example talking on Active Aging while pushing the corresponding age population in voluntary retirement.

2. After the decline in GDP of 7.1 in the three years of recession 2008-2010, the Greek economy declined further by 6.9 in 2011. Therefore, the cumulative decline in GDP at constant prices, in the four years 2008-2011 reached about 14.5%. This outcome for the third successive year showed that there was a contradiction between European Commission’s forecast according to which GDP would have declined in real terms by about 3% in 2010 and 0.5% in 2011, while it would have increased by 1.1% in 2012. The cumulative deviation of failed predictions from reality was about 9 percentage point of GDP. According to this year forecast of the European Commission (June 2012), GDP will decline in 2012 by 4.7%, a prediction that seems overly optimistic and is characterized by an exceptionally high degree of uncertainty, with more likely to be significantly deeper the recession (-6%, -7%). This depends on the size of the effect that will eventually have the policy measures taken on wages, pensions and collective agreements (such as those provided by the

Memorandum 2) and the decrease in the purchasing power of salaries of employees and the increase in unemployment dramatically reduce private consumption, total demand and GDP. The policy pursued of fiscal adjustment and internal devaluation produce recessionary results because it removes significant resources from the economy through fiscal policy, cuts in government spending, reducing the salaries of employees etc.

Of particular importance is the “structural” policy of active liberalization of the labor market and the weakening of collective bargaining because it leads to deterioration in the bargaining position of employees, reduction of nominal and real wages in the private sector and reduction in private consumption. The decline in demand caused thereby leads to a further reduction of production, a further increase in unemployment and a vicious circle of self-sustained recession where reductions in demand increase unemployment and reduce wages, and vice versa. The decrease in total demand has already led to a decreased rate of use of production capacity and this in its turn to a reduction in investments of fixed capital, while it is doubtful if even this reduction in labor costs imposed by administrative measures of the Memorandum 2 can offset the decrease in profitability which derived from the decrease in sales due to the recession. Thus the contribution of all components of domestic demand has been reduced and variously reinforced the vicious circle of recession for the fifth year. In addition, the expectations of households have deteriorated dramatically and affect the reduction in consumer expenditure of households.

Important role in the maintenance of the recession is undertaken by banks which apply strict criteria in lending both to businesses and to households.

This creates in Greece a strong tendency to return to a lower standard of living and productivity that can be offset by the external balance of goods and services and public finances.

Also, when the economy is in recession, the factors of the phenomenon of hysteresis involved i.e. factors that sustain and reproduce the recession through the reduction in domestic demand which prolongs and feedback. These factors which are related to disinvestment and increasing unemployment cancel the economic recovery that the orthodox theory of

internal devaluation assumes that this economic recovery will come from an increase in net exports, i.e. an increase in foreign demand.

Expectation is that foreign demand which addressed to Greek economy will be the new engine of growth that means that the recession will create conditions so that the contribution of net exports to GDP to be more important than the contribution of domestic demand.

However, after five years of recession and three years of implementation of a policy of devaluation, the conversion of net exports as a driving force of the Greek economy remains a challenge.

It is worth mentioning that the Greek ESC has not been asked for an opinion on the Memoranda 1 and 2, which have been voted by the Greek Parliament in express processes. Although, the Greek ESC on its own initiative has published its position in order to cause social dialogue on the burning issues.

3. All the structure and the function of the state are in transforming, uncertainty and liquidity so that the implementation of policy measures is in suppression, for example the effective tax collection and the fight against tax evasion.

4. The social state and the welfare state are in constant pressure and compression. The social achievements are in continuous suppression even in contrast with the EU's acquis thus creating a huge paradox not only for the country but also for the EU, at least as constructed on principles and rules.

5. The European paradox is that we have a common currency, the euro and there are 17 different borrowing rates for the EU Member States (depending on bad receivables). Therefore, as long as Europe does not pass in a consolidation there will be discrimination and segregation (North – South) from the imperfections of the system and endanger the future of the European Union.