CESI

European independent trade unions supporting a more balanced approach to a rebalanced economy

CESI joint press conference with USI, CSI-F, FASGA, ANPE, SATSE and ANP on the economic and social challenges facing Spain and Portugal

In times of recession austerity may suffocate societies. Both the public sector and the private sector have suffered painful blows from the economic and financial crisis. The response to the crises has so far been austerity on top of austerity. For some countries, this response has undoubtedly failed. There can be no doubt that a balanced budget is important, however the economic context, in other words recession, must also be taken into account.

The solutions to the crisis are as interconnected and interdependent as the problems of the crisis. With consumers not consuming, producers are not producing, investors are not investing and employers are not employing. USI, CSI-F, FASGA, SATSE, ANPE and ANP supported by CESI, <u>call for a review of the current trends through reviewed economic strategies and new policy directions</u>.

The June European Council is yet another opportunity for Heads of State and Government to change direction and set out a new path in the European Council <u>towards growth through smart investment</u>.

The *European Confederation of Independent Trade Unions* calls on Member States to put an end to these austerity policies which have had harmful effects on growth and which have hindered employment, especially in southern European countries. This press conference has been organised as a show of unity and solidarity for trade unions in Spain and Portugal in the fight against misguided austerity in times of recession.

There is a time and a place for pursuing balanced budgets with such uncompromising determination

<u>Moving towards sensible debt and deficit reduction</u>

To be able to change direction, the main source of the current problems needs to be highlighted. A balanced budget is a good economic practice to follow. Neither CESI nor any of its member organisations dispute this. However, **such extreme and widespread austerity in times of recession does not make good economic sense**. Fiscal consolidation in times of economic depression has been shown to have a negative impact on growth. This impact is heightened further when fiscal policies, in this case austerity policies, are coordinated across the EU. This has even been demonstrated to have the effect of raising, not lowering, the debt to GDP ratios. The possibilities of financing debts and reducing deficits vary widely throughout Europe. The differing realities in Spain and Portugal should equally be taken into account. <u>CESI calls for a reassessment of the strategy currently being pursued and demands a move to more sensible debt management and deficit reduction.</u>

Foundations for investment are stable, effective and efficient social parameters

Investment as a means of overcoming the crisis

Austerity measures have failed us in this economic climate. Investment in Spain and Portugal is fundamental both in the public and private sector as a means of reversing the damage inflicted by Member States' imposed austerity measures and of seeing Southern countries on a path towards growth. Investment is a valuable indicator for economic and social stability for a country. With confidence low in Spain and Portugal, as seen by the numerous strikes and demonstrations, it is time to reverse the current trends and look for a new way out of the crisis. It is too often forgotten that with investment comes a return. Investment, which will be particularly beneficial to Spain and Portugal, is needed not only to maintain the European Social Model but to strengthen it. In the midst of cuts and profound demographic change, social models throughout Europe are at risk.

Reversing damaging trends with long-lasting effects

Workers have a right to choose where to live and work in the EU

Southern countries especially have found that people (young people in particular) have been forced to leave their home countries in the search for better opportunities in more prosperous countries in Europe or even the rest of the world. If these trends continue, we put social cohesion at risk as people and families leave their country. This can lead to a permanent disruption both to families at the micro-level and to social models at the macro-level. This so-called 'brain drain' effect will hamper these countries' recoveries especially badly, as they will lack the necessary competences and resources for an effective and sustainable return to growth. This is particularly a problem when those with the highest qualifications are the first to leave. While labour mobility can be encouraged in Europe, labour mobility should not be forced upon people. Workers must retain the right to choose where to live and have the opportunity to find a job in their home country. This is no longer the case in Spain or Portugal.

Focusing on youth employment rather than youth unemployment.

Tackling youth unemployment right away

Youth unemployment is an issue which has hit Spain and Portugal particularly harshly. In Spain youth unemployment rates have reached 57% and in Portugal they have reached 42%, both well above the EU average of 23.5% (check this figure). Immediately tackling youth unemployment as a means of moving out of the crisis should be done for several reasons. Firstly, the future of a cohesive society is at stake, while at the same time the risk of social unrest increases. Secondly, there are solid financial arguments behind reducing the youth unemployment rate. According to a recent Eurofound study, youth unemployment is cost Europe €153 billion in 2011 when lost tax contribution and social welfare payments are taken into account. There is also an important cost in lost pension contributions. This can be translated to roughly 1.2% of the EU's total GDP. In 2012, CESI issued a position on youth unemployment welcoming the will of the Commission to focus on this issue. Over one year later and the situation is considerably worse. **CESI welcomes the proposed measures such as the Youth Guarantee to combat this issue, but considers the €6 billion funding to be an insufficient investment. The International Labour Organisation has estimated the required amount for this mechanism to be implemented at €21 billion.** Member States must do more in this area to prevent the so-called lost generation.

The public sector can and must be a source of growth, job creation and welfare

Promoting the contribution made by the public sector to job creation and welfare, underlining the importance of the social sectors

The public sector is a major economic player in society. A performing public sector is necessary for growth. However, it must be underlined that an efficient public sector does not necessarily mean cutting jobs. Moreover, efficiency must not be automatically interpreted to mean job losses. So often, governments adopt short-termist, reactionary measures. In addition, cuts for the sake of cuts, without considerable political justification, must be out of the question. CESI has worked hard in recent months to promote the importance of the role of the public sector in securing stable and sustainable economic growth. A financially solid public sector also grants governments the necessary political leverage to avoid being entirely subservient to its creditors. This is fundamental in upholding the democratic principles which underpin economic and social stability. Member States and the EU institutions should see the public sector as a potential and positive solution to overcoming the difficult economic situation and move away from blaming public sector investment as a cause of the crisis.

Securing revenue for investment through a reinforced fight against tax fraud and tax evasion

Fighting tax fraud and tax evasion

In times of economic crisis, it is more important than ever for governments to secure stable revenue. The first reaction is often to cut expenditure and to raise taxes. However, before such unfair measures are taken, due taxes must be collected for reasons of equality and equity. An effective tax administration can significantly contribute to increasing a country's revenue by clamping down on tax fraud and tax evasion. This will ensure citizens and workers are partially relieved by the economic burden which is currently weighing unfairly on their shoulders. Member States must follow up their words with actions in the fight against tax fraud and tax evasion and must recognise the potential revenue which can be accrued by acting together. CESI welcomes the recent progress made at EU level in this field but calls on the recent momentum behind these new proposals to be maintained.

Continual tax increases hits consumers the hardest, suffocating demand and crippling growth

No more direct or indirect tax increases

Income tax and VAT are important sources of government revenue. In times of crisis, such fiscal levers can be used as crucial tools to stimulate economies. Increasing income tax and VAT will have the opposite effect. Without any disposable income people are unable to spend, causing demand to flat-line. This has a highly damaging knock-on effect for the rest of the economy. Without demand, the private sector is unable to produce, either in terms of goods or services. This lack of consumption is due to the fact that individual savings are hit hard by increase in taxes such as VAT. *No savings results in no spending. Neither private nor public companies can hire in this economic climate and in many cases they are forced to cut back on staff costs. This leads to increased unemployment rates and decreased revenue for governments.* **CESI and its member organisations call for an end to this vicious circle, without which recession cannot be overcome and a growth-led recovery not achieved.** With work being overtaxed, especially in a recession, new sources of revenue should be sought. If we consider that at this point in time stock markets continue to climb in Europe, these gains have little impact on the real economy or on the purchasing power of hard-working citizens. With these issues in mind, **CESI calls for capital gains taxes to be reconsidered and affirms its support for a Financial Transactions Tax.**

In implementing reforms the views of employees must be taken into account through strengthened social dialogue

Putting staff at the heart of reforms

Social dialogue is central to stability, sustainability and will better ensure a successful outcome in implementing reforms. The emphasis must be on the inclusion of employees in decision-making through the channels of social dialogue which are currently open to workers. This is particularly important in the current reforms of the public sector in Spain and Portugal, in which cuts to public services have largely been imposed without consultation of workers excluding recourse to social dialogue. CESI recognises the admission by the European Commission in its Industrial Relations 2012 Report that social dialogue has been under strain in the public sector. The report also highlights that countries which have a strong social dialogue are countries in which there is a stronger, more resilient economic and social situation. In this context, measures must be taken on both the national and the European level in order to reverse these concerning trends. Such measures must put employees at the heart of decision-making when it comes to reforms.

Conclusions

- We acknowledge the importance of pursuing balanced budgets, but only in times of economic growth, not in times of economic recession.
- We are becoming increasingly alert to the impact of coordinated fiscal consolidation in Europe
- We consider that while the problems in Spain and Portugal are largely the same, the realities are different. No single, uniform, one-size-fits-all remedy can be applied to resolve the economic and social situations in Spain and Portugal.
- We recognise that the capabilities to pay debts and reduce their deficits are vary too significantly between EU countries for a single, uncompromising strategy.
- We favour a more balanced and fair approach to raising government revenue, moving towards a more sustainable approach. The tax burden should not fall too heavily on any one sector of society. We therefore also call for a redistribution of the tax burden away from hard-working citizens.
- A performing public sector is an important means of securing growth. We consider budgetary cuts, without significant political justification, to be unacceptable.
- We express deep concern over the brain-drain effect taking place in some countries, particular in Southern countries.
- Social dialogue must be a priority to governments in order to ensure stability, in addressing social and economic problems in Southern countries in particular
- We would finally like to express the ‘unity of the South’ in addressing the economic and social problems