Crisis and Industry

A discussion paper for Nordic Forum
28 June 2013 in Majvik, Finland

Industrianställda i Norden • Pohjoismaiden Teollisuustyöntekijät • Nordic IN

1. Introduction

Europe is in crisis. A crisis of growth and a crisis of employment. A political crisis.

Underlying this crisis is a number of problems. Some of them closely connected with the construction of the euro and the consequences of the global financial crisis on this common currency. This does not mean, however, that the responsibility for solving the crisis lays only with the euro countries. It also does not mean that the effects of the crisis are limited to just these countries or even to the European Union members. The crisis is European and just like it has consequences for us all, finding a solution is a joint responsibility.

The executive of IN decided on its meeting 16 October 2012 to establish a working group to analyse the crisis and the policies undertaken against it until now and to look at policy options, both in general and especially in terms of industrial policy to formulate a strategy to create growth and jobs again.

This is a discussion paper, not a policy document. For that reason it will contain policy points on which there is no agreement among the Nordic Industrial Unions. The intention is to inspire a fruitful discussion during the Nordic Forum in 28 June 2013. This discussion will be followed by a process by which one or more actual policy documents will be formulated.

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2. The European crisis – an analysis

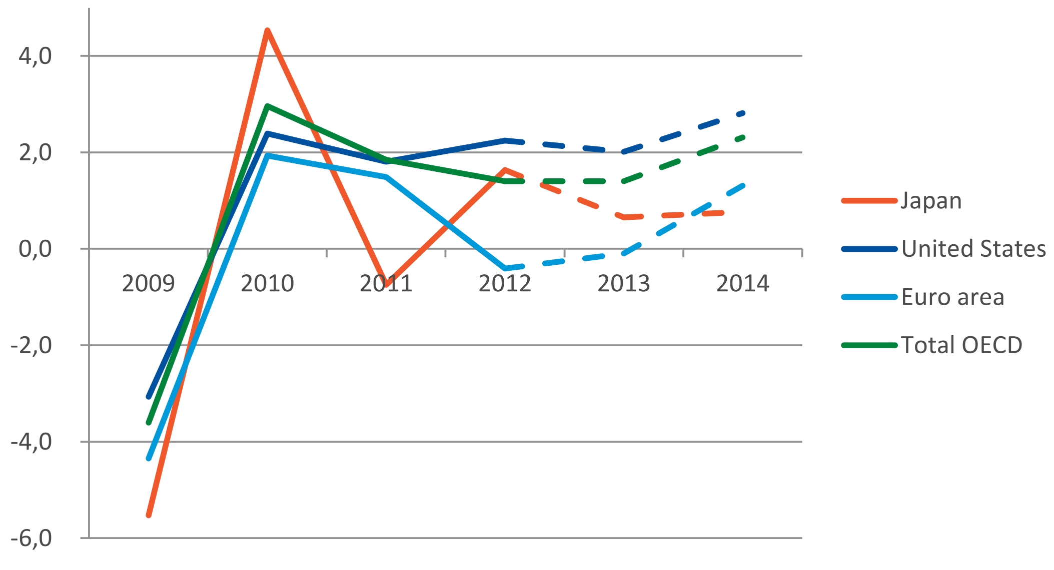
2.1. Current situation in Europe

GDP

Europe is falling well behind the comparable industrialised nations in its recovery after the crisis (Fig 1). The US has had a stable growth of around 2% since the disaster year of 2009. Japan has fluttered a bit. Coming back strongly, the performance in 2011 was hit heavily by the earthquake and tsunami of March 2011.The new Japanese prime minister Shinzo Abe has initiated a series of expansive policies, working with the national bank to lower the yen exchange rate dramatically. It will be interesting to see the effects of these policies.

Europe came back strongly at first, but the combined Euro-crisis and the policies of swiftly rebalancing the public budgets after the expenditure of saving the financial sector and mitigating the shock of 2009 on employment, has meant that Europe went back in decline. Even for 2013 OECD is projecting a falling GDP, while it is only by 2014 a return to growth is supposed to happen in Europe.

Fig. 1. Real GDP development – OECD



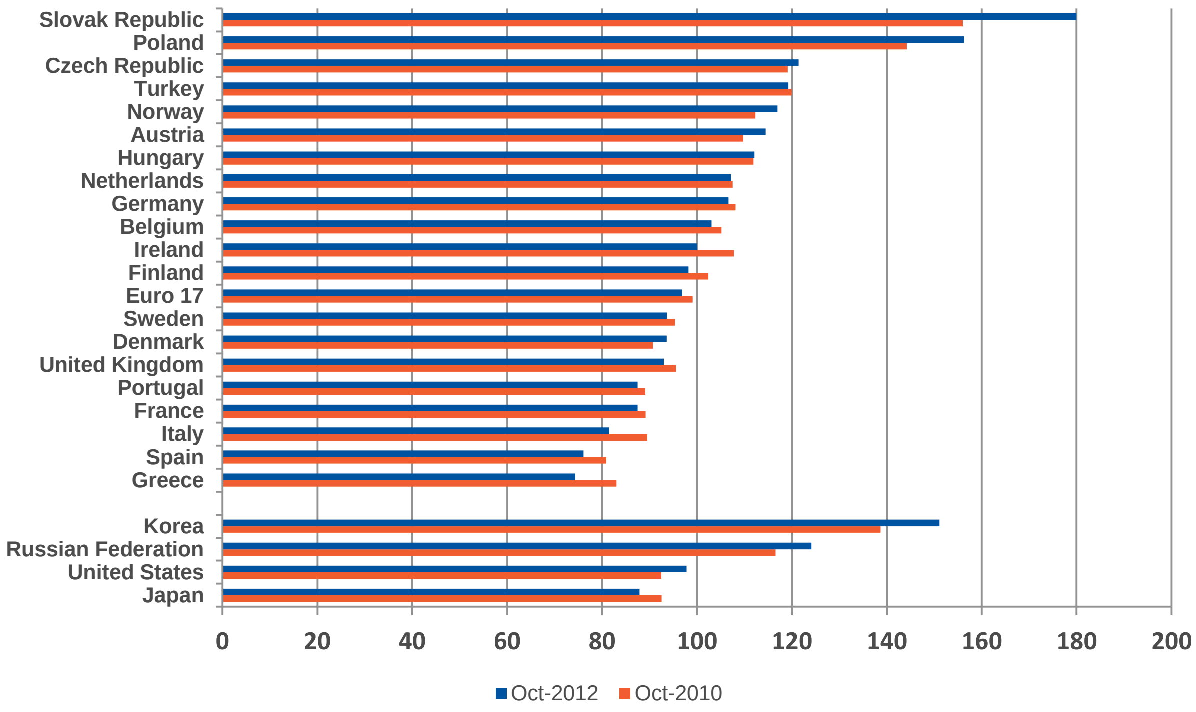
The Nordic countries are, together with for instance Germany in the better part of Europe, when it comes to GDP developments. Pulling down the average are the so-called GIIPS countries (Greece, Ireland, Italy, Spain and Portugal), where a falling GDP is the order of the day. One of several effects for these countries of this development is, that the public revenues are shrinking and it becomes even more difficult to rebalance the public budgets.

But we are not only in a budget crisis in certain European countries, and we are not only in a crisis of the Euro. We are in a production crisis.

Production in manufacturing

The industrial production in many countries, including most Nordic ones is still not at the level with 2005 (Fig 2). At the same time industrial employment has not recovered. A massive job loss and an increasing use of temporary employment contracts are evident in most countries, even those where production itself is now above 2005 levels.

Fig. 2. Production - Manufacturing industry
OECD 2005=100

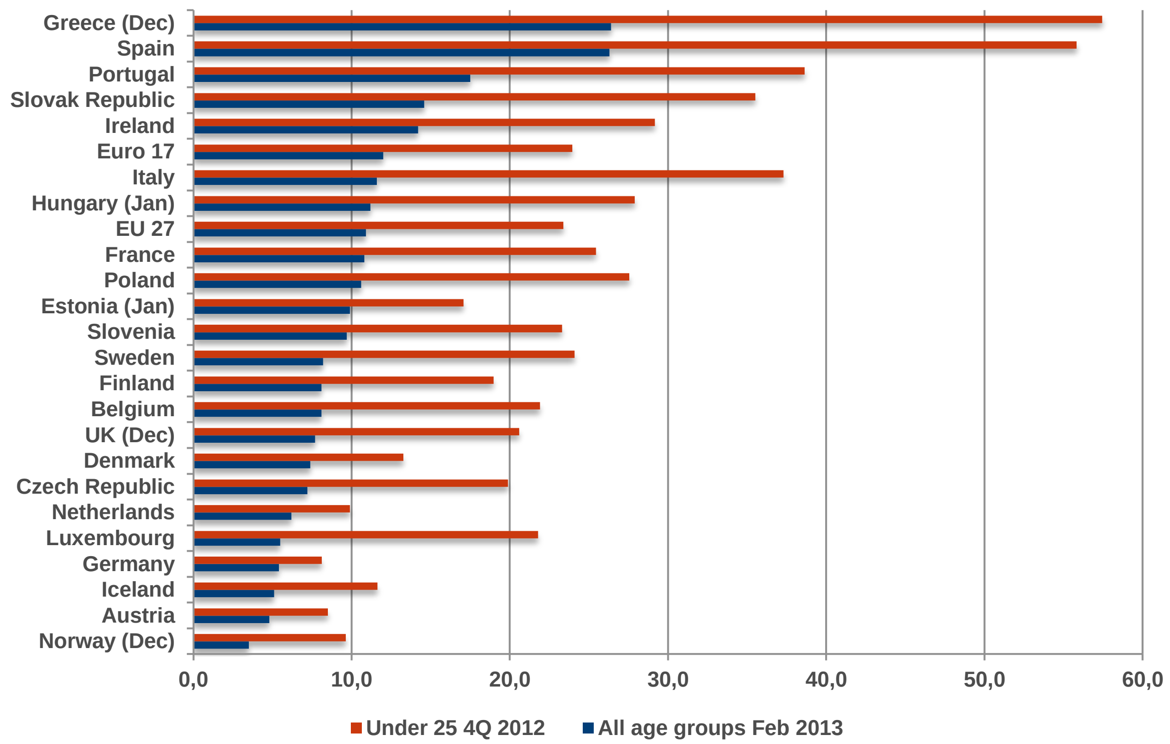


Loss of purchasing power across Europe has deepened the crisis. And even in countries like Germany, where unemployment rates are low, this reflects an increasing number of subsidised jobs and an increasing number of people in precarious employment.

Unemployment

Unemployment and high youth unemployment is a European problem. In countries most hit by the euro crisis, unemployment is very high. In Spain and Greece, unemployment is above 25% and youth unemployment in the same countries has exceeded 50%. (Fig 3).

Fig. 3. Harmonised and Youth Unemployment
Feb 2013/Q4 2012 - OECD



This situation has far reaching consequences for the social fabric of these societies. A whole generation of young people risks being lost. An expected wave of emigration of young people will not make the future brighter and it will make future challenges in respect of demographic developments worse.

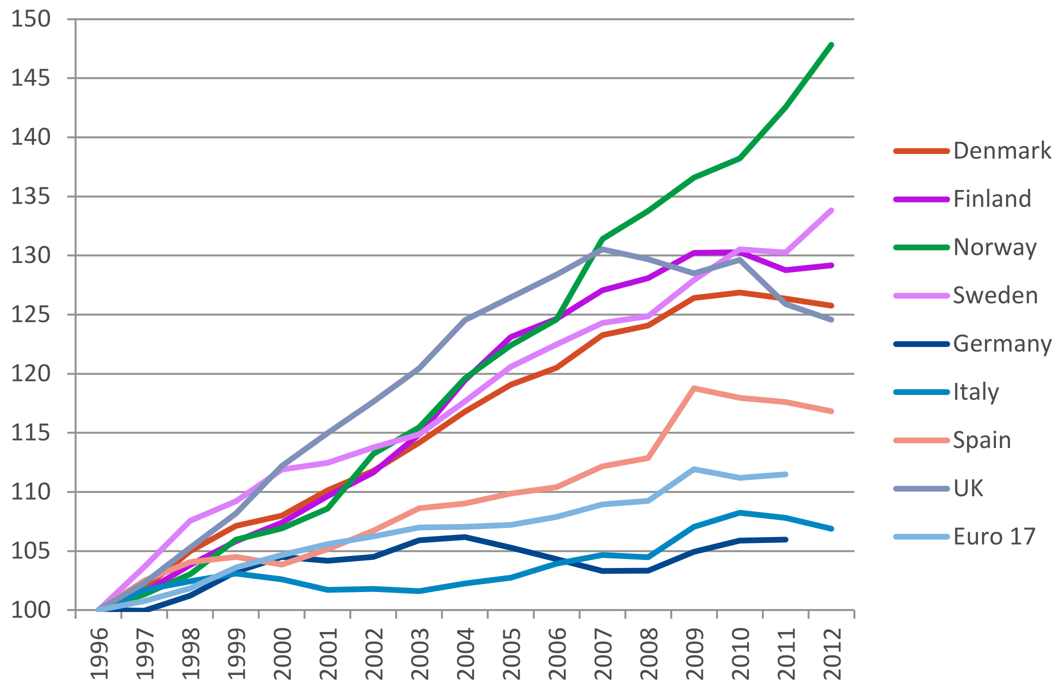
A realistic assessment of these figures reveals that the problem of youth unemployment also exists in the Nordic countries. With 9,6 pct in Norway, 11,6 pct in Iceland, 13,3 pct in Denmark, 19 pct in Finland and 24,1 pct in Sweden we have youth unemployment up to three times the unemployment for all age groups. One can discuss how this figure is calculated, but there is no excuse to not act on this issue.

Real Wages

The development of wages in manufacturing has been very varied across Europe (Fig 4).

German real wages in manufacturing has largely stagnated from 2000 onwards with a fall from 2004 to 2008 followed by a small increase. In the period 1996 to 2009, a large group of European countries experienced substantial and consistent real wage growth. With the crisis this changed and both crisis countries like Spain and Italy, but also the UK has seen falling real wages in manufacturing. Nordic countries like Denmark and Finland have also sees slightly falling real wages, while Sweden and especially Norway have continued the growth. The Swedish figure for the latest years are clearly linked to the very low inflation this country has experienced in 2012.

Fig. 4. Real Wages
Manufacturing, OECD, 1996=100



Outside manufacturing, the development in Germany has been even more negative, with substantial falls in real wages in services and parts of the public sector.

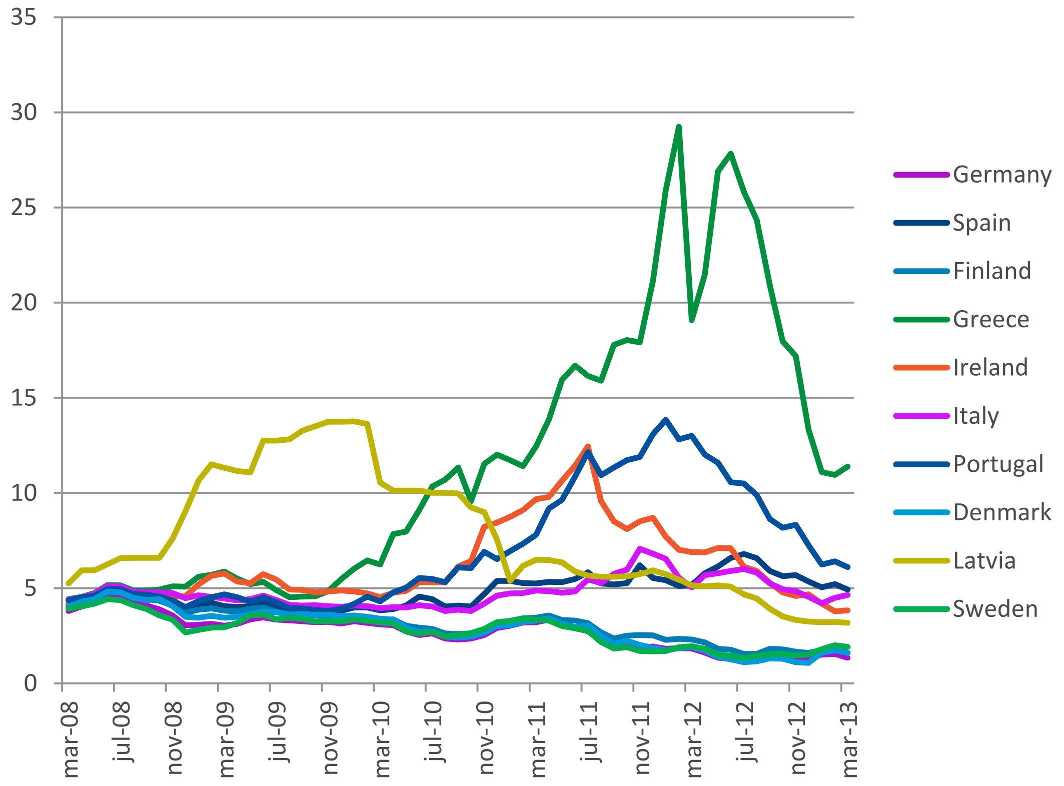
The dramatic difference between the development in Germany and many countries in the rest of Europe has led to pressure against other countries for a harmonisation of wage developments to German level. In countries like Italy, the situation has been made worse by the falling productivity in manufacturing.

Long Term Interest rates

The fluctuations of the long term interest rates have been dramatic in a number of countries since the global finance crisis (Fig 5). They clearly show how several countries have had to pay exorbitant interest rates for their debt, thereby making their original crisis worse.

The first country to experience an interest rate hike was Latvia, which went through an internal devaluation through wage reductions and public savings right in the wake of the global crisis. The situation has stabilised since the end of 2010, but the Latvian GDP is still below what it was before the crisis.

Fig. 5. Long term interest rates, ECB



Since the Greek Papandreou government declared that the Greek economy had serious budget problems, the crisis has jumped from country to country. Ireland and Portugal has had to pay upwards of 14 % for long time refinancing of their debt. Even though this is way below the 30 % experienced by Greece, it is way above the pre crisis situation of around 5 %. Spain and Italy has suffered less in this respect, but they have not been able to follow the fall in interest rates experienced by a number of other countries, including the Nordic, as a consequence of the crisis.

The dip in long term interest rates towards the end of 2012 mirrors a relative stability, and it has by some observers been taken as a sign that the worst is over. The Cypriot bank crisis and the slow progress on European policy reforms show that the comparative calm is a very fragile state which can be disturbed by new financial and political problems.

Even if the falling interest rates are indeed a sign that the worst is over, there is still recession in the EU and there is little optimism on substantial growth or falling unemployment.

2.2. How did the Global finance crisis become a European crisis?

Structural problems of the Euro

The Euro is first and foremost a political project, born in the light of the German unification and the political pressure this put on the European cooperation. As a political project it was an expression of the art of the possible, and in several ways its design was flawed from the start.

The Euro builds on a number of assumptions. First and foremost the designers had a clear monetarist vision. They assumed that economic convergence in the Euro zone in terms of growth, productivity, balance of trade, prices and employment would happen automatically, thanks to the market. In the light of this there was no need for 'economic government'. Only a few common rules needed to be laid down: price stability, sound public finances and competitiveness. No rules were established on private debt.

Combining this with the political reality in 1992 with referendums in several member states, more enhanced European political integration was rejected. Thanks to the faith in convergence by the market, the risks of an incomplete EMU seemed manageable, so no need was seen for economic government or an EMU budget.

The rules which were established in the Stability and Growth Pact (SGP) were very strict and they reflected to a large extent the concerns of the German Federal bank that euro countries would act in an irresponsible fashion. These rules lost moral authority massively as they were not applied when Germany and France presented excessive public deficits.

The ECB was given a limited mission. Employment was never considered as part of its brief and it was not given the possibility to function as lender of last resort like the Federal Reserve in the US. No action was taken to strengthen the European banking system in general.

No mechanisms were foreseen in case of an asymmetric shock and too many weak countries included at outset. At the same time there was a clear 'no bailout' clause, which was implemented from the start to enforce the discipline in the Euro countries.

The effect of the global finance crisis

These shortcomings notwithstanding the EMU and eventually the euro functioned well until the finance crisis. With a bit of ripples on the water, like the French and German public deficits where the rules were suspended, public finances in the Eurozone were generally under control. The process of gaining access to the zone had forged social dialogue and joint solutions in a number of countries, like Italy, where a tripartite agreement in 1993 paved the way for bringing inflation under control.

But the convergence of national economies in terms of productivity, prices and trade balance did not happen. This caused little alarm no preventive or corrective mechanism was implemented and private debt remained a non issue.

Some Euro countries like Spain and Ireland had tight control over the public finances and saw a tremendous growth spurred on by the cheap credit, which came with the Euro. Even countries outside the Euro, like Hungary and Iceland, saw a boom not least in construction. Spanish private sector debts grew from 187 to 283 pct of the GDP from 2000 to 2010. The public debt remained at 72 pct.

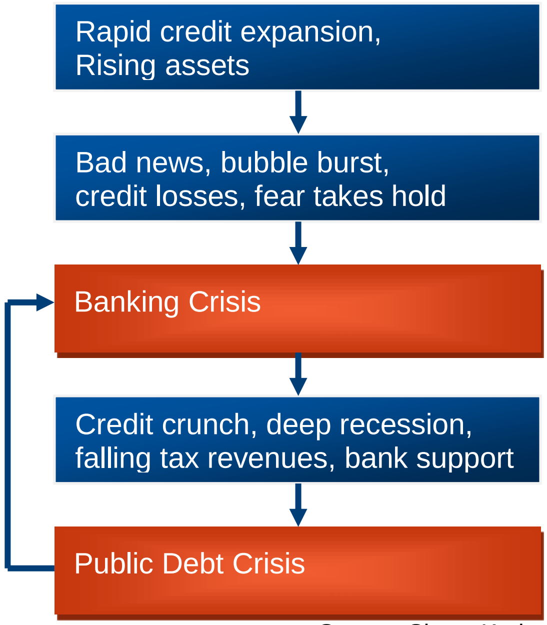
When the financial crisis rolled in from the US, this all changed. It turned out that many banks had overextended themselves and the urgently needed public rescue of the banks and support to both the economy and employment brought with it growing public deficit and debt.

When the worst seemed to have blown over, the Greek situation was revealed and the financial markets, which were already tight due to the crisis went into a mixture of panic for the sustainability of the Greek economy coupled with a number of speculative moves to exploit the crisis even further.

With Greece followed Ireland, Portugal, Italy and Spain. Same pattern of panic and speculation pushed the interest rates up and made the budget situation following from the financial crisis and the saving of the banks even worse. At the same time the ongoing credit crunch in these countries has caused exploding unemployment, which has undermined the public budgets even further.

Fig 6 sums up the process.

Fig. 6. Mechanics of the crisis



Source: Sixten Korkman

It is clear that the core of the Euro crisis, and with that the European crisis, is the sovereign debt crisis. On that background it is not surprising, that the action which has calmed financial markets has been the buying of national bonds by the ECB.

2.3. The policies after the crisis

Exiting the crisis has proven a challenge. Some of the reasons for this are structural. It simply takes time to reduce the debt leverage of banks and sovereign states. We have as described above had a number of negative feed-back loops between banks and nation states which have contributed to making the situation worse.

Also we have no automatic stabilisers, such as an employment benefit in the EU budget, like we have at national level. This means that there is no structural solidarity, which would allow some countries in a crisis to have a deficit towards EU and receive more support than they contribute.

It has been said that the political actions have been directed at preventing the next crisis, not solving the current one. Actions geared at establishing European bank system will do little to the overexposure of European banks, which was exposed by the crisis. Reform of the SGP, economic surveillance and budgetary controls have done little to alleviate the current situation.

Behind this has also been the problem with establishing European leadership within the EU. EU has been one step behind the development and disagreements between main players has made the decision process slower than what could have been wished for. European politicians have been caught in the cross-fire between markets and citizens.

On the question of who has been driving the process, the market or the political decision makers, the answer falls predominately out with the markets.

Finally a number of relatively far reaching decisions have been made. A European framework of economic governance has been established, and it will form the framework for much of the European cooperation in the years to come.

The framework of the "new economic governance" - timeline	
May 2010	European Financial Stabilisation Mechanism (**EFSM**)
September 2010	launch of the reform of the Stability and Growth Pact (**Six Pack**) which notably sets the 'European Semester'
January 2011	Launch of the first **European Semester**
March 2011	Adoption of the **Euro + Pact** (by 23): tightening of budgetary discipline and reinforced coordination of economic policy
July 2011	Signing of the Treaty establishing the **European Stability Mechanism** (ESM)
November 2011	Launch of the **Two Pack**: *ex-ante* monitoring of fiscal and economic policy
January 2012:	adoption of the Treaty on Stability, Coordination and Governance (**Fiscal Compact**) (by 25)
June 2012	**Bank package** presented
March 2013	Approval of **two pack** by parliament
April 2013	Parliament vote for **bank package**. Awaiting council decision

These proposals for economic governance all have as a purpose to strengthen the influence from Europe on what takes place at national level. A number of mechanisms and measurements are introduced in order to improve performance in the involved countries.

There has been criticism from among others, ETUC, on the Euro + pact and its focus on wage setting arrangements and wage cost in the member states. Monitoring of degree of centralisation of the bargaining process, indexation mechanisms and unit labour costs has caused unions across Europe to demand that autonomy of wage settlement at national level is maintained.

2.4. Austerity versus growth

After period of expansive fiscal policy in 2008 and 2009, the public budgets came under pressure. The very costly support for banks coupled with efforts to alleviate the effects of the crisis as well as financing benefits for increasing numbers of unemployed meant that the public deficits grew substantially in many countries in Europe and outside. On this background public budget balance became a major political theme.

In the longer run there can be no doubt that careful public budgeting is important for the stability and growth in our societies. But in a recession, this may not hold true. Indeed the swift recovery after the first effects of the financial crisis showed that the expansive policies and automatic stabilisers, like unemployment benefits, worked.

Even in 2009, before the contagious crisis in Greece voices from different sides, including president Obama, warned against a too hasty stop for expansive policies.

This was overridden from several countries, which saw themselves rebound quickly. When the Greek problems were revealed the budget balancing policies were already entrenched. In the case of Greece, the public deficits were revealed to be large and this confirmed to many policy makers that balancing of budgets and austerity was the way forward.

Two Harvard economists, Reinhart and Rogoff wrote a paper in January 2010, called "Growth In A Time Of Debt," This paper stated that a public debt of above 90 pct of GDP would have a devastating effect on economic performance. It quickly became hugely influential on both sides of the Atlantic and has remained so since.

Austerity has been the name of the game in Europe since 2010.

Already early, ETUC calculations illustrated, that a stimulus policy would have a much quicker and more efficient and stronger long term effect on public debts than austerity. Austerity on the other hand would lead to a recession, which would in itself cancel out the budgetary benefits achieved by the policy. This and other similar analyses had little effect on the mainstream policy-debate.

That austerity, coupled with the euro crisis has indeed led to a double dip recession is clear from the overview of GDP in the Euro area 2004-2013 (Fig 7). OECD projects -0.1pct for 2013 and 1,3pct for 2014.

The effect on the Greek economy of austerity also clearly shows that the expected positive effect of the austerity policy has not materialized The repeated optimism in the commissions projections has proven un-founded and the current expectations is a fall of the Greek GDP of 4 pct for 2013 (Fig 8).

The cost in terms of un-employment and the potential loss of a whole generation of youth has

Fig. 7. Euro Area GDP – Double dip in action
OECD

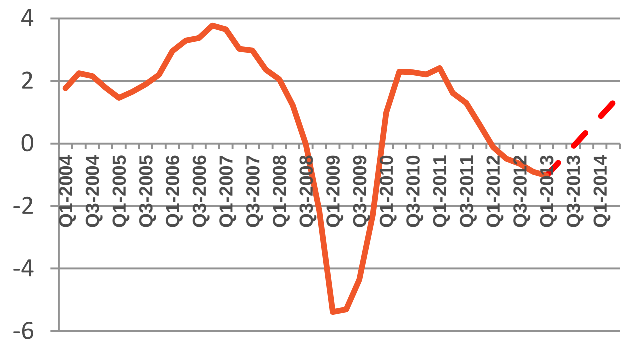


Fig. 8. Austerity does't work
Commission predictions of Greek growth

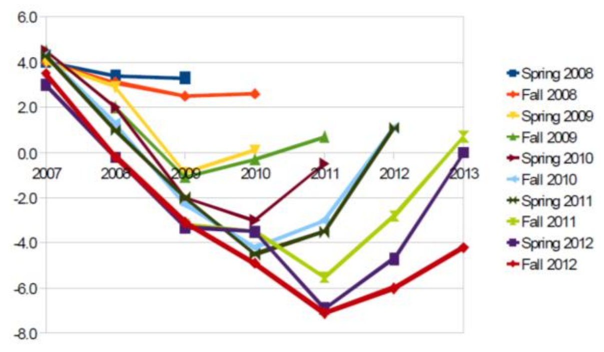
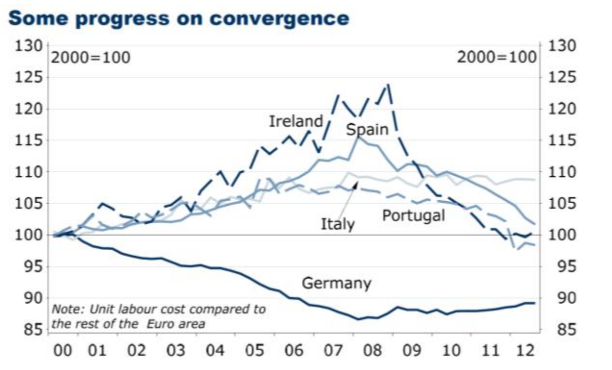


Fig. 9. Unit Labour Cost relative to all eurozone
Nordea, 2000=100



been described above.

A separate discussion is concerning competitiveness, especially inside Europe. The very low German real wage increases, coupled with high productivity has meant that the German unit labour cost has been falling since 2009 when compared with the average of the Euro countries.

Unit labour costs in the main crisis countries, but also in the Nordic countries, have been constantly compared with the German figures. In this comparison it has clearly been the message that German levels are the norm, and other countries should adapt to this. Policy proposals that German labour costs should increase have fallen for deaf ears. The falling wages in countries like Spain, Portugal and Ireland have meant that these countries have indeed come nearer to the German level. In the Nordea report on the economic situation from the spring 2013, this was greeted with the headline: “Some progress on convergence” (fig 9). What this really means is that the ideal is a harmonisation towards the bottom, and that the austerity policies are successful in that respect.

Within the last year, the evidence that austerity does not work according to expectations has grown. The cost of austerity in terms of social and political cost has shown itself to be very high. At the same time increasingly evidence shows that without targeted expansive initiatives growth will only emerge a long time into the future.

Recently even the calculations of Reinhart and Rogoff, mentioned above, have been shown to be wrong and increasingly their paper is losing influence.

The challenge which remains is to strike the balance between a new, more growth oriented policy and the need for long term budget prudence in all European countries.

2.5. Conclusions of the analysis

The European crisis has many elements. It is a crisis of growth, of employment, a political crisis and a production crisis.

An important element is that we are in reality engaged in a value struggle for a social Europe. Up until 2010 there was a strong social consensus in most countries on how to approach the situation. After that time, the policies pursued of giving financial support to deal with exploitatively priced loans while demanding strict and painful cuts have broken this consensus nationally and in Europe.

Politically the crisis is in the process of developing a two or three speed Europe. The economic governance with six-pack, banking union and fiscal compact is a sign that the Euro countries have to move closer together and possibly give up more sovereignty to the EU. This process risks leaving non euro countries outside the decision process. Also the role of the parliament in European governance is unclear. The EU institutions are far from as efficient as we could wish and they need to be developed as a more democratic direction. The role of the Parliament should be increased. This would help to balance different speed Europe too.

At the same time countries like the UK questions the fundamentals of the European cooperation and the public opinion is becoming increasingly skeptical. This skepticism appears both in the crisis countries, where the social consequences has given rise to right wing extremism, and in the more stable European countries where anti-European populism flourishes.

Austerity measures have led to a decline and a double dip. The challenge is to strike the right balance between a more growth friendly policy and the need to for long term budget prudence.

Looking at the falling industrial production and even more falling industrial employment in Europe, other question rises their heads:

- Is this crisis in the last end the result of a rebalancing of the global economy in favour of emerging economies like Brazil, India and China?
- How can we use our European manufacturing strength to avoid that this is happening?
- How do we make EU competitive by developing its social values?

There is no doubt, that there is more than one response to the crisis. We need an economical and political response to pull out of the crisis. We need an industrial policy response to create the basis for longer term growth.

We need to reaffirm our European identity and our commitment to a Social Europe.

3. Policy options on the Euro Crisis

It is not possible to create jobs and welfare through savings.

The social effects of austerity policies are severe. Their potential political consequences of the current policies are serious.

The Northern European countries must be prepared to show solidarity. The Euro crisis must be shouldered jointly by all of Europe.

The other side of the solidarity in financing the crisis is the need to impose socially responsible budget discipline. We agree with this principle, but we find that the implementation until now have been solely focused on balancing the budgets as quickly as possible through cuts in expenditure rather than by looking at the benefits of growth for a long term balanced public household.

A part of the problem has been the implementation of EU recommendations by national governments, which have used the EU as a convenient excuse to pursue their own political aims. In other cases governments have chosen to not use the space for action, which exists within the recommendations given by the EU for instance in connection with the European semester. This is made worse by the ad-hoc character of the European process until now.

The key issue is the interest rates for sovereign debt and the solidity of European banks. Lower sovereign debt interest rates will enable the states in southern Europe to solve their budget crisis with far less invasive policies. Efforts need to be made from the ECB to strengthen the financing of the sovereign debt so as to lower the punitive interest rates paid by some countries. We call for the ECB to play a role as financer of last resort. Part of this can be the issuing of ECB bonds. Models and consequences for achieving this should be analysed.

There is a need for a major investment plan, financed by existing European funds and by project bonds. Special weight must be on long term, trans-border sustainable investments.

A revitalization plan is required for southern Europe coupled with structural reforms in these countries. Administrative reform and improved tax collection is needed in several countries.

Clear targets for growth in the Nordic countries and in Europe need to be established. Industrial growth is the most effective engine for growth in the entire economy. Favourable conditions for industry and jobs should always be borne in mind when making decisions and formulating new regulation.

Uneven competition between EU member countries and social dumping must be counteracted.

There is a need for better targeting of the actions of EU funds such as the social-, regional- as well as the globalisation funds to create and ensure sustainable employment.

EU2020 process need an overall revision to be structured towards creating growth, and it must be given a more binding character.

There must be an active involvement of the social partners at all levels of this process.

4. Industrial policy initiatives and demands for future growth in Europe

A key to creating growth and jobs in Europe and at national level is to re-establish the role of industry as a growth engine in society. For a number of years the fallacy existed that the age of industry was past in Europe, and that future jobs should come from the service sector, including not least the financial sector. The global crisis has clearly shown that this is not the case. We have seen a resurgence of industrial policy in Europe and in many countries. We welcome this development.

Recently the European Commission has launched overall policies to re-industrialise Europe and it has called for growth targets for the share of European industrial contribution to GDP from 16% today to 20% in 2020.

We support this process wholeheartedly, and we call for the EU itself and the European countries to define specific, detailed and binding targets to be followed up by effective policies at European and national level to achieve these targets.

There is a strong need to maintain production employment at this moment and increase productivity and competitiveness of Europe in a longer perspective.

With the crucial role of industry in creating the basis of the European welfare states, we need mainstreaming of industrial policy. The conditions for industry and jobs should be a key consideration when making decisions and formulating new regulation at all levels.

The options for initiatives in industry are many, and below we point to a number of key industrial and general policy areas, where action is called for.

Innovation and productivity for jobs in the future

Innovations are not just a question of technology. It applies in equal measure to corporate structure, the organisation of companies and the use of social capital. We believe the Nordic production model has as for yet untapped potential, which should be developed.

Work place innovation is a vital element in overall innovation. Mechanisms must be developed to integrate this potential into improved products and production. Employee driven innovation needs to be furthered through development of skills and qualifications at all levels of the workforce.

Innovation is an obligation for the public sector but also for the business community and the workplaces. We call for stimulation of private sector research through partly state funded research programs, "innovation checks", and access to state funded research institutes. Improved dissemination of academic research across borders for practical use in companies through such institutes.

Cross national initiatives for development of new technology should be initiated and research infrastructure on a national and regional basis be developed. Earmarked and targeted tax incentives as well as other support should be given at national level for research, innovation and development.

The multiannual financial framework for research 2014-2020 must focus primarily on creating new growth and jobs in Europe. The Horizon 2020 is an important financial instrument implementing the Innovation Union, a Europe 2020 flagship initiative aimed at securing Europe's global competitiveness. We call on Nordic companies to use its facilities.

Another important initiative is the European patent system which must be followed in progress on similar outstanding proposals like opening up of European wide online services (Connecting Europe and smart grids). Public Private Partnerships are one of Europe's greatest advantages when it comes to developing innovative products and services. An example is SPIRE which shall improve the sustainability of process industries and programs such as COSME for small and medium sized enterprises.

We call for an analysis and change of internal market rules on state aid to promote improved use of the ongoing state of the art European. One element could be to permit support for prototyping of research results.

Models for strengthening of qualified demand for new and sustainable products need to be developed. The ongoing revision of the procurement directives should open new opportunities for the public sector to become a driving force of innovative solutions. Qualified demand should be part of procurement rules so that targeted procurement becomes possible.

Affordable, sustainable and stable energy supply

Growth in the manufacturing industry requires an affordable and stable supply of energy. It is important to strike the balance between such credible and affordable energy supply and the need for increased sustainability and CO_2 reduction in energy production.

The level of energy prices is a competitive factor on the world market. Traditionally the need to import much of the necessary energy has made European energy prices higher than is the case in comparable regions of the world. This is demonstrated by the current situation, where energy prices have been dramatically lowered in the US. At the current moment in time, further European reforms should be considered in this light.

At the same time stability of regulations and incentives aimed at promoting future sustainability is a key prerequisite to engendering the necessary investments.

We welcome that sustainable growth and job creation is the focus for the Commission´s strategies in the energy field. We support the leading role of Europe in emissions reductions, but we need to see this in the light of the current economic situation of Europe as well. We find it is vital that we see the rest of the world follow suit. EU has to be a leading voice in global climate negotiations to achieve this.

A key issue for industry in this connection is carbon leakage. Measures taken with the purpose to reduce emissions of carbon dioxide must be valued from the risk of carbon leakage and steps must be taken to reduce the effect of such leakage.

The development of sustainable energy technology and energy saving technology must be supported. This is not only a question of research grants but particularly the need to also in this area establish a European wide coordination and qualified demand for these technologies.

Better incentives and information for enterprises, in particular small and medium sized enterprises, to improve energy efficiency and use sustainable energy through establishment of European wide energy savings funds.

We call for the implementation of smart grids to ensure the best possible use of sustainable energy. Support should be given for research into the development of non food biofuels and biofuels not occupying arable land. There is a need for continued development and investment into extracting the highest possible energy out of fossil fuels. Smart transmission nets for the European energy supply should be rolled out soonest possible It is important to tailor the policies to not hamper the current use of sustainable energy through recycling of waste in some sectors as well as supporting incentives for efficient energy use in existing productions. Improved use needs to be made of existing resources of sustainable energy like wind, water and wood.

Sustainability for an industrial future

The necessary sustainable future must to a large extent be built upon and grow out of the existing industrial base. New green products are not necessarily made in a sustainable production. We need to look at the entire production chain to ensure that all elements of a product are the result of a sustainable process.

Green jobs, whether in traditional or new productions must be decent jobs with good health and safety. This is one of the reasons why the transition to sustainable production must happen in a real dialogue with local trade union representatives.

The EU eco-design directive must be used more effectively by including environmental standards for resource efficiency to more effectively control energy efficiency of products.

Recycling is a new focus area with increasing importance in the future as a source of raw materials. Recycling, however, also comes with a whole serious set of environmental and health and safety concerns which must be addressed. These new kinds of industrial areas where one manufacturer uses another’s waste as raw material or separate manufacturers get benefits from each other’s should be developed and benchmarked.

European level carbon taxes should be considered as a means to finance sustainability initiatives, coupled with border adjustment mechanism to address carbon leakage.

Sustainability should be implemented in such a way as to maximize its industrial growth potential while at the same time minimizing its possible negative effects on existing jobs and industry.

Fair Globalisation

The single market remains an important foundation for European industrial development and growth. We should, however be aware, that for a number of industrial sectors, the real market is outside the EU and there should also be focus on their problems, not least in relations to fair competition, sustainability and carbon leakage.

Global market access is highly important for large parts of manufacturing industry. Free trade agreements can play an important role, but they must be contingent on clear social clauses. It is from a trade union perspective necessary to stress that competition rules must respect worker´s rights. Also neutrality in the competition between producers from different parts of the world is crucial. For the sectors, which mainly compete on the global market, the main issue is not to achieve equal conditions for competition in Europe but also a fair and level playing field with producers in different parts of the world.

We greet the proposals for increased North Atlantic cooperation, as a valuable way to increase the growth potentials of both partners. We maintain, however, that such an agreement cannot be allowed to challenge social Europe and that also at this level agreements must respect for ILO core conventions and social rights are paramount.

A key issue is maintaining the competitiveness of Nordic and European companies in a global world. The European social model gives special value to the production. This is certainly also the case of the Nordic production model. For Nordic companies to maintain their competitiveness when investing abroad they must bring with them and implement Nordic values and approach to social capital.

EU-funds and other industrial policy measures should not provide support so that profitable operations move from one EU country to another. There should be recourse for demanding support back from companies in case of abuse of such rules.

Small and medium sized enterprises - the future of industry

SMEs play a key role for industrial development and innovation. Improved conditions for SMEs are high on the agenda.

Financing is a key challenge for small and medium sized enterprises. Such financing must be strengthened for instance higher and harmonised levels for pension fund investments in SMEs and by boosting public, private partnerships in product development.

Better and simplified regulation for SMEs is an attractive concept with substantial real life merit. A positive example would be more simplified financial reporting rules. But we are concerned with the proposals to ‘lighten the administrative burden’ on SMEs by exempting them from EU regulation, including elements of Occupational Health and Safety. We should stress that simplified rules should not be to the detriment of the protection and safety of workers.

Support should be given for hiring trained experts such as engineers in fields like production, marketing, R&D, business administration into smaller SME’s to boost their innovation and growth.

Another important field of action is facilitating of clusters, which has special importance for SMEs. Evidence has shown that a better cooperation between SMEs, technical universities and technological institutions will strengthen the competitiveness of the Nordic region in the global society.

The ongoing revision of the directives on public procurement must make it easier for SME's to participate.

We welcome upcoming programmes such as COSME, aiming at improving the competitiveness of SME's, and we call for its implementation as soon as possible.

A responsible finance sector

Industrial growth and stability requires a ready access to finance and risk capital. The parts of the finance sector closest to the real economy must be strengthened.

Strengthened mechanisms must be developed for long term financing as a contrast to the short horizon financing made available through the financial markets today. Long term financing would be an investment in people.

Financial regulation must be strengthened further. The principle that the polluter pays must be applied to the financial sector so that high risk behaviour contributes to the financing of its own consequences.

We need a European tax policy

High levels of government revenue are the condition for the Nordic welfare states and as a consequence of the Nordic competitiveness. This must be maintained. At the same time taxation across Europe is challenged by tax havens and other tax evasion. Some countries in the Euro zone have ineffective tax systems, adding to the pressure on their state budgets.

We welcome initiatives to combat tax evasion across Europe. There is a need for a concerted European and global effort to stop tax havens, through opening access to bank information for the home countries or persons and enterprises. EU should support member states in their own efforts to make taxation more efficient.

We support the principle of a financial transaction tax implemented by the largest possible group of countries. Ideally such a tax should be implemented globally. An alternative to a FTT would be a tax on the result of financial institutions. It is important to have a clear proposal for the use of the revenue of such taxes for creating long term growth in Europe.

We call for a minimum European level for company taxation in order to stop competitive tax cuts.

We call for a reform of agricultural subsidies as a source for the necessary investments in a European industrial policy.

Industrial growth and industrial restructuring in Europe

An industrial growth strategy must have a social dimension and lead to jobs with good conditions. We must avoid a race to the bottom.

Social dialogue and effective building up of social capital can give Europe a competitive edge. Social dialogue has to play an important role at all levels in relation to industrial policy. This is a prerequisite for worker involvement in areas like restructuring and innovation and it is a key part of the European social model which has brought European industry to the high level it occupies today.

We are prepared to be part of a development of the social dialogue in Europe. We need to develop more competitive and innovative enterprises and we are also prepared to be part in difficult discussions on industrial restructuring.

We point to the potential of European framework agreements on innovation, productivity and pre-empting change, signed by the European trade union federations, not least industriAll Europe and its predecessors. Such agreements are an important way forward at European level.

We call for the implementation of the proposals in the Cercas report from the European Parliament on industrial restructuring.

Labour market policies for jobs and skills development

Skills development plays a decisive role in growth, innovation and in industrial restructuring. It is a precondition for a dynamic and competitive industrial sector. A world class system for research, education and vocational training, capable of adapting to the demands for future competences is a necessary response to globalization. Skills development is a cornerstone of active labour market policies and it must be for all employees, from unskilled to academically trained colleagues. It is important to drive skills development from being pure training for the current job to enable mobility through an individual right for training according to the ability of the individual.

Life-long training remains a key for European industrial policy. Special attention should be paid to validation and transferability of skills and to skills development for the whole European labour force – including unemployed and those in precarious employment.

Skills development and transfer is also linked to the demographic development. There needs to be established a process of transfer of experience and knowledge across generations in the individual enterprises.

There is a need for training in innovation and entrepreneurship at all levels of the education system combined with other transversal skills like the ability to think critically, take initiative, problem solving and work collaboratively.

Measures targeted against youth unemployment are vitally important. Among these are increased possibilities for young people to get work place apprenticeships, trainee places and internships. The national states should encourage this with financial incentives for the company.

Job creation in industry-based services and value added production has been notable and the future of these sectors is promising. The development of such sectors cannot be allowed to lead to an increase in irregular and precarious employment.

5. Questions for debate

The analysis of the crisis and the proposals for possible policies raise a number of questions. There are many, but a discussion can start with these:

- Is it possible for a country to save its way out of the crisis and back to growth?
    - What kinds of savings are acceptable on the path to a budgetary balance, and what savings are not acceptable to us?
    - Is every savings measure austerity?
- Should we show solidarity with the crisis countries or let them sail in your own sea?
    - Who should show solidarity?
        - Euro countries?
        - EU countries?
        - All European countries?
    - What will we sacrifice?
- How far will we go to save the sovereign debt crisis countries?
        - Bond purchase?
        - Eurobonds?
        - Jointly financed investment plans?
- How far will we go to ensure industrial development in the crisis countries and in the poorest countries of Eastern Europe?
    - Support investments?
    - Moving of profitable companies?
- How to make tax collection more efficient?
    - Measures against tax havens?
    - Harmonisation to avoid European tax competition?
        - Minimum level of tax on companies?
        - Minimum level of tax on wealth?
    - How many countries need to be involved in a financial transaction tax for the Nordic countries to join?
- Is the euro worth saving?
    - Can we do without it altogether?
    - Can the euro be dissolved without excessive cost?
- How far are we willing to go to save the euro?
    - How much sovereignty we will transfer?
        - Supervision, support and closure of banks?
        - Supervision and rules for State Budgets?
        - Supervision and rules for development of costs, including wages?
- What are we living from in Europe tomorrow?
    - Industry?
    - Service?
    - Tourism?
    - Can we do without actual production in industry and only rely on research and product development?
- Is sustainability the way to innovation or a stone around the neck of the crisis?