http://www.elnep.org

18 April 2007

Economic policies for full employment in Europe

KEEPING THE EUROPEAN RECOVERY ON TRACK

ECONOMIC FORECAST AND POLICY RECOMMENDATIONS BY THE EUROPEAN LABOUR NETWORK FOR ECONOMIC POLICY (ELNEP), APRIL 2007

- **The ELNEP forecasts the strong economic growth in the euro area in 2006 (2.6%) to slow somewhat to 2.2% in 2007 and 2.1% in 2008, enabling a further reduction in unemployment.**

- **Nominal wages will accelerate slightly, but unit labour costs will remain moderate in the current and coming year, at 1.8% and 1.4% respectively, keeping inflation contained below the European Central Bank (ECB) target of close to but below 2%.**

- **In order to keep the recovery on track the ELNEP recommends that: (a) monetary policy should refrain from further tightening, while preparing to act swiftly in response to unexpected developments; (b) fiscal policymakers consolidate public finances on the back of faster economic growth, while paying greater attention to area-wide requirements, and (c) wage-setters move towards nominal wage increases in line with national productivity growth plus a price component compatible with the ECB's inflation target, implying a faster overall pace of wage increases.**

Background to ELNEP's forecast:

The immediate outlook for the euro area economy is positive. It is vital that the recovery is kept on track to enable a lasting reduction in the still-high rate of unemployment.

There are however a number of important downside risks. Despite the fact that inflation is well contained the ECB might continue to increase interest rates. The ELNEP estimates that a one percentage point increase in the ECB rate would reduce growth by half a percentage point by 2008 and cost 380,000 jobs.

If the euro were to appreciate against the US dollar and other world currencies, the effects would be much more severe: ELNEP calculates that a 10% depreciation of the dollar would reduce employment by more than 1 million jobs, reversing much of the recent gains in cutting unemployment.

Another threat comes from the current account imbalances that have built up within the currency area. The ELNEP recommends orienting wage increases to national productivity growth plus a 1.9% allowance for price increases. This would help contain these imbalances and the faster wage growth would raise demand and output, creating some 200,000 additional jobs across the euro area.

About ELNEP:

The **ELNEP** was founded in autumn 2006 to provide a counterweight to mainstream policy advice in Europe.

The participating institutes identified a worrying lack of diversity in the European economic policy debate, which is biased heavily towards the supply side, exhibits a knee-jerk preference for 'market' solutions over social institutions, and draws conclusions from the micro for the macro level and from national for European policies.

The analytical and forecasting activities of the **ELNEP** put greater emphasis on macro policies and consider both demand and supply side measures to be crucial in supporting growth and employment.

The network pays particular attention to issues of the labour market, employment, wages and income distribution, and wherever appropriate takes a European, rather than national, perspective: policies that may work in a single country may be counterproductive at European level.

The members of the network are financially and intellectually independent. At the same time they have institutional links to national labour movements. The regional diversity of the network ensures in-depth expertise at country level.

Currently the **ELNEP** comprises seven institutes and one individual university researcher. An extension of the network is foreseen. The present members of the network are:

- **AGORA** (Stockholm, Sweden)
- **Arbeiterkammer Wien** (Vienna, Austria)
- **Economic Council of the Labour Movement** (ECLM, Copenhagen, Denmark)
- **European Trade Union Institute for Research, Education and Health and Safety** (ETUI-REHS, Brussels, Belgium)
- **Institut de Recherches Economiques et Sociales** (IRES, Paris, France)
- **Labour Institute for Economic Research** (LIER, Helsinki, Finland)
- **Macroeconomic Policy Institute** (IMK, Düsseldorf, Germany)
- **Carlos Rodriguez Gonzalez** (Individual associate - Universidad del País Vasco, Bilbao, Spain)

For more details please contact:
Tristan Macdonald
Tel: 00 32 (0)2 224 05 62
email: tmacdonald@etui-rehs.org
www.etui-rehs.org