Le Syndicat européen

EUROPEAN ECONOMIC GOVERNANCE : AN INTRODUCTION

EPSU

DECEMBER 2013

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CONFEDERATION SYNDICAT EUROPEAN TRADE UNION

WHAT IS IT ALL ABOUT ?

- TRANSFERT OF NATIONAL COMPETENCE ON ECONOMIC POLICY FROM NATIONAL TO EUROPEAN LEVEL
- VERY BROAD: Rules on public deficits and debt….but also rules on social expenditure, labour market institutions and, in particular, wages (« productivity »)
- « THE SILENT REVOLUTION »

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HOW? A DRAGON WITH MANY HEADS

- FINANCIAL RESCUE OPERATIONS BY TROIKA
- EUROPEAN REGULATIONS such as for example ‘procedure for excessive deficits »
- EUROPEAN SEMESTER/ EU 2020: Each year in May, Country Specific Recommendations
- Coming soon: (this week?): From recommendations towards ‘binding contracts’ (« contractual arrangements with solidarity mechanisms »)

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FINANCIAL RESCUE OPERATIONS: THE CASE OF GREECE

- Autumn 2009: National Bank/ECB of Greeece announces ‘refunding strike’
- Hell breaks loose on financial markets
- May 2010: Greece enters ‘troika’ regime
- What follows is a systematic step by step dismantling of wages, wage formation institutions, public services, social security.

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EUROPEAN ECONOMIC REGULATIONS

- New (end 2011) regulations
- One stands out: Regulation to prevent and correct excessive macro economic imbalances
- Definition ?

EXCESSIVE MACRO ECONOMIC IMBALANCES : THE PROCEDURE

- Each year, in november, Commission draws up a scoreboard of indicators
- Debt loads (public and private), housing prices, export performance, increase of unit wage costs
- Definition of thresholds (fex increase in unit wage costs of 9% over last three years) : Red light flashing
- ‘Alert Mechansim Report’): Describes and selects countries might possibly be a problem

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THE PROCEDURE

- Next step: in depth country studies
- Published in May the next year, contains Commission recommendations
- Crucial extra step: Commission can nominate a member state as being in an ‘excessive imbalance’ If European Council agrees, then country is placed under strict European supervision
- Make a corrective action plan, have it approved by Commission en

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DEMOCRACY TURNED UPSIDE DOWN

- If member state does not follow the ‘ommission’s advice
- …. Commission can impose sanctions (0,1 to 0,5% og GDP, each year)
- Decision on this is taken by ‘reversed qualified majority »
- At present: Spain and Slovenia under such regime

COUNTRY SPECIFIC RECOMMENDATIONS

- Continue fiscal consolidation (mainly by expenditure side)
- Wage interventions: Make wages ‘flexible’ and ‘competitive’
- More labour market flexibility (pension age)
- Cut tax wedge on wages (substititue with other taxes)
- Sometimes positive recommendations (education, training,….)
- Not binding at this moment. But….

WHY?

- Short answer: To save the single currency, to convince financial marketst that member states will do anything it takes to make sure markets do not question the viability of the single currency.
- If this includes giving ‘Europe’ the power to push through unpopular, democratically unsupported measures and reforms, so be it….

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The single currency: What went wrong?

Since the start of the single currency, several member states have gone their own way :

- Germany: Disinflationary competitive wage policy loonbeleid
- Periphery: ‘Bonus’ of the single currency (falling long term interest rates) translated into debt asset price bubble (‘Free Land Act in Spanje bv).
- The one trend reinforces the other :
  - Zero inflation in Germany makes ECB reduce interest rates to minimum level
  - Problem: This level is much too low for periphery: financial bubble over there totally gets out of control

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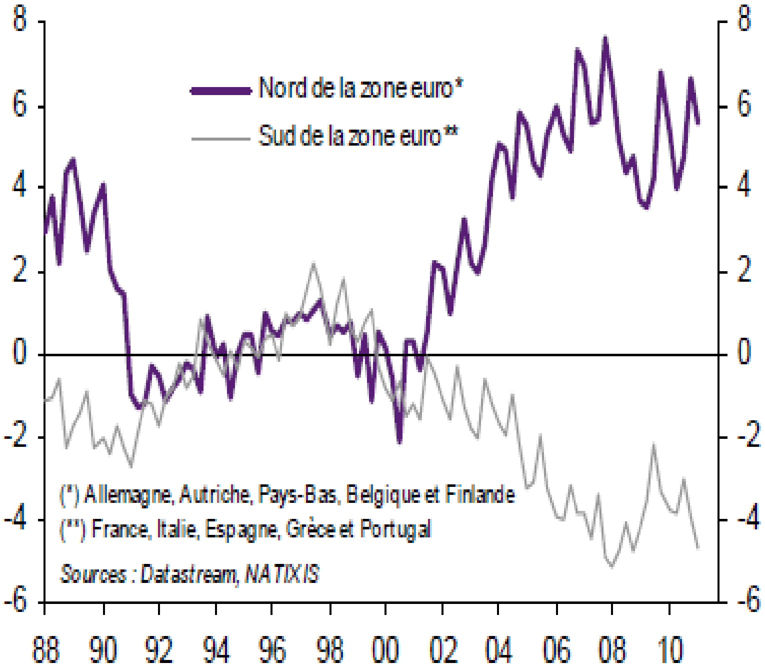
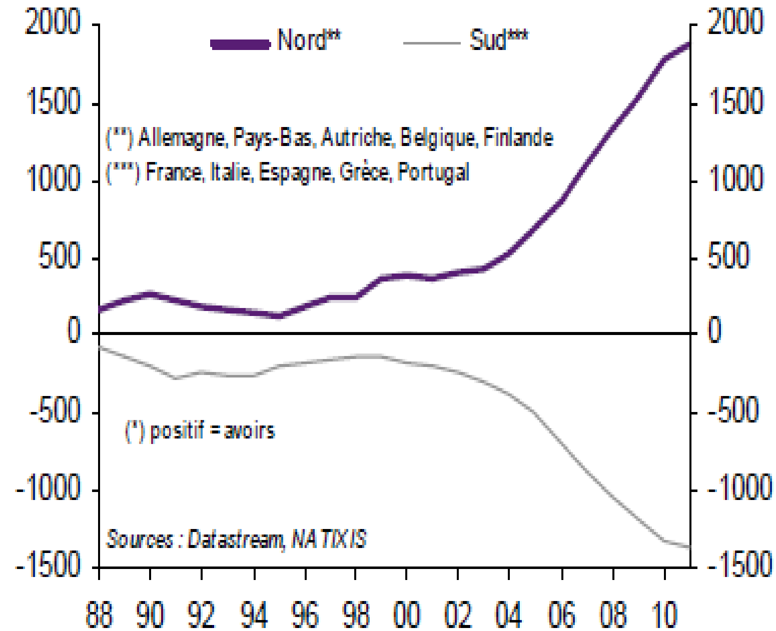
Ten years of Monetary Union…. Enormous imbalances

Graphique 7a
Balance courante (en % du PIB)



Graphique 7b
Zone euro : avoirs ou dettes* extérieurs
(en Mds d'euros)



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Countries (even members of monetay union) can not continue to accumulate debt

Key cause of the Euro crisis :

- No longer confidence in the economy and banking system of periphery
- Money and credit flows no longer being recycled inside the Euro Area Eurogebied
- Massive financial strike for the periphery

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Hence, ‘The Silent Revolution »

To avoid this from happening again (and to correct present imbalalnces),, more competence of Europe over national economic and social policiy making

« DEMOCRACIES PAY BETTER WAGES »

Key problem for trade unions in Europe:

•Trade union counterveiling powers are at the level of national democracies, not at European level

•Danger: Trade unions lose control or influence

•Hoe to avoid the Commissin, the ECB, the Council from abusing the powers they have gained to push through their (liberal/technocratic) vision against the choices made by national democracies ?

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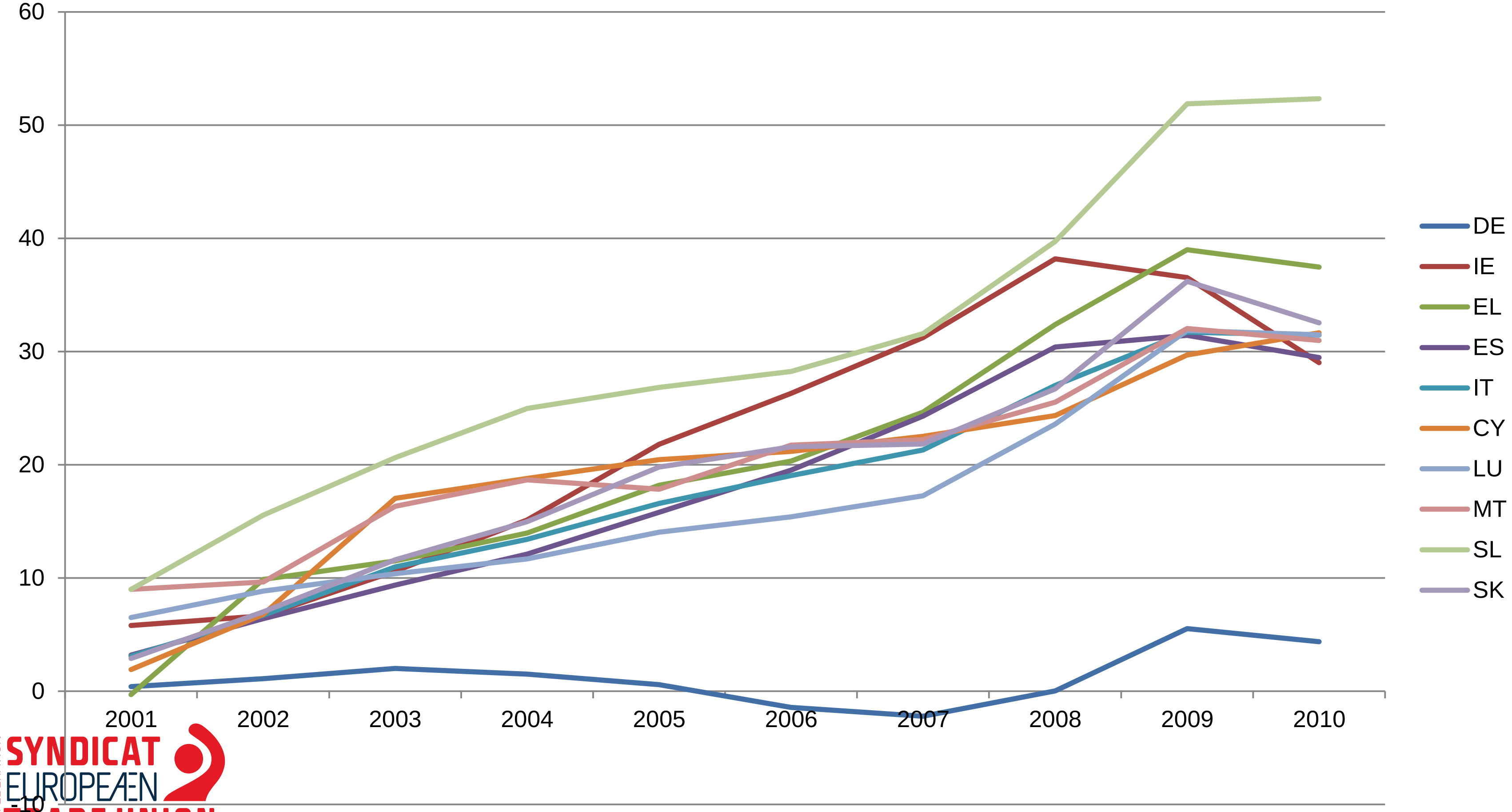
Rewriting the Euro crisis: Wages are to blame (Evolution of unit wage costs since 1999)



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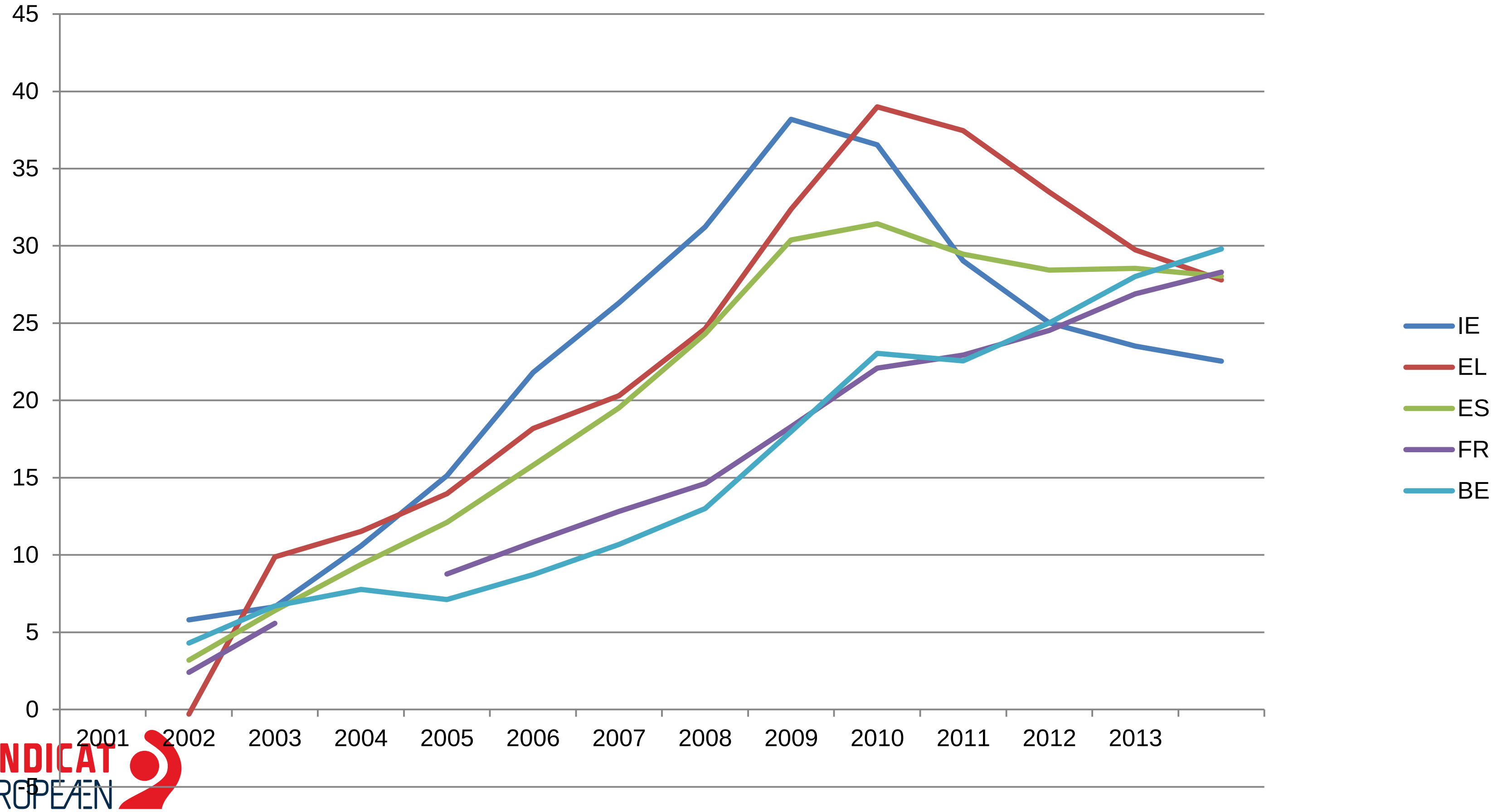
THE PRACTICE: THE ECONOMIC BULLDOZER

- Rode thread: Since countries can no longer devalue their currency, let's devalue their wages
- From Troika countries….Meest extreme gevallen: Troika landen
- …. over Spain and Slovenia….
- …. into France, Belgium, Finland, Denmark…..
- Not just wages, also wage formation SYSTEMS …
- … on the basis of the 'German Model ' (decentralised, 'free' bargaining)

ANECDOTE

- Dg ECFIN publication : ‘ An employment friendly reform is any reform that weakens the power of trade unions to set wages »

It is starting to « work »



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CONCLUSION

- Big challenge ….
- …that concerns all of us

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