EUROPEAN ECONOMIC GOVERNANCE: AN INTRODUCTION

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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 »
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 »)
FINANCIAL RESCUE OPERATIONS: THE CASE OF GREECE

- Autumn 2009: National Bank/ECB of Greece 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.
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, the Commission draws up a scoreboard of indicators.
- Debt loads (public and private), housing prices, export performance, increase of unit wage costs.
- Definition of thresholds (e.g., increase in unit wage costs of 9% over last three years): Red light flashing.
- ‘Alert Mechanism Report’: Describes and selects countries that might possibly be a problem.
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
DEMOCRACY TURNED UPSIDE DOWN

- If member state does not follow the ‘ommission’s advice
- …. Commission can impose sanctions (0,1 to 0,5% of 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 (substitute 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....
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
Ten years of Monetary Union…. Enormous imbalances
Countries (even members of monetary union) cannot 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.
Hence, ‘The Silent Revolution’

To avoid this from happening again (and to correct present imbalances), more competence of Europe over national economic and social policy making
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?
Rewriting the Euro crisis: Wages are to blame (Evolution of unit wage costs since 1999)
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)
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 »
CONCLUSION

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