Next step for the Europact

New rules on economic governance support businesses' desire to drive down wages in the EU

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The Europact – and indeed the business community – claim to respect the autonomy of collective bargaining, but closer inspection reveals that this is only superficial. Corporate Europe Observatory has looked at the details and fears that an attack on wages is in the making at the negotiations on new rules on "economic governance". Progress is expected at the ECOFIN Council meeting in Budapest this week.

Ever since the euro crisis hit last year, BusinessEurope, the European employers' association, has been lobbying the Commission and the Council to ensure that the response to the crisis would be in line with its corporate economic interests. Following the adoption of the Europact at the EU summit on the 24-25th March, BusinessEurope could note with satisfaction that its views had once again been reflected in an official EU document on future economic governance in the Union[1], while the protest of tens of thousands of trade unionists in Brussels and other European cities were largely ignored.

While the Europact clearly recommends an attack on wages, it was unclear how this could be implemented. But now, the ideas of the Council on some steps to reduce wages have been made public. They reveal that controlling wages is to be one of the tools in a proposal for containing macroeconomic imbalances, due to be adopted in June. If that happens, it could amount to an attack on collective bargaining – a move that would certainly be applauded by BusinessEurope.

The Pact and collective bargaining

Though the Europact (or Europluspact) targets many sensitive issues, such as social expenditure, taxation and pensions, most of the controversy has been around wages. The Pact directly refers to the effect of wages on competitiveness, and it implicitly sets the objective to reduce them in some countries, and keep them low in others. It envisages a number of steps that should be taken by member states in relation to wages to "foster competitiveness", eg. to keep wages in the public sector low, or to "review wage setting arrangements". At the same time the document claims to respect collective bargaining traditions – in other words that states should not intervene inappropriately in wage negotiations to push wages down. This seems contradictory.

An obvious question to ask is where does the employers' side of collective bargaining stand on this? And the message here is not reassuring for those who insist on respect for collective bargaining traditions.

The various statements issued by BusinessEurope before and during the EU summit in March make it clear that while BusinessEurope professes a commitment to "the autonomy of the social dialogue" and collective bargaining, this autonomy has to lead to a particular result. "The emphasis on wage moderation in the Pact for the Euro is not an attack on collective bargaining. In Germany for example, the social partners themselves autonomously decided to follow this course," a BusinessEurope statement read[2].

The question, then, is how BusinessEurope will react if collective bargaining does not lead to the outcomes required by the Pact. In a message to the so-called Tripartite Summit on the eve of the EU summit, sent in a letter to Council President Herman Van Rompuy, BusinessEurope said: "Unjustified hostility to balanced reforms cannot be allowed to block the necessary modernisation of Europe's labour markets"[3].

So, it seems that if trade unions do not adopt wage restraint voluntarily, other avenues must, according to BusinessEurope, be explored. When the European Trade Union Confederation (ETUC) stood up for the autonomy of collective bargaining in comments to proposed EU measures, BusinessEurope's rhetoric was aggressive. BusinessEurope's Philippe de Buck wrote: "Acknowledging the challenges and accompanying the necessary reforms will better serve the interest of citizens and workers than sterile anti-European rhetoric"[4].

So much for the respect for the autonomy of collective bargaining.

But if trade unions don't integrate the Europact into their strategies, what could happen? You might expect to find an answer in the Pact, but there is no fleshed-out model of implementation. This is as far as it gets:

"Progress towards the common objectives above will be politically monitored by the Heads of State or Government on the basis of a series of indicators covering competitiveness, employment, fiscal sustainability and financial stability. Countries facing major challenges in any of these areas will be identified and will have to commit to addressing these challenges in a given timeframe"[5].

That the issue will be handled by the heads of state and government is an indication that it will be given a high priority, but this still leaves a lot of questions unanswered. How will it work? Will sanctions be imposed? What is the timeframe?

The sixpack

A plausible answer is that the path has already been laid. The six proposals on economic governance[6] (or "the sixpack") that were published by the Commission in September 2010, and which are due to be finally adopted in June, could provide an infrastructure for the implementation of the Pact. BusinessEurope certainly thinks so.

"The Europact is a political agreement on strengthening of integration. The six legislative proposals on economic governance are about how to implement it. We see the two as connected," the federation's Secretary General Philippe de Buck told a Swedish journalist on the first day of the summit[7]. A very significant statement in the light of the proposals.

Some elements of the Pact, such as the "sustainability of pensions, health care and social benefits", are clearly destined to be dealt with through the implementation of the Stability Pact (or 'Growth and Stability Pact')[8], which is set to be more strongly enforced in the future, if the sixpack is adopted. But can wages be dealt with anywhere in the complex of the draft legislation on economic governance?

Indeed they can. And the Commission has made no secret of it. When presenting the proposals, a top civil servant with the Commission, Marco Buti, told a journalist from the German newspaper Die Welt:

"When wages in the public sector damage competitiveness and price stability then the country will be requested to change this policy. And the wage development in the public sector does of course have a great influence on the private economy"[9].

This statement fits hand-in-glove with the wording in the Pact where the signatory governments commit to "ensure that wages settlements in the public sector support the competitiveness efforts in the private sector".

The new procedure

The golden egg for BusinessEurope can be found in two proposals on "macroeconomic imbalances" in the sixpack. The basic idea is for the EU to proactively prevent the build-up of imbalances like current account deficits and downturns in price competitiveness. Once the indicators have been decided 'threshold levels' will be defined. If a member state persistently underperforms, a procedure will be initiated – "the excessive imbalance procedure". If the member state fails to comply with the demands of the Commission and the Council, it will be fined (if a member of the eurozone) or named and shamed (if not). In fact, the four countries that declined to join the Europact -Sweden, the UK, Hungary and the Czech Republic - could be included in the implementation of the Europact in this way.

The excessive imbalance procedure provides the perfect mechanism for dealing with wages. And indeed, it is now revealed that the Council is preparing its preferences for indicators, and that wages are indeed set to be considered. Though it's not fully clarified what body will define the indicators and the threshold levels, the most likely is that the Commission and the Council will do it jointly. And since the Commission has stated very clearly from the beginning that it would prefer to see wages included, the Council position has been awaited with some interest. Now, documents circulated to the Danish Parliament describe the indicators the Council would like to be used once the proposal on "macroeconomic imbalances" is adopted, and wages appears as one of nine. According to the document, written by the Danish Ministry of Finance and signed by the Danish Foreign Minister, threshold levels will be defined to ensure that unit labour costs do not rise more than 9 per cent in eurozone countries and 12 percent outside the eurozone over a three year period.

While these levels are not by themselves particularly scary, it should be noted that the mere fact that the Council or the Commission acquire the mandate to intervene in wages is a major step away from collective bargaining – and who can tell what levels will be defined in the future? This whole exercise is about containing wages.

The Council position is expected to be finally approved at the ECOFIN Council meeting in Budapest on the 7-8th of April[10].

What measures?

If a member state persistently crosses the thresholds, what will happen? This is far from clear. But the Europact already specifies a number of measures that can be pushed by the Council of Ministers, including wage restraint in the public sector, measures to ensure the lowering of wages if they are deemed too high and therefore detrimental to competitiveness, or a review of "the wage setting arrangements, and, where necessary, the degree of centralisation in the bargaining process". Should this happen, "the excessive imbalance procedure" could readily be renamed "the excessive impoverishment procedure".

BusinessEurope seems well prepared for the eventual discussion on the kind of reforms and steps that member states should take to stay within the confines of the threshold levels, including wage bargaining reform. It has already drawn up a wish list for EU member states on a number of issues. In the "European Reform Barometer" it published two days before the summit, it lists a number of countries that should implement particular reforms. Seven member states (Belgium, Cyprus, Finland, Germany, Luxembourg, Portugal, Spain), it suggests, should "improve wage bargaining and wage-setting systems"[11]. So, it seems BusinessEurope is indeed targeting the way wages are negotiated.

As for which countries are likely to be first in line to reduce wages, this is actually clarified by the Pact itself. Particularly for anyone familiar with the deeper reasoning behind the document. The idea behind the chapter on wages and competitiveness in the Europact is that wages in the eurozone have been allowed to grow so high that it has damaged 'competitiveness' and paved the way for a major crisis. This is a gross misrepresentation of the eurocrisis which emerged from the financial crisis and debt in the private sector and was magnified by imbalances in the way the euro has worked. Among the conclusions in a paper from the ETUC are that the 'wage diktat' in the pact "corresponds exactly to the same type of wage pattern that German labour had to suffer over the last decade, a pattern that has been accompanied by an explosion of business profits and dividends, but also soaring inequalities and job precariousness"[12].

And it only takes a quick glance at the Commission's statistics on 'price competitiveness' to identify which the first countries should be to carry out such reforms. The ones 'lagging behind' in the eurozone, in particular Spain, Ireland, Portugal, Italy, the Netherlands and Estonia[13].

Not over yet

It does look as if "the sixpack", including the "excessive imbalance procedure" will garner support from both the Council, which has already approved the drafts, and the European Parliament which is set to discuss it in April. But for opponents of the Europact, this also means that while its rushed and undemocratic adoption might have been a big blow to trade unions, the struggle on implementation is far from over.

Social movements, trade unions and their allies have an obligation to launch a campaign not unlike the one on the Bolkestein Directive a few years ago. As the Joint Social Conference – a coalition of trade unionists, NGOs and movements – put it, there is a need to build a "network of solidarity and broad and long term European activist movements. We need to build broad support in society to confront this unprecedented attack on people's and workers rights."[14]

References:

[1] See Corporate Europe Observatory: "Business against Europe", March 2011, http://www.corporateeurope.org/lobbycracy/content/2011/03/business-against-europe; "Corporate EUtopia", January 2011, http://www.corporateeurope.org/lobbycracy/content/2011/01/corporate-eutopia

[2] BusinessEurope, 24 March, http://www.businesseurope.eu/content/default.asp?PageID=568&DocID=28303

[3] Speech by Philippe de Buck (director general of BusinessEurope) to the Tripartite Summit, 24 March 2011, http://www.businesseurope.eu/content/default.asp?PageID=568&DocID=28302;
Letter from BusinessEurope's Chairman Jürgen R. Thumann to Herman Van Rompuy, 21 March 2011., http://www.businesseurope.eu/content/default.asp?PageID=568&DocID=28266

[4] Letter from Philippe de Buck (BsuinessEurope) to the ETUC, 14. January 2011.

[5] The Europact is annexed to the conclusions of the European Council meeting of the 24-25th of March:: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf

[6] The Commissions proposals now being negotiated, can all be seen at http://ec.europa.eu/economy_finance/articles/eu_economic_situation/2010-09-eu_economic_governance_proposals_en.htm

[7] NOTAT, 24 March 2011, http://www.notat.dk/fagbevaegelsen-modsiger-barroso/

[8] See the Europacts chapter on 'sustainability of public finances': http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf

[9] Die Welt, 27 September 2010.

[10] Danish Foreign Ministry: "NOTAT – Indikatorer og scoreboard om overvågning af makroøkonomiske ubalancer", 1. April 2011. http://www.eu-oplysningen.dk/upload/application/pdf/dc4f4539/201005272.pdf

[11] BusinessEurope: "European Reform Barometer", Spring 2011, page 6. http://www.businesseurope.eu/Content/Default.asp?

[12] ETUC; "Why Europe needs a fairness pact and not a competitveness pact", Economic discussion paper 2011/4.

[13] See the statistics in Commissioner Rehn's presentation at a conference in Brussels in January this year: http://ec.europa.eu/economy_finance/events/2011/1201_the_european_semester/pdf/presentation_olli_rehn_en.pdf

[14] http://www.jointsocialconference.eu/var/www/cne/www.jointsocialconference.eu/IMG/pdf/2011_-_jsc_-_en_-_press_release.pdf