The EU Commission proposes national committees to assess competitiveness. German Trade Unions reject the proposal out of hand.

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Sometimes events show better than a thousand words what is wrong with Europe. On October 21st, the Commission presented a paper that proposes to improve the coordination of European economic policy. The paper is based on the so-called Five presidents report from last June (see here). The Commission recommends coordination to take place through national committees. These committees should assess the evolution of competitiveness at national level in each of the member states and make suggestions for improvements (the paper can be found here).

This EU proposal is an important document, because it shows that the Commission is taking the economic divergences between countries very seriously now. The EU Commission writes that „It is recommended that each euro area Member State establishes a national body that monitors its services and its policies in terms of competitiveness. This would prevent economic divergences and increase the identification of necessary reforms at the national level.“ These national institutions, which should be independent from party politics and national public institutions, should „assess whether wages develop in line with productivity,“ make comparisons „with developments in other countries of the euro area and with developments within our most important trading partners, an aim to which a great majority of Member States had already agreed to within the framework of the ‚Euro Plus Pact‘.“

The Commission deals with the elephant in the room, Germany (without, of course, calling it by name), by stating that: „At the same time, the procedure for macroeconomic imbalances should also promote appropriate reforms in countries that have amassed high and persistent current account surpluses caused by, for example, insufficient domestic demand and / or a low potential for growth, as this is also important to ensure the effective elimination of imbalances within the monetary union.“ Evidently, the Commission means that insufficient domestic demand is caused by low wages and wages that rise insufficiently fast (as compared to productivity growth), but since everyone would understand that such criticism is directed towards Germany, the Commission used diplomatic parlance.

The Commission goes on to recommend that the committees should assess major developments and strategies in the field of competitiveness and that they should advise on the implementation of reforms (according to respective national specificities and common practices). Furthermore: “The Commission should coordinate the activities of the competitiveness boards with a view to fostering the achievement of euro-area-wide objectives (…) The committees should interpret competitiveness as a comprehensive approach and deal with the dynamics of wages and salaries as well as with non-wage labor costs, factors that boost productivity, innovation and the attractiveness of the economy as a business location.“ The national committees will publish their analysis on an annual basis and provide independent policy advice.”

This text, read and interpreted without prejudice, reveals the Commissions intention to act in a way that we have been recommending for years as a lone voice in the wilderness, namely that the monetary union cannot function without wage coordination. Whether national committees are the right tool to ensure such coordination is open to debate, but there is no question that the approach finally goes in the right direction: committees will address the question “whether real wages evolve in line with productivity“ or, to say it differently, they will determine whether nominal wages rise in line with the productivity of the economy as a whole plus the 2 % inflation target rate (this is the old golden wage rule). Secondly, national divergences and concerns will be addressed at European level in an attempt to streamline and coordinate European economic policy (cf. “produce comparisons with other Euro zone member states and with the most important trading countries“).

The rest is easy to understand. Anyone who is not in favour of a proposal to coordinate European economic policy has be consistent and simply declare that she is opposed to the monetary union altogether (see our contribution on ‚Fixed exchange rates and firm promises‘ of July 2015, here). But some in Germany are not pleased. The quickness of their reaction makes one suspect that their answer was prepared well in advance. The DGB (*Deutscher Gewerkschaftbund* – the Confederation of German Trade Unions) protested in strong terms against what it calls the “interference with collective bargaining.“ But what does the DGB want? The confederation should be consistent and openly declare that they either prefer no monetary union at all or that they, in effect, favour a confederation of unions that functions as a tool of exploitation for the all powerful German export industry. Because this is what their position logically leads to. The DGB only seems to have the interests of their workers in mind – not other German workers, not the German population at large and not the interests of workers of other countries. And there is no doubt that the confederation is being dominated by its strongest member, IG Metall.

Under the headline „The EU Commission is preparing an attack on collective bargaining“, the DGB issued a press release in which it quotes a letter that the confederation wrote to chancellor Merkel, requesting her not to agree to the EU proposal. The European Trade Union Confederation, which represents over ninety trade unions in thirty nine countries called upon the Commission to withdraw the text. There is little doubt that this happened because of an intervention of the DGB.

At a press release of the DGB, board member Stefan Körzell declared that: „Instead of finally addressing the imbalances between countries, the Commission will now only deal with competitiveness. This is the wrong recipe in times of crisis and it creates distrust among the population, instead of trust in the EU institutions (…) The problem of the imbalances cannot be dealt with by organising dumping and a race to the bottom among states, it can only be solved when *domestic demand* in the countries with current account surpluses will increase and when policy coordination leads to a balanced growth throughout Europe.“

I have to say that the position of the DGB really bothers me. Why does the DGB, just as the organisations of the employers, only think in one direction, namely downwards („a dumping race to the bottom“)? Why is it not possible for German wages to equal wage growth in other countries, so that a ‚race downwards‘ towards deflation would not occur? To the DGB, assessments of competitiveness can only mean one thing: that competitiveness will have to be strengthened. The EU proposal is much broader than that and it is also different. Why does the DGB not dare to say that the much-needed reduction of intra-European imbalances, along with a reduction of the differences in competitiveness, implies a loss of competitiveness of German industry, which is the only sensible way to achieve coordination? In the same breath, the DGB could make it clear that this in no way means a reduction of the German productivity. It only means the long overdue transfer of productivity gains of the past decade to German wages. Not only would this be fair to German workers, it would give workers in the other EMU countries the chance to finally breathe. As a result, the European economy as a whole would grow. We would all be better off.

Tell me, DGB, how shall we increase domestic demand in Germany? Is it possible without increasing wages? Why are the unions not happy and grateful that ‚independent committees‘ will try to work out policies which will benefit everyone? The representatives of the German workers should welcome this proposal, instead of rejecting it out of hand.

Unfortunately, the reaction of the DGB strengthens the suspicion that the union leadership serves interests that are very different from the interests of the workers that it is suppose to represent. It seems that the top of the German trade unions mutated into agents of the German export industry. This is not how it is supposed to work and it is far from a healthy situation.

Translation by W. Denayer