

## Ronald Janssen on Social Europe

### One Wedding And Three Funerals For Social Europe

Ronald Janssen, *Social Europe Journal*, 19 March 2013

#### The Return of Social Europe

Over the next few weeks, European politicians will be designing a roadmap to build a 'genuine' and stronger Economic Union. The social dimension, including social dialogue, is one of the four chapters in this roadmap.

More detail on this four point roadmap is provided in a letter of 1<sup>st</sup> of February from the President of the European Council to the Irish presidency. The attachment to this letter is actually applauding the social dimension, calling the European social contract part of our global competitive advantage and the cement of political stability.

This sounds promising. It's as if Europe's political leaders, after having embarked on the disastrous course of austerity and deregulation, are now highly concerned about rising unemployment, increasing poverty and the political instability that accompanies these trends.

However, what about the three other chapters of this economic union roadmap?

Here, a closer look at the President's letter and discussion document quickly reveals that there is no intention whatsoever of changing the present orientation of economic policy. On the contrary, the idea is to make the system of European Economic Governance even stronger than it already is. New and more powerful instruments of 'economic torture' are to be created so as to force member states to continue on the road of deregulating labour markets and squeezing wages.

#### Ex ante coordination of structural reforms

The first proposal is to discuss and assess every national plan to reform labour and product markets even before this reform is adopted by a national government. In itself, such a coordination of structural reforms on a wider European level would make sense. After all, if the euro crisis teaches us anything, it is that a monetary union where key members are pursuing a policy of wage deflation while others are undergoing an inflationary debt boom is a recipe for disaster.

However, from the letter to the Irish presidency it immediately appears that European politicians are only interested in one particular type of structural reforms, namely those reforms that enhance labour market flexibility. Here, the idea is once again about the fact that, since members of a monetary union can no longer devalue the national currency, their labour markets should be flexible and able to swiftly deliver big wage cuts and deteriorations in other working conditions so as to deal with negative economic shocks.

There is no interest whatsoever in a setting up a coordination of structural reforms that would prevent member states of a monetary union from engaging into 'beggar-thy-neighbour' policy. On the contrary, the type of coordination that President Van Rompuy has in mind would actually applaud policy initiatives such as the one undertaken in Germany at the start of the previous decade. At that time, the ruling government threatened to intervene in sector level bargaining if trade unions refused to make wages more flexible by accepting wage cuts at company level. This then led to a decade of wage stagnation and rising inequalities. In turn, this worked to destabilize the single currency in a fundamental way.

## Contractual arrangements for growth and competitiveness

The second proposal is to make member states enter into contracts with the Commission on the structural reforms they are expected to deliver. Here, the European President's paper explicitly states that the intention is to build upon the recently introduced system of economic governance, a system that already makes it possible for the Commission to levy financial fines on member states that fail or refuse to implement the reforms recommended to them.

In other words, contractual arrangements will provide the Commission with even greater power to impose structural reforms: If member states fail in delivering the structural reforms the Commission wants, they do not respect their part of the contract and, as with any other contract, there would be consequences attached in the form of extra fines and/or blocked access to European funds (see also next point).

There's also no illusion to be had about the type of reforms the President's paper has in mind: Once again, the focus is on improving competitive positions by addressing 'sectoral bottlenecks' (an implicit reference to sector level bargaining?) and 'institutional bottlenecks' (a reference to national minimum wages or systems of legal extension of collectively bargained wages?).

On other occasions, politicians have promoted these contractual arrangements as a way to spread the structural adjustment programs now being imposed by the Troika on financially distressed countries to the whole of the Euro Area. If this were to happen, cuts in minimum wages and public sector wages as well as all kind of reforms putting trade unions and workers in a weak bargaining position would become the order of the day across the entire Euro Area.

## Mechanism for perverse solidarity

The third instrument of economic torture proposed by the Van Rompuy paper is, ironically enough, called a mechanism for solidarity. To compensate for the fact that structural reforms are economically and socially costly, a European fund would cover some of these costs in a temporary way. Member states that do enter into the above described contractual arrangements and deliver the structural reforms the Commission wants would get additional money. Europe, in other words would subsidize structural reforms such as for example privatising public pension schemes, cuts in minimum wages and public sector wages, weakening of collective bargaining institutions and deregulating labour laws.

This is a very peculiar concept of solidarity. It is the solidarity of those who are weak with those who are strong. Workers in distressed economies will suffer the social fallout from deregulation. Workers in non-distressed countries will have to face the effects of wage competition while contributing to a pan-European fund that is used to promote that same wage competition. Meanwhile, the big winners from this organized race to the bottom will be management and capital owners who will use the wage squeeze to see profits, dividends and bonuses soar.

## The social dimension as a smokescreen

The Economic Union roadmap of the European president is promising workers and trade unions a social dimension.

However, when analysing the roadmap in its entirety, it is difficult not to draw the conclusion that a clear danger is hiding behind this renewed social language. While trade unions and workers are kept busy with nice language and promises to upgrade social dialogue and social cohesion, the real agenda of this roadmap is to push forcefully forward on the road of weakening the rights of workers and all labour market institutions that protect labour from downwards flexibility. If this scheme is continued, trade unions will be facing an Economic Union where unfettered markets rule and business does not

have to bother much with workers' rights and trade unions. It is hard to see how this can be reconciled with the promise of a single currency with a strong social dimension.

## A Social Dimension For A Genuine Economic Union

Ronald Janssen, *Social Europe Journal*, 22 March 2013

### Will a reinvigorated European Employment Strategy Be Up To The Job?

Through the so called roadmap for a 'genuine' Economic Union, Europe is in the process of strengthening its power to intervene in Euro Area member states and to impose flexible labour markets and flexible wages. As [described in a previous contribution](#), this roadmap therefore constitutes a serious threat to Social Europe in terms of equitable wages and workers' rights.

However, the same roadmap also contains a chapter on the social dimension of monetary union. This raises the question whether new initiatives in the social dimension can function as a counter veiling power to DG ECFIN's quest for deregulated labour markets. Or, as European Commissioner of social and employment affairs Lazlo Andor seems to be saying in his speech at the ETUC conference in Madrid: "Economic and Monetary Union itself needs to have a social dimension (...). The social dimension of a genuine Monetary Union must be understood as an ability (...) to ensure that economic efficiency and social equity are pursued at the same time (...). This requires that (...) there are institutional guarantees to limit the real economic and social costs (...)". ([http://europa.eu/rapid/press-release\\_SPEECH-13-62\\_en.htm?locale=en](http://europa.eu/rapid/press-release_SPEECH-13-62_en.htm?locale=en))

### What types of proposals on the social dimension are now being launched?

In and at the margins of the meeting of the EPSCO ministers at the end of February, a number of proposals have been launched, either through so called leaked 'non-papers' or through public statements. One red line running through all of these is the idea to set up a system of 'social' governance inspired by and running in parallel with the system of European Economic Governance.

It starts with the proposal to transform the existing 'Employment Performance Monitor' and 'Social Protection Performance Monitor' into a scoreboard of improved employment and social indicators, triggering in-depth reviews in case a 'social imbalance' occurs. This is exactly identical to what DG ECFIN developed with its procedure on preventing and correcting excessive macro-economic imbalances.

Also identical to ECFIN's instruments of economic governance is the proposal to subject major employment and social policy reforms to multilateral surveillance before they become final. Or the idea to provide financial incentives so as to have member states enter into mutually agreed contractual arrangements on social or employment issues.

In all of this, there's the element of benchmarking of key measures. Common objectives are to be formulated; such as already is being done in the recently decided youth guarantee (a job or training offer after 4 months of youngsters leaving school). This is to be followed by organising a close examination to see which member states are successful and which are not.

Finally, the most far reaching proposal that we know of is to arrive - in the long term - at a common wage floor that would guarantee each worker in Europe a fair wage, with member states being left the choice to set, we quote (and notice the word 'minimal'!), a 'minimal minimum wage' either by legislation or by collective bargaining.

### A feeling of 'Déjà vu'

Those who have been following the European policy discussion over the last fifteen years may reflect that they have seen this before. Indeed, after the Maastricht Treaty had cemented the 3% deficit objective, a debate was launched in the mid nineties on how to rebalance the policy of fiscal consolidation with employment and labour market policy. The idea that emerged was the idea that fiscal targets and the pace of austerity could be made more flexible and less damaging for the economy if the employment dimension was also brought into the policy discussion. This then resulted in the famous European Employment Strategy. Member states, especially those entering monetary union, were to consider employment policy as a 'matter of common concern'. Key objectives such as a 70% employment rate were agreed upon. Employment guidelines with sub targets on, for example, active help for the unemployed after a certain span of time, lifelong learning or school drop outs were set. A system of peer review and mutual benchmarking between different national labour ministries was to ensure a close and systematic follow up of what was happening in practice in member states. As previously indicated, the hope was that this structural attention for employment matters would be able to change the balance and put pressure on decision makers, in particular finance ministers, not to stare themselves blind on the issue public finances but also look at the needs in terms of labour market policy.

What is fifteen years of European Employment Strategy able to tell us? It turned out that the 'soft law' approach of the European Employment Strategy was no match for the 'hard law' constraints imposed by the Maastricht 3% deficit criterion and the zero deficit requirement of the Stability Pact. Out of fear of being refused entry into the single currency and, later on, because of the concern of being humiliated through the excessive deficit procedure and its related threat of financial sanctions, the balance in the policy discussion firmly remained in favour of those who were stressing the case for a strict continuation of fiscal consolidation.

Today, the balance of power between 'soft employment benchmarking' and 'hard economic law' is even worse. With national central banks having become a subsidiary of the European Central Bank, all governments of monetary union are now perfectly aware that they are extremely vulnerable to the mood swings of the financial market herd. Governments are also aware that the European Central Bank itself will only provide minimal liquidity support against such financial mood swings if and only if they do not step outside the ECB's twin policy box of austerity and deregulation. Given all of this, the idea of reinventing 'soft benchmarking' to try and defend the social dimension against the 'hard violence' of economic governance does not stand much of a chance.

### A 'Stockholm syndrome' for Labour Ministers?

The historical experience with the European Employment Strategy teaches us a second thing. Confronted with their dwindling influence over economic and social policies, labour ministers and their representatives have on occasions shifted their positions, in that way hoping to be taken more seriously by finance ministers. For example, in the first five to seven years, the guidelines and recommendations of the Employment Strategy were stressing the need to tackle low wages and to promote job quality. Most recently however, such concerns have been replaced by the view to promote, in line with finance ministers' thinking, downwards wage and labour market flexibility.

At this moment, there are some indications that this is happening again. For example, it is surprising to note that in a policy document that is otherwise excellent in denouncing the failure of the European policy of austerity, it is recommended to substitute the unemployment statistic in the macro economic imbalances procedure with an indicator of 'structural unemployment'. (<http://www.progressiveeconomy.eu/content/iags-report>, see page 76)

A look at the [AMECO database](#) shows what would happen if this suggestion would be taken up. In that case, labour ministers would be analysing labour market policies on the basis of an estimation telling them that Spain for example is suffering from a structural unemployment rate as high as 24%. The policy conclusions then automatically becomes that the disastrous level of unemployment in Spain (currently 26%) is mainly 'structural' and thus related to the inefficient functioning of the labour market and not to the strategy of austerity and the collapse in aggregate demand this strategy triggered. In this way, austerity is being graciously let off the hook and policy makers can argue for its continuation.

The alternative: Strike at the very heart of Economic Governance

A social dimension that really matters is indeed about strong institutional guarantees putting limits to the process of economic governance. However, simply placing improved social indicators and a renewed employment benchmarking process alongside economic governance may certainly be interesting but it is not enough. What needs to be done is to strike at the very heart of European Economic Governance. Social limits and principles need to be placed INSIDE its processes and procedures. In that way, the social dimension can be safeguarded from the very start. In a next contribution, we will present some concrete proposals on how to do so.

## [Putting The Social Dimension At The Heart Of European Economic Governance](#)

Ronald Janssen, *Social Europe Journal*, 25 March 2013

There is no social dimension if the regime of economic governance does not change. Nor will the idea of placing social benchmarking alongside the existing system of economic governance be sufficient to change things in a fundamental way ([see here](#)).

In order to really control economic governance and its instruments of economic torture, clear limits need to be set on the system of economic governance itself. The almost unlimited power the masters of finance (EU finance ministers council, DG ECFIN) and money (ECB and IMF) have managed to obtain over national economic and social policy making needs to be constrained from the very beginning and from inside the system itself.

Even if the roadmap for a 'genuine' Economic Union that is currently being constructed has the opposite intention of strengthening the powers of the economic pillar even more ([for an analysis see here](#)), this roadmap can be used as a way to set social limits to economic governance.

Coordinate reforms to ensure coherence with the single currency

Let's start with the roadmap's proposal to coordinate all major structural reforms before they have been decided at the national level. Instead of focussing on those reforms that build the conservative's ideal of a totally flexible labour market in which business is in no way constrained by collective bargaining, minimum wages and workers' rights, one should think of going for a different form of coordination: This coordination should instead ensure coherence between, on the one hand, the reform policies of 17 different member states and, on the other hand, the needs of the Euro Area as a whole. Indeed, if there's anything the euro crisis is teaching us, it is that the single currency is not sustainable if member states continuously are moving in opposite directions.

In this respect, three reform domains are of particular importance: Irrespective of whether they concern labour market policy, tax policy or social policy, all reforms that have the potential of constituting a 'beggar-thy-neighbour' policy, aiming to poach jobs and activity from other member states, should be scrutinized. Such reforms carry the risk

of triggering a race to the bottom across wide parts of the Euro area, thereby undermining total aggregate demand dynamics without improving relative competitiveness positions.

The second are for coordination at Euro Area level are all structural reforms that could threaten the single currency's price stability target from below. The danger of deflation should be recognized as just as important a risk as somewhat higher inflation.

Finally, Euro Area policy makers should be watchful of all types of reforms that may drive member states into dangerous debt and asset price booms. In particular, this concerns reforms that create dysfunctional labour markets by driving out 'good' jobs with 'bad' contracts. Combined with a liberalization of financial markets (which then aims to sustain aggregate demand through credit booms in the face of a lack of decent wages and jobs), such reforms are a recipe for another round of financial instability.

Contractual arrangements: Putting DG ECFIN on a social leash

Contractual arrangements, as proposed by the Economic Union roadmap, may very well provide DG ECFIN with even greater power to impose specific policy choices on member states, including policy that amounts to getting rid of long standing social rights and social protection.

This danger can be avoided or limited by explicitly stipulating that these contractual arrangements need to strictly and fully respect all of the social principles of the European Treaty as well as the provisions of the legally binding Charter of Fundamental Rights.

Indeed, the European Treaty contains quite a number of principles that allow and even force European policy makers to balance the economic dimension with the social dimension. There are the objectives to promote a high level of employment (TFEU article 151), to improve and harmonize living and working conditions (TFEU article 151), to have proper social protection (EU article 2). There's the obligation of the Union to promote social justice and protection (EU article 3), and the obligation of the Union to facilitate dialogue between social partners, while respecting their autonomy as well as the diversity of industrial relations systems. There is all the fact that the Union has no competence on pay (Article 153 TFEU). Finally, there's the horizontal social clause forcing the Union to take the promotion of employment, adequate social protection and the values of democracy and equality into account when defining and implementing its policies (article 9 TFEU).

If we judge by the contents of the bailout packages for the distressed countries or the Commission's country specific recommendations, these key social principles seem to have been forgotten in the turmoil of the euro crisis. However, as stressed, they are part of the European Treaty and the Charter of Fundamental Rights and one way to make them operational is to include specific references to these social principles when writing the legal texts on contractual arrangements.

Contractual arrangements: A Social Europe that bites

Even if a systematical reference to the social dimension is important, this is only a first step. In order to ensure that the references to social objectives do not, in the end, remain mere lip service, it is also necessary to provide for effective processes and procedures forcing DG ECFIN and finance ministers to take social Europe seriously when constructing policy programs or contracts for member states.

One such policy proposal is the construction of an European observatory on the European Social Aquis with social partners. The idea of such an observatory is to ensure a structural follow up, per member state, of the letter and the spirit of the European social directives, the social agreements and the social principles in the European Treaty. An

annual high level conference would discuss and negotiate with employers those cases that need urgent correction.

In a next step, the European Court of Justice is to be given the power to declare a contractual arrangement and the corresponding sanctions invalid if the contract is found to be in fundamental breach with the social objectives guaranteed by the Treaty.

“If we do not fight, we have already lost”

The proposals presented above may be seen as being quite ambitious in terms of political viability. Here however, there are two things to be taken into account. One is the rising resistance amongst broad parts of the European population against the policies of austerity and deregulation. This constitutes a significant political lever to press policy makers to take these proposals into serious consideration. The other one is that there already exists a precedent: The wage safeguard clause in the regulation on excessive macro economic imbalances stating that this regulation shall not infringe on the freedom to bargain and the right to take action and that national systems of wage formation are to be fully respected.