European Trade Union Confederation (ETUC)
Confédération européenne des syndicats (CES)

ETUC Resolution on European Economic Governance

Adopted at the Executive Committee on 8 March 2011

FOR A FAIR AND A MORE EQUAL EUROPE

1. Financial market turmoil continues to exert strong pressure on several Euro Area member states, forcing them to pay high interest rates on the world's bond markets. This situation is now being exploited in many countries, not just those in immediate difficulty, as an opportunity to push for "flexibility" of wages and to attack the labour market institutions that keep wages from falling and support the bargaining position of workers and trade unions; these are now being considered as an undesirable 'rigidity'. To make this deregulation happen, the EU authorities have their minds set on obtaining the power to intrude not only in wages but also in the wage setting machinery itself.

2. The attack is conducted in several ways and at the same time:

    a. The Commission, the IMF and the ECB are directly intervening in certain national wage negotiations, forcing countries like Ireland, Greece, and Romania to cut minimum and public sector wages and weaken collective bargaining institutions in return for a financial 'bail out'. This financial aid is being provided under very tough conditions.

    b. But it is not just the countries in immediate difficulty. The Commission's Annual Growth Survey, opening the policy semester of the new EU 2020 agenda, is openly calling for strict and sustained wage moderation, changes in to wage indexation rules, "appropriate" wage setting policies and "more efficient" wage setting mechanisms so that wages <u>promptly and properly</u> reflect labour productivity and ensure the EU's competitiveness position vis –à-vis the rest of the world and inside the EU and Member States.

    c. At the initiative of the German/French government, the Commission and the Council's presidency are now working on a 'competitiveness pact'. This is likely to result into acceptance of the principle that wage increases should remain limited to productivity developments only. And this would concern all members, not only those where mechanisms of wage indexation exist. The latest version of the Competitiveness Pact also only targets upwards wage developments, not the more acute problem of strategies that depress wages including outsourcing and social dumping. Moreover, it is calling for a decentralization of collective bargaining and for aligning the retirement age with life expectancy while reducing early retirement schemes. In return, funding for the European Financial Stability Fund would be increased (to a level of 500 billion).

d. Finally, but importantly, there are the proposed sanctions. The Commission's proposes to give itself enhanced powers to enforce its recommendations, with fines up to 1% of GDP only to be avoided by a members state if it can gather, within ten days, the support of a qualified majority within the Council of Finance Ministers. Indeed, the proposed process on the prevention and correction of "excessive imbalances" which includes an alarm mechanism and a scoreboard of indicators, will function as a 'European law on wages', with statistics such as the relative unit wage costs systematically being used to measure the competitive position of each economy and to draw up policy recommendations, no doubt pushing downwards wage adjustments in most member states.

3. The ETUC rejects this approach and cannot support the proposed Treaty change necessary to bring this about if economic governance is to be limited to austerity governance. It was not wages that caused high external deficits. The real fault lay with irresponsible behavior in financial markets which unleashed wild debt and asset booms, thereby feeding 'deficit' countries with the spending power to increase imports to levels that were, in the end, unsustainable. Cause and consequence are not to be confused. If wages have been slightly stronger in the past in 'deficit' countries, this is because nominal wages were trying to keep up with prices increases because of an excessive injection of demand - an increase for which financial markets, and not trade union wage bargaining strategies, were responsible. We cannot accept that wages become the main instrument of adjustment to clean up after financial markets careered out of control.

The ETUC stands firmly against a "European competitiveness law" to cut wages.

4. Attacking collective bargaining is a dead end for Europe and will not contribute to "saving" the euro. Wage and fiscal austerity are not working. There is ample evidence (for example in Greece and Ireland) that today's austerity programme seems likely to constitute the basis for a next round with even deeper cuts. Far from restoring confidence and growth, austerity locks economies into a low growth, deflationary, downward spiral. Financial markets are aware that nominal debt levels of both private and public sector remain firmly fixed when other key indicators (prices, wages, tax revenues, jobs) are falling; and they are more reluctant to maintain their capital investment in those economies that are in the grip of deflation and at risk of default. Instead of "saving the euro", the European economy risks being divided into a core with low cost finance rates on the one hand and the rest on the other hand, facing very high, exorbitant interest rates and continued depression.

5. This approach is unfair as well as impracticable. The finance from the EFSF, the IMF and the ECB to distressed member states is primarily used to allow the European banking sector to continue to exchange troubled assets for cash, so pressing workers to pay for the financial sectors' mistakes.

6. The approach will also encourage 'beggar-thy-neighbour' strategies. What some may gain in the short run, others will lose. A European law on competitiveness would draw workers into a downwards spiral undermining wages and working standards. Those economies, which are now being admired for cutting pay to be more competitive, will come again under attack after others have cut their wages. In the end, the quest for this kind of competitiveness will threaten the autonomy of collective bargaining everywhere, while higher inequalities and precarious work will continue to spread throughout Europe.

7. The action being taken on economic governance breaches key principles of the new Lisbon Treaty (in particular article 153). That Treaty commits the Union to eliminate inequalities and to promote equality in all of its activities, to pursue the objective of harmonized and improved working and living conditions, to take into account the diversity of industrial relation systems, and to respect the autonomy of social partners. Ultimately, the, Treaty states that Europe has no competence over pay. All of these principles are in effect being breached by the current proposals on economic governance and for a 'competitiveness pact'.

European Governance for a Fair and More Equal Europe.

8. Europe needs urgently to change course and adopt positive proposals on economic governance.

9. The ETUC proposes that Europe's leaders adopt a programme on the following lines:

   a) Financial markets need to be given the signal that Eurozone countries will join ranks and are determined, ready, and willing to see crises through together. Funding for the EFSF should be expanded, its current rather punitive levels of interest rates need to be cut and distressed countries helped to restructure their debt; EFSF bonds should be guaranteed jointly by all Euro Area member states, and the harsh conditionalities should be reviewed and brought in line with a more balanced approach – observance of rules yes but social rules too such as the rule that Europe has no competence on pay (article 153) and a substantive helping hand for growth too.

   b) In the medium term, steps could be taken to convert EFSF bonds into Eurobonds. The aim is to organise a tranche transfer of national sovereign debt bonds into Eurobonds up to a maximum of 60% of GDP. By introducing these Eurobonds, a single sovereign debt market will be created which eliminates some of the large differentials in the cost of financing sovereign government debt.

   c) The ECB needs to to back up both these operations since, in the end, the central bank is the institution which is the best position to shield public finances from the turmoil of financial markets. This can be achieved by creating a European Public Bank for Sovereign Bonds having access to the central bank's liquidity operations. Sovereign debt (Eurobonds or national bonds) could then be deposited with the ECB as collateral in return for finance from the ECB at favourable interest rates.

   d) Financial markets do not just need supervision, they also require effective regulation. With credit rating agencies having had a destabilising effect and suffering from conflicts of interest, the credit ratings of member states should be taken up by the ECB and/or an independent European public credit rating agency. Moreover, all financial market products should be assessed to ensure that they make a genuine contribution to the economy. Banks should not be allowed to carry out their own proprietary trading with financial products. Bankers' and traders' exuberant bonuses should be strictly controlled.

e) As called for previously by the ETUC, the EU should develop a major investment programme amounting to 1% of European GDP to tackle unemployment, especially youth unemployment; and also to upgrade industrial structures and infrastructure (eg a European smart electricity grid, investment in sustainable energies, developing a real industrial policy and the jobs for the future, investing in the technological and social transition to a low carbon economy ...). Moreover, a European investment programme of this kind could rebalance the EU by providing countries in distress with the means to revive their economies so that they can grow out of debt. In return, these countries are to commit to a more **gradual** but determined and **continued reduction of national deficits.** Realistically this implies, besides starting up the reduction in fiscal deficits, a review of the time horizon for fiscal consolidation: Member states could be allowed to attain the 3% deficit objective by 2016 – 2017, instead of the 2012-2013 horizon.

f) The Euro Area would be facing less financial turmoil if its core had not embarked on a systematic policy of pushing down wages, promoting precarious work and allowing the redistribution of income towards the richest sectors of society, thereby accumulating excess savings which then provided the ammunition for finance to stage unsustainable asset booms across Europe. The countries that have followed this road therefore should therefore shoulder their share of the responsibility of unwinding excessive savings positions, and becoming the locomotive for demand and growth for the rest of the Euro Area and Europe. To do so, the low pay sector, along with the practice of paying less than equal pay for equal work to migrants, should be squeezed out of the economy. Economic governance should also mean that labour markets across Europe (in line with the specific characteristics of its national industrial relations system) set minimum wage floors under which wages cannot fall, while at the same time promoting institutions to extend the coverage of collective bargaining.

g) Europe needs too to develop new sources of finance and tackle tax competition. Europe issuing its own debt implies that adequate new sources of finance need to be found. Europe could start taxing financial transactions as called for recently by the European Parliament, extreme wealth, funds hidden in tax havens, business profits not used for reinvestment or businesses extending the use of precarious contracts. Alternatively or additionally, a European wide coordination of tax policy on the most mobile factors of production (business profits and income from capital) would strengthen tax revenue. And part of that could be transferred to a more robust European budget, enabling Europe to respect its debt payments and play a more decisive role in exerting from the current crisis.

h) The Euro Area in particular also needs to consider a stronger coordination of collective bargaining strategies in order to control the phenomenon of imbalances. Surplus countries switching to a strategy of increasing real wages would then be reflected in the wage bargaining strategies from other Euro Area members. The ETUC would attach strict conditions and demands to such a coordinated wage strategy:

- EU authorities should start supporting collective bargaining strategies.

- the ETUC cannot assist in pushing economies into the trap of debt deflation with wage cuts and wage freezes imposed at EU level. Pay needs to remain in positive territory to combat austerity and inequality.

- the ETUC will defend the principle of autonomy of collective bargaining. The strategy of coordinating collective bargaining strategies is a matter for trade unions only.

The ETUC calls upon the European Parliament, the European Council and ETUC affiliates to act and change course on European economic governance.

10. Since the two draft regulations providing the basis for the Commission to intervene in national wage setting are to be adapted in co-decision between the European Council and the European Parliament, this provides the ETUC with the opportunity to try to correct the most disturbing aspects. To do so, the ETUC has drawn up amendments stressing that policy recommendations in this new procedure on 'excessive imbalances' need to respect the Treaty principles on the autonomy of social partners and that there should be no sanctions related to recommendations concerning pay, collective bargaining structures and/or minimum wages (see attachment for a list of ETUC amendments).

11. At the moment, there is a majority, both in the European Parliament as well as the European Council to accept the Commission's proposals. The ETUC and its affiliates and industry federations therefore urgently need to mobilize public opinion and generate a public discussion to draw the attention of the

media and politicians, both on European as well as on national level in order to influence the deal making process that is continuing in the European Parliament and the Council. The future of Social Europe - Workers Europe - depends on it.

ATTACHMENT: Summary overview of the economic governance package and ETUC amendments

I. Excessive imbalances pillar

	Commission proposal	Problem	ETUC proposal for amendment
1.	Imbalances = adverse macroeconomic developments	Extremely vague definition, open to abuse by presenting all problems as a 'competitiveness' problem to be solved by downwards flexibility of wages	'imbalances mean persistently diverging developments between aggregate demand and aggregate supply leading to a systematic surplus or deficit in the overall savings position of an economy,
2.	Scoreboard = macroeconomic and financial indicators	Ignores the fact that high and rising inequalities are at the root of current account imbalances: The rich save too much while the poor are forced to borrow too much	Add social indicators such as indicators on inequalities, the incidence of low pay, the working poor, the share of labour income in overall GDP and unit profit rates
3.	No limits to the areas of policy recommendations and intervention	Weakening and deregulating wage formation and collective bargaining institutions. Turning wages into the single factor of adjustment, with high and rising inequalities as consequence	Explicit reference to article 3 of the Treaty, article 153(Europe no competence on pay) and the Charter of fundamental rights. Take into due account national models of industrial relations Impose symmetry of recommendations (also targeting 'surplus' economies)
4.	Procedure limited to DG ECFIN and	Only the 'finance' point of view is taken	Consultation of European Social

	Council	into account	partners (and the EP) on recommendations in the excessive imbalance procedure
5.	Sanctions and fines	Makes a difficult situation even worse, European sanctions will intensify the consequences of financial markets' irrational pessimism.	Both excessive deficit as well as excessive surplus countries are to be sanctioned
6.	Sanctions on wage setting	Europe becoming the police officer of wages	Exclude sanctions concerning recommendations that relate to the issue of wages, in particular minimum wages and collective bargaining systems
7.	Reversed qualified majority voting to levy sanctions	Allows DG ECFIN to push through the deregulation of the labour markets in Europe	Reject reversed qualified majority voting

II. Excessive deficit and Stability Pact pillar

	Commission proposal	**Problem**	**ETUC amendment**
1.	Set growth rate of public expenditure below prudent medium term growth	Forces upon member states the choice of consolidating public finances by reducing the role of the state and social welfare state	Rebalance by adding that growth in tax revenue should normally not fall behind medium term growth
2.	Set growth rate of public expenditure below prudent medium term growth	Death sentence for automatic stabilizers/welfare systems . In crisis, unemployment benefits push up public expenditure. Sticking to a	Exclude expenditure components which are related to tyeh business cycle from this expenditure growth norm.

		growth expenditure norm means cutting in in times of crisis (and enjoying windfall gains in good economic times) .	
3.	Temporary departure from fiscal discipline limited to a severe economic downturn **of a general nature**	Restrictive wording. In a single currency area, with a single monetary policy, fiscal policy should have more, not less, leeway to react in case of country specific shocks	Delete wording referring to 'a general nature'.
4.	Exceptionally, higher deficits are allowed if countries shift to a fully funded pension pillar	Potential privatization of pension systems should not be promoted by Europe.	Allow the cost of those reforms conducive to more and better jobs ,social cohesion and public investment to be taken into account when defining the consolidation path.
5.	Reduce public debt ratios by one twentieth of the differential with the 60% debt threshold.	Extremely pro cyclical because of the denominator effect: Debt ratio increases when GDP denominator falls	Limit this rule to those cases in which the economy has been operating above potential for a period of three years
6.	Sanctions and fines	DG ECFIN forcing member states to	Exclude the possibility of fines

		cut public sector wages	relating to recommendations on public pay
7.	Reversed qualified majority when deciding sanctions		'Normal' qualified majority