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Barroso's silent “six-pack” revolution. Setting maximum national wage increase benchmarks for the EU’s member states.¹

By Roland Erne (School of Business, University College Dublin)

Until recently, European elites firmly rejected the need for any coordination in the field of wage bargaining, because the market would automatically lead to the desired (downward) convergence of wages across Europe. In 2011, however, Commission President Barroso announced “a silent revolution” (EUobserver, 16.03.2011) that led to the adoption of the “six-pack” on European economic governance by a majority of the European Parliament and the Council. As a result, the Commission not only obtained effective tools in order to control member states’ budgets and economic policies, but also the right to issue enforceable maximum national “labour cost” increase benchmarks.

Many Euro-Keynesian scholars hoped that the Euro crisis would eventually lead to a major breakthrough in European governance. Didn’t the crisis forcefully demonstrate that the monetary union also required a social and political union? After the crisis even their neo-liberal opponents had to concede that the belief in a spontaneous convergence of the economies within a Eurozone without stringent government structures was naive. But the political solutions that EU leaders have been propagating cannot comfort the supporters of a social and democratic Europe. Instead of laissez-faire, European elites are now imposing authoritarian solutions to the crisis, involving further privatisations of public services, welfare cuts, wage cuts, working time extensions, retirement age increases, and substantial labour law changes. These regressive policies are coordinated by the Directorate General for Economic and Financial Affairs (DG-EcoFin) of the Commission, the European Central Bank (ECB), and the International Monetary Fund (IMF). Ever since the EU and the IMF provided financial “help” to Latvia, Hungary and Romania in 2008 and 2009, the so-called Commission/ECB/IMF Troika systematically included severe austerity and liberalisation measures in their “rescue” packages for struggling EU countries. Yet, it would be wrong to believe that these prescriptions only apply to the European periphery. Since January 2012, all EU member states are obliged to respect the far reaching economic policy guidelines of the so-called “six-pack” on European economic governance.

The “six-pack” on European economic governance

According to the six new EU laws that came into force on 23 November 2011,² Eurozone countries that do not comply with the revised “stability and growth pact” or found to be in a “macroeconomic excessive imbalance position”, can be sanctioned by a fine of 0.2 per cent respectively 0.1 per cent of GDP per annum. The Commission’s authority over economic policy-making is also increasing because fines will now apply automatically unless a qualified majority of national governments is vetoing them within a period of ten days. The times in which EU guidelines could be dismissed as “soft law” are definitely coming to an end.
In principle, the idea of European coordination of national economic policies is reasonable and progressive, especially if meant to limit competitive beggar-thy-neighbour policies. In some countries, for example, wages had been restrained much more severely than elsewhere. This contributed to declining wage shares and growing imbalances in the Eurozone. In order to prevent such a development, the ETUC and some of its European industry federations agreed wage bargaining coordination benchmarks already more than a decade ago but unfortunately failed to implement them in practice given the lack of any transnational trade union campaign in favour of their implementation (Erne 2008).

Employers and right-wing politicians, however, emphatically dismissed any idea of economic governance at an EU level until very recently, especially in the area of wages policy (Leonard et al. 2007). Business leaders believed that European coordination would only be in the interest of labour, as market competition within the Eurozone would – according to neo-liberal textbook economics – automatically lead to the desired downward convergence of wages. But when the really existing European market caused economic imbalances rather than swift (downward) convergence of wages and working conditions, business interests had no problem with replacing the invisible hands of the market with calls for authoritative EU structures in order to trigger the desired “economic adjustments”.

Economic policy choices directly impact on the life chances of all workers and citizens. For this reason, one would expect European policy guidelines to be shaped by European citizens via their directly elected legislators or – in case of wages and working conditions – by the organisations of capital and labour. Yet, the European Parliament’s right-wing majority failed to push for democratic participation rights in European economic policy making. Instead, the EP empowered the European Commission to design and operate its surveillance procedures largely undisturbed of democratic influences.

Although the “six-pack” is establishing serious sanctions against noncompliant member states, the six new EU laws on economic governance also fail to define clearly several key terms. What constitutes, for example, an “economic imbalance”? The Article 2 of the Regulation (EU) No 1176/2011 of the European Parliament and of the Council “on the prevention and correction of macroeconomic imbalances” simply states that:

a) ‘imbalances’ means any trend giving rise to macroeconomic developments which are adversely affecting, or have the potential adversely to affect, the proper functioning of the economy of a Member State or of economic and monetary union, or of the Union as a whole;

b) ‘excessive imbalances’ mean severe imbalances, including imbalances that jeopardise or risk jeopardising the proper functioning of economic and monetary union.

These definitions are so all-encompassing that no aspect of economic policy making falls outside its scope. The technocratic wording of the regulation also violates core principles of democracy and social dialogue. In fact, it assumes that economic policy making is not about reconciling conflicting interests, but about the realisation of a universal truth. For this reason, the Regulation and the European Commission speak
about “proper” and “improper” rather than, let’s say, “neo-liberal” or “Keynesian”

economic policies.

The Macroeconomic Imbalances Regulation and wages policy

The “six pack” entails such a wide array of challenges for unions, social rights and
democracy, that they cannot be adequately addressed here. This article therefore
looks only at one Regulation and one aspect in more detail.

The new Macroeconomic Imbalances Regulation requires the Commission to design
a scoreboard of quantitative indicators and to set “whenever appropriate” lower and
upper thresholds of any indicator used in the scoreboard in order to identify negative
economic developments in the EU’s member states. The actual list of indicators of
the scoreboard, however, is not included in the Regulation. Despite its far reaching
implications, the list wasn’t drafted by the EU’s lawmakers but by a “Working Group
on the Methodology to assess Lisbon related structural reforms” which is a sub-
committee of the Economic Policy Committee (ECP). The EPC comprises two
officials from the Commission, two officials from each Member State (e.g. from the
Finance Ministry or even its Central Bank), and two officials from the ECB. The
proceedings of the EPC are confidential.

The scoreboard includes indicators belonging to all economic policy areas, including
those that are excluded from the competencies of the EU, such as wages policy. One
of the eleven indicators that are used to decide whether a member state is pursuing
“proper” or “improper” economic policies relates to the ratio of nominal compensation per employee to real GDP per person employed (e.g. to changes in the
nominal unit labour costs). Hence, any nominal increases that go beyond the upper
threshold set out in the scoreboard will trigger the Regulation’s correction
mechanism that range from country specific in-depth reviews, corrective action
plans, surveillance visits, to the substantial fines outlined above in case of non-
compliance with the Commission’s corrective action plan.

The inclusion of a labour cost indicator is surprising because the ETUC succeeded in
convincing the European Parliament to add paragraph 1.3 to the Regulation
according to which this Regulation “does not affect the right to negotiate, conclude
or enforce collective agreements or to take collective action in accordance with
national law and practices”. However, the Commission seems to be interpreting this
paragraph in a very particular way, namely as an interdiction to set a minimum (but
surprisingly not a maximum) thresholds for cost increases. In addition, the
Commission and the ECB have demonstrated – most notably in their dealings with
struggling Euro zone countries – how the tension between their demands for
increased wage flexibility on the one side, and the bargaining autonomy of the social
partners on the other can be solved:

In most Member States, wages are formed in a collective bargaining process
without formal involvement of governments. Nevertheless, policy-makers can
affect wage setting processes via a number of ways, including the provision of
information or wage rules, changes to wage-indexation rules and the signalling role played by public sector wages. In addition, reforms of labour markets should also contribute to make wage setting processes more efficient (European Commission 2010, 15).

If one reviews the agreements that the Troika is imposing across Europe, there is no doubt about what is meant by making wage setting processes more “efficient”. Unions should lose their capacity to set binding sector-wide wage norms, as already advocated by leading European bankers at a French and German businesses roundtable in 1997 (Erne 2008: 54).

Conclusion

The Euro crisis has been triggered by the huge bank bailouts to protect the banking system against ‘systemic’ risks. But whereas support for banks and their bondholders, worth millions of millions of Euro, is apparently compatible with the internal market – in spite of Article 107 TFEU that forbids state aid – the ECB and EU policymakers are first and foremost targeting member states for their allegedly rigid labour laws and industrial relations practices.

These attacks targeted especially workers in the periphery of the EU. In Greece, for example, the Troika not only imposed wage and welfare cuts, but abolished fundamental principles of the so-called “European Social Model” including the right to collective bargaining and universal health care.4 But one thing should be clear. If the attacks on fundamental rights are succeeding in Europe’s periphery, these rights will also come under pressure in Europe’s core countries. Whereas the Troika agreements only applied to the periphery, the new “six-pack” laws on European economic governance are in fact applying to everybody. Finland, for example, has already been advised to take action because the country’s nominal unit labour cost increase was higher than the maximum threshold of 9 per cent over last three years included in Commission’s scoreboard.5

These are early days but one thing is sure. The time now seems set for one of increasing conflict. Conversely, unions may also find it easier to politicise the decisions of corporations or regulatory agencies (such as the Commission) than to politicise abstract market forces (Erne 2008). Therefore, the current replacement of democracy by technocratic modes of governance seems to be reversible. Whereas the making the European single market and the monetary union did not yet lead to an effective coordination of union’s wage policies, the proclamation of enforceable wage ceilings by the Commission may be a crystallisation point for transnational union action. The determination of wages increase thresholds is an intrinsically political matter that should not be left to technocratic ECB, EU and national Finance Ministry officials. If they would have been really concerned about preventing economic imbalances in the Eurozone, they would have stipulated a minimum (and not maximum) threshold for labour unit cost increases. Europe’s current economic imbalances are indeed hardly the result of excessive wage raises but rather the result of the neoliberal financial capitalism that developed over recent decades.
References


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1 This text summarises a recently published book chapter of mine. For more detail and the academic references I used see Erne (2012).


3 See: http://europa.eu/epc/about/index_en.htm

4 Greece’s 2011 Troika agreement, for instance, stipulated that unemployed Greeks must pay all health care costs out of their own pocket when their employment related health care benefits expire (Alderman 2012). Hence, the Troika is forcing an EU state to abandon access to universal health care precisely at a time when Mexico and the USA are moving into the opposite direction.

5 The 9 per cent threshold is higher than many observers would have expected. Possibly the Commission chose this figure to make the introduction of the maximum threshold politically more acceptable. However, the 9 per cent figure can turn into a severe wage ceiling very quickly as nominal labour unit cost figures do not take inflation rates into account. Finally, it should also be noted that the Commission can change its indicators and thresholds any time.