Brussels, 13 April 2006
JM/RH/RJ/bd

For the attention of Mr Jean-Claude Trichet,
President of the European Central Bank

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Dear Mr. Trichet,

Collective bargaining is the core business of trade unions. The ETUC therefore takes serious issue with the statements in the recent interview with Mr. Bini Smaghi (FT 29th March), in particular his claim that wage formation should be the result of labour market flexibility and not of negotiated agreements with trade unions.

The statement made by Mr. Smaghi first of all signals a serious lack of understanding of the role collective bargaining plays in improving economic performance. Individual wage formation very rapidly leads to the chaos of 'demonstration' and 'contagion' effects, with workers and firms bidding wages higher and higher, irrespective of the situation the economy is in. In contrast, the systems of coordinated collective bargaining that exist throughout continental Europe make it possible to avoid such negative externalities and to internalise macro-economic objectives. Since price stability is one of these macro-economic policy objectives, certainly the ECB should be interested and more appreciative of collective bargaining and its coordination.

This is not just theory. Italy, for example, would never have been able to join the single currency were it not for the 1993 income agreement that placed price stability at the centre of wage formation, thereby making it possible to break with a tradition of high and volatile inflation. And if low inflation has been maintained in the euro area despite the oil price shocks since 2000, it is thanks to moderate collective bargaining agreements.

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Secondly, Mr. Bini Smaghi's argument is based on an erroneous analysis when trying to attribute weak consumer demand in the euro area to job protection and job security agreements that would keep firms from investing and creating new jobs that generate additional income and demand.

However, this new version of the 'insiders' argument is in contradiction to the facts. If anything, the labour intensity of growth has risen extraordinarily over the past years. The euro area's problem is not the incapacity to transform growth into jobs but the fact that growth has remained systematically below its potential rate.

Structural reforms have been at the basis of this disappointing growth record. By transferring risk from the enterprise and state sector to individuals and households, structural misreforms have led to an increase in household savings rates and a deficit in aggregate demand that has not been addressed in an adequate way by monetary policy.

Instead of calling for 'more of the same', these negative experiences of the process of reform should make policy-makers cautious. Indeed, introducing regimes of 'free hiring and firing' will undermine aggregate demand again by triggering even more precautionary savings and even more intense wage moderation[1]. It is extremely hard to see why firms would then start hiring more workers if the demand for their products and services is lacking.

Thirdly, against the background of the exact mandate the ECB has been given by the European Treaty (to pursue the goal of price stability and to contribute to the basic objectives of Europe such as high social cohesion),
we would like to stress that the systems of individualised performance-related pay that Mr. Smaghi is supporting will cause serious social damage, as they have done, for example, in the US. Tens of millions of American workers simply have no access to health care insurance, whereas performance-related pay has become synonymous with 'corporate greed', with a limited group of CEO's increasing their own pay at unimaginable rates. The ECB does not have a mandate to promote such a model. Nor is it a model the ECB needs to promote, given the fact that US inflation has been both higher and more volatile.

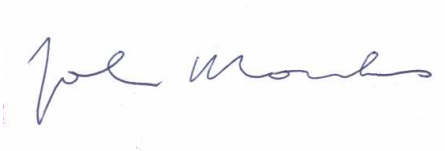
Mr. Trichet, at present, too many workers perceive Europe as a threat. For Europe's sake, but also for its own credibility in the eyes of European workers, the ECB cannot afford to be seen as yet another European institution that is preaching social regress to European workers while defending total freedom for markets, enterprises and business.

[1] Workers will react to liberal firing regimes and the additional insecurity they introduce by offering even more wage moderation in order to keep their jobs.

Instead, the ECB should focus on its core responsibility of macro-economic stabilisation management. As we have communicated to you in previous letters and on other occasions, European workers are contributing in full to keeping inflation at historically low levels. Monetary policy should acknowledge these efforts by securing a strong economic recovery. At this point in the business cycle, this implies a continuation of the April decision not to increase interest rates but put them in coming months on hold in rder to protect the ongoing but still fragile recovery.

We are looking forward to your reaction and remain prepared to discuss further with you.

Yours sincerely,



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Karl-Heinz Grasser, Austrian Minister of Economy and Finance
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