Completing Economic and Monetary Union: Rebalancing European Economic Governance (ETUC position)

Adopted at the ETUC Executive Committee on 16-17 December 2015

Introduction

The Commission Communication of 21 October describes the initiatives the Commission will undertake in stage 1 of the process to deepen EMU. In this stage, the Commission will intensify the use of policy instruments and levers that already exist within the current Treaties in order to improve the functioning of EMU.

This involves revamping the European Semester and improving the toolbox for economic governance through an increased focus on the 'euro area as a whole' in the AGS, convergence towards best labour market practices through common benchmarks (such as flexicurity, lifelong learning, modern social protection or enabling labour taxation), macro-conditionalities in the European Structural and Investment Funds, prioritising Capital Markets Union, creating an independent advisory European Fiscal Board and introducing a system of national Competitiveness Boards in all euro area members.

In a second phase, which is programmed to take place after 2017, more fundamental reforms would be undertaken with (labour market) benchmarks, principles and/or best practices to be anchored in a revised Treaty. To prepare this process, the Commission, as announced in its recent work programme, will publish in spring 2017 a White Paper on the transition from stage 1 to stage 2 of completing EMU. This will be preceded by consultations and the setting up of a high-level expert group from mid-2016. The ETUC will call on the Commission to involve the social partners in this high-level group in order to influence discussion which will have major consequences for workers in Europe.

Recalling the ETUC position on economic governance

While acknowledging that a single market, and even more so a single currency, needs closer coordination of national economic policies, the ETUC has also denounced the current system of European economic governance as being highly unbalanced. The focus is almost exclusively on fiscal stability and (wage) competitiveness whereas concerns over economic recovery, more and better jobs and social cohesion are being largely ignored[1].

The ETUC is particularly concerned that the idea that 'since we cannot devalue the national currency anymore, we have to devalue wages' has become a key pillar of European economic thinking. This has already resulted, in an increasing number of Member States, in a collapse in the number and share of workers covered by collective agreement.

The ETUC insists that European policy-makers need to break with the narrative of (wage) cost competitiveness and austerity, which is leading our economies into depression and deflation. To ensure a strong and meaningful recovery, Europe needs to address the real problem, which is a lack of aggregate demand. Demand should be relaunched by using unconventional monetary policy to finance a robust fiscal stimulus in the form of higher public investment.

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[1] *Position approved by the Executive Committee in December 2014: https://www.etuc.org/documents/review-european-economic-governance-etuc-position*

ETUC general principles and demands on completing Economic and Monetary Union

The ETUC rejects National Competitiveness Boards

As part of stage 1 of completing EMU, the Commission wants each euro area Member State to install a National Competitiveness Board. These Competitiveness Boards are to be composed of independent experts and will have the legal competence to monitor competitiveness developments, including wages, as well as to inform the process of setting wages.

The ETUC[2] has rejected the Commission's proposal to set up these Competitiveness Boards. The ETUC opposes any measure that infringes or allows for the infringement of the autonomy of social partners and their freedom to bargain collectively. For the ETUC, this autonomy is crucial, as the social partners have the best knowledge of the realities of the labour market and it is their members who have to deal with its functioning (or dysfunctioning). Moreover, the autonomy of collective bargaining is an important safeguard against so-called 'expert' committees being hijacked by particular interests.

Equal balance between the economic pillar and the social pillar is urgently needed

The Commission is actively advancing on a series of proposals (Competitiveness Boards, macro-conditionalities in European funds, European Fiscal Board etc.) that will further strengthen economic governance. At the same time, it remains disappointingly vague on how to implement in practice ideas such as a 'Social Triple A' or a 'European pillar of social rights'. However, to restore balance between the economic and social dimension, it is necessary to establish workers' rights and social principles which European economic governance is not allowed to breach. Moving ahead on economic governance, while action on the social pillar remains under discussion and may end up getting blocked again, is not an option.

The social dimension is a pillar in its own right

The Commission's approach to the social dimension is ambiguous and seems to boil down to best practice in employment policy. However, pretending that 'efficient' labour markets will automatically ensure social convergence by delivering a high level of employment, irrespective of the quality of that employment, is an illusion. It is particularly worrying that old concepts such as flexible labour contracts and two-tier labour markets are once again being put forward by the Commission as benchmarks.

For the ETUC, the social dimension is a pillar in its own right that cannot be subordinated to economic policy.

A social dimension for all Member States

The European social pillar should apply to the whole of the European Union. While the euro area urgently needs a concrete and enforceable set of rules to prevent European economic governance from wrecking all social provisions, members outside the euro area can also be hit by financial market speculation, opening the way for the IMF and the Commission to intervene in their economies and labour markets. Moreover, in an internal marketplace without borders, a social level playing-field is necessary to prevent individual Member States from trying to gain an unfair competitive advantage by infringing on workers' rights.

This social pillar should be based on the existing principles of the European Treaty and the social acquis. Since the crisis, social rights are often disregarded and infringed upon.

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[2] Position on National Competitiveness Boards approved by the Executive Committee in October 2015: https://www.etuc.org/documents/etuc-position-national-competitiveness-boards#.VnPiCfnhDcs

The question is therefore how to transform key social principles such as the right to equal pay for equal work regardless of gender into concrete and enforceable policy measures and instruments.

The single currency needs a fiscal capacity to absorb shocks

Every currency union has to deal with economic shocks hitting individual members in different ways. This is even more so the case for the euro area as it is composed of a series of economies with diverging structural characteristics.

The euro zone however has no such instrument or institution to stabilise the different economies under a single monetary policy regime. To avoid the burden of adjustment being immediately put on wages and workers' rights, thus leading to mutual wage competition and deflationary pressures, the single currency needs to be completed by setting up a fiscal policy institution capable of stabilising and upgrading individual economies in the euro area, a so-called 'fiscal capacity'.

The Five Presidents' report suggests that this fiscal capacity could take the form of a 'euro area unemployment benefit system'. However, instead of taking pressure off the drive for labour market flexibility, such a proposal could result in the opposite as, in order to convince those Member States with savings surpluses to finance a risk-sharing system, the rest of the euro area needs to give up on existing robust labour market institutions, institutions which are incorrectly seen as a moral hazard causing high unemployment rates.

Moreover, a European unemployment benefit system would interact with national benefit systems and could have important repercussions on national labour market institutions[3], on workers' rights and standards such as job protection and, importantly, on trade union membership[4].

Finally, a European unemployment benefit system would support economies only temporarily. It would not provide an adequate policy response to shocks of a longer duration which had more to do with an economy's structural characteristics such as its capacity to upgrade itself on the ladder of global trade and innovation.

The ETUC is therefore of the opinion that other options to define a euro area fiscal capacity, such as a Euro Treasury (see below) need to be pursued.

A 'lender of last resort' for public finances to end the power financial markets hold over euro area Member States

The euro crisis of the past years has shown us that one of the most important flaws in the architecture of monetary union is that monetary policy is 'Europeanised' while sovereign debt remains national. This makes individual euro area members extremely vulnerable to sudden shifts in market sentiment and to bond runs that act as a self-fulfilling prophecy. Moreover, as was seen in the cases of Greece, Ireland, Portugal, Cyprus, Spain and Italy, it also puts in question the role of democracy, as the European Central Bank exploits the opportunity to impose key policy choices on Member States in return for the promise to support and buy some of their sovereign debt.

The Commission, however, remains absolutely silent on the problem of Member States lacking the full backing of a central bank and all of the consequences this implies. It is

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[3] By, for example, defining a European labour code with a single labour contract. Or by the proposal to have an 'optional' system whereby each worker can opt to be covered not by the national system, but by a common European labour code defining a 'single labour contract' and opening access to European (financed) benefits of a certain level and duration. See CEPS special report 119/September 2015: a European Unemployment Benefits Scheme: The rationale and the challenges ahead'.

[4] In particular, in Member States where the benefit system is of the Ghent type.

the lack of a lender of last resort for public finances that forced Member States into unnecessary austerity in vain attempts to gain credibility in the eyes of not-always-rational financial markets, thereby causing the double-dip recession. It was this lack of a lender of last resort which made euro area governments unable to ensure a proper functioning of their banking system. It is Member States' vulnerability to the markets that has worked to constrain public investment in the future of our economies. It is this complete reliance on market finance that provides the European Central Bank with the power to decide on economic and social policy choices that against the view of the democratic majority.

A Euro Treasury to make the single currency work

To end this strange divorce between the 'Europeanisation of money' and national sovereign debt, the 'Europeanisation of debt' needs to be organised. By gradually replacing national sovereign debt with European debt, Member States will no longer be excessively reliant on the whims of financial markets. At the same time, the issue of common debt by a European-level institution will open the way for the ECB's monetary policy instrument to target this European debt and to act as a lender of last resort.

This could be achieved by creating a Euro Treasury issuing common debt paper that is jointly guaranteed by all euro area Member States and can have the backing of the ECB.

Moreover, and with the aim of excluding public investment expenditure from the deficit and debt criteria of the Maastricht Treaty and the Stability (Com)Pact, it is essential to link the Euro Treasury and the common debt it issues with the financing of euro area Member States' public investments[5]. The capital realised each year by the Euro Treasury is to be passed on as public investment grants to euro area Member States. Since these Member States no longer have to subscribe to new national debt to finance their public investments, they should gradually drive down their national debt loads substantially. In other words, the principle of communicating barrels is at work: While the Euro Treasury builds up European debt, debt at euro area Member State level goes down in parallel, while at the same time public investment is being safeguarded. Here, it is consistent to have European economic rules that indeed enforce this gradual deleveraging of national sovereign debt. This would be done by introducing some form of no bail-out rule which bars access to fresh Euro Treasury funding to Member States that are using this funding to finance current instead of public investment expenditure and/or fail to bring their debt positions down fast enough.

Finally, a third function of the Euro Treasury could be the cyclical stabilisation of the euro area's economies. With current public investment at around 2% of GDP, a substantial and coordinated relaunch of the euro area economy as a whole could be achieved by enabling all Member States to invest a larger share of their GDP. A further step would be temporarily organising additional finance for crisis-hit Member States.

Capital Markets Union

Despite some recent improvement, the monetary transmission channel is still broken. Huge savings surpluses do not translate into investment despite very low interest rates as companies prefer to buy back shares or pay extraordinary dividends instead. At the same time, the ECB's last resort of quantitative easing does not seem to be very effective.

The idea of a Capital Markets Union is to mobilise alternative ways to finance these excess and unused savings surpluses. This is inspired by a comparison between Europe and the US which shows that the US is much less reliant on the banking sector to transmit savings to business investments. Companies in the US fund themselves to a greater

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[5] More detail on this proposal and the possibilities it offers can be found in "Joerg Bibow: Lost at Sea. The Euro needs a Euro Treasury IMK paper".

extent directly on the markets by issuing more equity and company bonds, which are then bought by investment funds, insurance companies and pension funds and are brokered by investment banks such as Goldman Sachs. Practically, the Commission proposes streamlining and deregulating the procedure for business to issue equity and debt instruments and to promote asset securitisation so that an initial financial investment can be sold and bought further on the markets.

All of this raises a number of serious questions: compared to the US, Europe has relatively more SMEs than large businesses. The idea of promoting capital market finance overlooks the fact that SMEs tend to have restricted access to market finance. Capital Markets Union is also promoting the 'securitisation' of assets which may lead to imprudent lending practice as initial credit risk is repackaged and sold further up the market. Finally, capital markets, which are global and anonymous compared to retail banking, will be even more prone than the banking sector to the bias of providing abundant finance in an economic upturn but restricting finance in the event of a downturn.

To summarise, it is unlikely that a Capital Markets Union is sufficient to ensure that finance flows everywhere and savings surpluses are recycled across the entire monetary union. Moreover, Capital Markets Union must not result in a renewed push for financial market deregulation.

A European Fiscal Board: 'Experts' taking over again?

Besides proposing National Competitiveness Boards, the Commission will also install an independent advisory European Fiscal Board which will examine how far Member States have implemented all the European fiscal rules. This Fiscal Board will be composed of five members who will be chosen by the Commission after consulting the ECB and the euro group.

For the ETUC, the problem is not the implementation of the rules. The problem is that these rules are wrong in that they force Member States to cut public deficits in the midst of a crisis and do not allow public investment to be excluded from the deficit calculus, especially in economic downturns. The risk therefore exists that this Fiscal Board would strengthen the mistaken policy of austerity even further. Moreover, the proposal reinforces the democratic deficit as policy-making is again left to independent experts.

Democratic Union

With competence over many policy domains in the process of being transferred to the European level (ECB, Commission), the Commission is aware that there is a problem of democratic legitimacy. It seeks to address that problem by calling for different moments of consultation between the Commission, national governments and parliaments.

Democracy, however, goes beyond informing parliaments of policy decisions that are already taken. Besides transparency, democracy is based on the principle of 'checks and balances', with the separation of power between the executive, the legislative and the judicial branches of government. Here, one important 'check and balance' is the countervailing power the labour movement is able to exercise in the event of unbalanced economic and social policies being pursued, a countervailing power that for the moment tends to be stronger at the national level than at the European level. It is therefore appropriate and urgent to reflect how democratic legitimacy can be really ensured when deepening monetary union.

Conclusion

This position sets out the main principles the ETUC wants to see adhered to when completing European Monetary Union. The ETUC calls on European policy-makers to:

- respect and promote the autonomy of collective bargaining on wages and working conditions;
- restore balance with the pillar of economic governance by urgently moving ahead on the social dimension;
- take the existing social principles of the European Treaty and the social acquis as a basis and seriously improve their implementation;
- apply the social dimension to all members of the European Union;
- establish a European Treasury with common debt and a common fiscal capacity and backed up by the ECB's monetary firepower and all of this with the aim of stabilising and improving the convergence of euro area economies.

In coming months, the ETUC will continue to discuss how to make these principles more concrete and practical. This will involve further work on the proposal for a Euro Treasury, the European pillar of social rights and follow-up to the Commission's proposal for National Competitiveness Boards.

Finally, the ETUC will also use this work to prepare its input into the discussion on the next stage of completing EMU.