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From Social Pacts to Productivity Boards

This special issue focuses on the issue of growth. This contribution feeds into this theme, as the questions addressed here concerning institutions and democracy in the context of the EMU are directly related to the debates around conditions of growth and growth models.[1] This article is structured in three parts. The first section presents the context and the key challenges of a non-solidaristic EMU. The second and main part analyses the evolutions that have taken place since the inception of the EMU and identifies three phases. The final section examines the possibility that a more open debate is emerging at EU level and leading to a new paradigm shift.

Key challenges

It has been well documented that the EMU is an unfinished construction that needs complementary institutions to function properly. But what are the main challenges for the EMU? This article highlights three.

The first concerns the important differences in inflation rates between countries, a consequence of the fact that interest rates are centrally decided by the European Central Bank (ECB) in Frankfurt despite the very different structures and levels of development of the individual eurozone national economies. This remains the principal, and unresolved, issue for the future.

The second challenge derives from the different specialisations of national production models and their insertion into global and European trade systems. This is particularly important in terms of how the differences between these national systems can affect their capacity to accommodate asymmetric shocks.

Finally, without the possibility of currency devaluation, wage increases have to be in line with inflation and productivity. If wage developments continue to differentiate, even by a small amount, this can have a medium-term impact on the relative competitiveness of the national economy.

1 D. Acemoglu, J. Robinson: Why Nations Fail: the Origins of Power, Prosperity, and Poverty, London 2013, Profile Books; D.C. North: Institutions, Change and Economic Performance, Cambridge 1990, Cambridge University Press.

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Clearly there are interactions between these three issues, but each has its own particularities and involves different actors.

Two competing views have dominated the debate over how to respond to these challenges. The first maintains that only the market can solve these problems: more competition to curb inflation, more deregulation to foster economic development, and decentralisation of collective bargaining to adapt quickly to changes in the environment.

The other view argues for the establishment of new and better-coordinated institutions at the national or European level. Coordination, and not centralisation, is the keyword here. It is closely related to the academic debate on the (un)coordination – or (de)centralisation – of collective bargaining and its effects on growth and employment that was initiated by Calmfors and Drifill[2] and developed by Traxler.[3]

Main evolutions

In the period from 1993 to 2016, we can distinguish three phases.

Period I: 1993-2000

The first period (1993-2000) centred on the selection of countries to participate in the EMU. It came as a real surprise to the main economic actors and commentators that, instead of further market deregulation, a series of ambitious social pacts were signed by the governments and national social partners in many countries.[4] All the social pacts signed during that period dealt with at least two of the three main problems highlighted above.

What is a social pact? There are a few common features. First of all, a social pact is based on a high level of trust among the participants. This trust exists because they agree to take a medium or long-term perspective and do not attempt to maximise short-term benefits for one side or the other. It is based on a shared identification of the problems; while an absolute consensus is an unreasonable ex-

2 L. Calmfors, J. Driffill: Bargaining Structure, Corporatism and Macroeconomic Performance, in: Economic Policy, Vol. 3, No. 6, 1988, pp. 13-61.

3 F. Traxler: Bargaining (De)Centralization, Macroeconomic Performance and Control over the Employment Relationship, in: British Journal of Industrial Relations, Vol. 41, No. 1, 2003, pp. 1-27.

4 G. Fajertag, P. Pochet: Social pacts in Europe, Brussels 1997, ETUI and Ose; and G. Fajertag, P. Pochet: Social pacts in Europe – new dynamics, Brussels 2000, ETUI and Ose.

pectation, a common recognition of the main challenges is a mimum requirement. Finally, while asymmetries may occur, there must be a structural balance of power among the parties involved. If a social pact endures for a long period of time, it can become an institution and gain some independence from the events or actors – the Irish experience being the exemplary case in this regard.

To provide a few examples, we now take a closer look at the experiences in Finland, Belgium, Ireland, Italy and Spain during this period.

In Finland, the employers' organisation changed their monetary policy preference. They no longer supported the periodic devaluation of the Finnish currency, which had been linked to the cycle of competition with Sweden and Canada over the country's main export products (wood, pulp and paper). This coincided with the rise of Nokia and the possibility of the electronic industry becoming a second "leg" for Finland's economy to complement the traditional paper industry.

The trade unions launched a huge training campaign for their members on the advantages and disadvantages of a monetary zone. The campaign resulted in the creation of national buffer funds, which were designed to be activated in case of asymmetric shocks in order to support (increasing) social security expenses.[5]

In Belgium, meanwhile, the government adopted a competitiveness law. The law imposed a structural comparison between the labour costs in Belgium and those in its three main export/import countries (Germany, France and the Netherlands) in order to address the risk of wage drift in a country with a very structured multilevel industrial relations system, while retaining the automatic indexation of wages. Following several rounds of negotiations, investment in skills and training (indirectly aimed at improving productivity) was increased.

In Italy and Spain, the social partners changed the structure of the collective bargaining in order to avoid wage drift and deal seriously with the potential impact of differential inflation rates. For example, Italy took as a reference the average EU inflation rate as opposed to the national one.

In Ireland, periodic social pacts covering a large range of topics were signed every three years from the mid-1980s to the financial crisis of 2008. The pacts contributed to Ireland's transformation from a poor country with an emigrating population to the Celtic Tiger, able to attract significant investments and migrants.

All these national adjustments and reforms – a result of the debates over the risks and advantages of being in a monetary zone and the complex compromises that are necessary in order to adapt – led to a harmonisation of the inflation rates of all the EMU candidate countries at around two per cent in 1999-2000.

Period 2: 2000-2008

During the next period, 2000-2008, there were no apparent problems with the functioning of the EMU, and all discussions about the social side of monetary integration dropped off the radar. The new members of the eurozone (Greece in 2001, Slovenia in 2007, Malta and Cyprus in 2008, Slovakia in 2009, Estonia in 2011, Latvia in 2014, and Lithuania in 2015) did not really debate the potential consequences of having a single currency. In the first of these new member states, Greece, the attempt to sign a social pact failed, and the internal discussions were rather weak. In the Eastern and Baltic Countries, meanwhile, the social partners did not discuss the challenges of being in the eurozone at all. For these new EMU members, the existing flexibility of the labour market was considered sufficient to accommodate asymmetric shocks. In case of economic problems, relatively high rates of emigration were deemed to present a potentially acceptable solution.

However, some economic-oriented actors, in particular the European Central Bank (ECB), were worried about some of the underlying trends that showed a growing risk of divergence. This powerful group organised itself in order to gather information and be prepared for action if needed. In 2007-08, for example, the ECB published more than 50 working papers linked to wage policy and the EMU (from macro to micro, and from theory to sample analysis). The DG ECFIN of the European Commission did likewise, developing sophisticated databases on social reforms and wage increases.[6]

During this period, the dominant analysis lost its global perspective and took a narrow view of the challenges. The public discourse became concentrated on wage-bargaining institutions, the flexibility of the labour market and pension reforms. Issues such as the production model and country specialisation did not feature in the debate. Consequently, there was also little anticipation of the main dynamics of divergence: on the one hand, national inflation rates, and on the other, very low wage growth in Germany.

5 P.J. Boldt: Finnish Social Partner Agreement on Counter-Cyclical EMU Buffers, Finnish Confederation of Labour, 1998.

6 C. Degryse, M. Jepsen, P. Pochet: The economic consequences of the European monetary union: social and democratic?, in: Transfer, Vol. 19, No. 1, 2013, pp. 3-22.

Period 3: 2008-present

The 2008 financial crisis ushered in the final phase: the revenge of the social-oriented actors. After a short period of renewed green Keynesianism (2008-2010), the economic actors were able to set the agenda and push for their own priorities. As the ECB was considered the saviour of the eurozone, a strategic window of opportunity opened up. The goal was to deinstitutionalise at the national level and to destroy such institutions of solidarity as the minimum wage and sectoral and cross-sectoral collective bargaining and arbitration.[7]

National institutions were affected or became uncoordinated; on top of this, the dominant EU discourse was entrenched at the national level through the imposition of a series of constraining EU laws ("six packs" and "two packs", etc.). The main goal of the EU social compact was to constitutionalise a single way of thinking at the national level. Debates and democratic discussions were supplanted by diktat or very strong pressure (the "troika" being the extreme example).

The results were catastrophic: the dominance of a short-term vision, a lack of trust, no shared views and a huge power imbalance between actors. Altogether, this was the exact opposite of what we had seen during the period of the social pacts.

Meanwhile, the employers' umbrella organisation BusinessEurope had no interest in signing an EU pact. Instead, it benefited from an alignment of interests between the ECB, the European Commission, the European Council, the European Parliament and national governments.[8]

In this context, the culmination of these developments should have been the 2016 proposal to establish competitiveness boards at the national level, which aimed to institutionalise the dominant view that wages and wage formation are the main problem. But this is not what happened.

A changing agenda?

With the new Commission led by Jean-Claude Juncker, the agenda seems to have evolved. This evolution is not due to a rise of leftist governments, more leftist commissioners or a more powerful left in the European Parliament; in the political arena, in fact, little has changed. Of greater consequence have been the accumulative effects of a series of crises. The mismanagement of the refugee crisis has been the most visible, followed by Brexit and the continuation of weak growth throughout the eurozone. Populist movements are on the rise, and the core project of the EU agenda – the single market – is at risk.

It is in this context that the discussion on national competitiveness boards shifted to debates on competitiveness and productivity, as the European Council finally adopted a document on national productivity boards on 20 September 2016.[9] It is not only the title which changed but also the content, which is completely different from the first draft from six months earlier. It is worthwhile to analyse the content in closer detail, because it could highlight a radical change in the mainstream discourse. At the same time, it is only one document among many, and therefore it arguably may not merit so much attention.

The first surprise is that in a text of eight pages, the necessity of structural reforms is mentioned only once. The second surprise is that trade union rights and the social partners' autonomy are recognised with strong legal reference; even more importantly, the right of collective action is mentioned. The text states:

> The characteristics of the productivity boards should fully observe Article 152 of the Treaty and shall respect the national practice and institutions for wage formation. In accordance with Article 28 of the Charter of Fundamental Rights of the European Union, their functioning should not affect the right of workers and employers, or their respective organisations, to negotiate and conclude collective agreements at the appropriate levels or to take collective action in accordance with Union law and national laws and practices.[10]

The third surprise is that wage cost is addressed only at the end of the list. The key driver here is clearly "innovation" – not something that is prevalent in low-skilled sectors with low wages.

> The analysis should take into account euro area and union aspects and address the long-term drivers and enablers of productivity and competitiveness, including innovation, and the capacity to attract investment, businesses and human capital and address cost and non-cost factors that can affect prices and quality content of

7 I. Schömann, S. Clauwaert: The crisis and national labour law reforms: a mapping exercise, Working paper 2012.04, Brussels 2012, ETUI.

8 P. Pochet, C. Degryse: The European social dialogue: what is the role of employers and what are the hopes for the future?, in: F. Vandenbroucke, C. Barnard, G. De Baere (eds.): A European Social Union After the Crisis, Cambridge University Press, forthcoming.

9 Council of the European Union: Council Recommendation of 20 September 2016 on the establishment of National Productivity Boards, in: Official Journal of the European Union, Vol. 59, C349, 24 September 2016.

10 Council of the European Union, op. cit., p. 2.

goods and services including relative to global competitors in the short term.[11]

The next surprise concerns how this is going to work. In the (previous) dominant discourse, the EU institutions knew the solutions; the only problem was implementation. The role of the EU was to force governments and other national actors to adopt these solutions promoted by Brussels (or more precisely, by the economic-oriented group of actors). This document, by contrast, proposes a completely different approach, based on facts, discussion, options and trade-offs.

Analysis would be based on transparent and comparable indicators; and ... [i]ndependent analysis of policy challenges in the field of productivity and competitiveness, and, if and to the extent foreseen in their national mandate, assessment of the effects of policy options, making trade-offs of policy explicit.[12]

Finally, the document states that there should be a balance between the different actors and opinions in the debate. It cannot be monopolised by a particular group.

Productivity boards should be objective, neutral and fully independent regarding analysis and content. They may consult relevant stakeholders, but should not convey only or mainly the opinions and the interests of a particular group of stakeholders.[13]

It is certainly premature to argue that there has been a structural and irreversible change in the dominant EU discourse. Nevertheless, if we take this document issued by the economic actors seriously, we are entering into a new phase in which debates are considered a legitimate way to find the best solution and there are choices to be made among the different options that exist. Institutions are not created to reinforce the power of the dominant group but for exchanging arguments and different visions that are based on a common analysis.

As indicated in the introduction, growth is dependent on the right set of institutions and positive interactions among them. EMU and its particular construction has created uncertainties on how institutions can be properly constructed to face different types of shocks.

In a way, it will continue to be an experimental construction which needs some flexible adaptations. The only way to create that is to foster democratic processes around alternatives and develop a common agreement about the challenges.

Market solutions can be a way for small deregulated states like the Baltics to grow, but they are not a viable path for the EMU area as a whole or for the larger countries like France, Germany or Italy.

As most of the challenges have to be addressed at the national level only, an interaction of flexible institutions (as the social pacts were) in coordination with developing European institutions (like a European unemployment scheme) can offer a more stable environment for growth.

11 Council of the European Union, op. cit., p. 3.
12 Ibid.
13 Ibid.