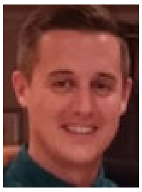
There is little evidence the EU's post-crisis economic governance regime has moved in a more 'social' direction



*Following the 2008 financial crisis, the European Union adopted a new economic governance regime. As **Jamie Jordan**, **Vincenzo Maccarrone** and **Roland Erne** explain, some scholars have argued that this new regime places greater emphasis on social objectives. Drawing on a new study of labour policy interventions in Germany, Ireland, Italy and Romania between 2009 and 2019, they demonstrate that this is not the case, with EU interventions continuing to be shaped by a liberalisation agenda.*

Until recently, wage policy remained a national issue. Accordingly, European labour politics has mainly been shaped by pressures triggered by the creation of the Single Market and European Monetary Union. After the 2008 financial crisis, however, economic integration has been complemented by integration effected through the direct surveillance of member states. While the initial focus of the EU's New Economic Governance regime (NEG) on austerity is uncontested, an influential stream of EU social policy literature argues that since 2013 there has been more emphasis on social objectives.

In a new study, we show that this is not the case. We do so through an in-depth analysis of economic governance on wage, job protection and collective bargaining policy in Germany, Italy, Ireland and Romania between 2009 and 2019. Our main conclusion is that the EU's interventions in these areas continue to be dominated by a liberalisation agenda that is commodifying labour, albeit to a different degree across the economically uneven but nonetheless politically integrated EU. Even so, our contextualised analysis enables us to detect contradictions that provide labour movements with opportunities for countervailing action. After a decade of commodifying policies, in January 2020 the new European Commission would hardly have launched the legislative process for a new proposal on fair minimum wages in the EU were there not a growing concern about wages that are too low to guarantee a decent standard of living.

Understanding the EU's New Economic Governance in context

Whilst we recognise advances in EU studies that improve our understanding of the EU's new economic governance, most studies of social policy are characterised by three limitations. Firstly, those who argue that there has been a partial but persistent 'socialisation' of economic governance only focus on a selection of Country-Specific Recommendations (CSRs) and exclude other governance mechanisms from the analysis, i.e. the Memorandums of Understanding (MoUs) signed by countries receiving EU loans. We therefore also include MoUs in our analysis.

Secondly, supporters of the socialisation thesis give equal weighting to all CSRs regardless of their legal bases, ignoring whether they relate to an MoU, the Stability and Growth Pact (SGP), the Macroeconomic Imbalance Procedure (MIP) or the Europe2020 agenda. Instead, we analyse the varied levels of constraint that accompany policy prescriptions and recommendations over each annual cycle. First, we distinguish the level of supervision that a member state finds itself under, e.g. the quarterly reviews regarding an MoU or the in-depth reviews regarding an excessive deficit or macroeconomic imbalance. Table 1 shows the status each country under study was experiencing within this governance regime between 2009 and 2019.

Table 1: Country status within the EU's NEG policy enforcement regime

State	Germany			Ireland			Italy			Romania		
Process	SGP	MIP	MoU	SGP	MIP	MoU	SGP	MIP	MoU	SGP	MIP	MoU
2009	EDP			EDP			EDP			EDP		MoU
2010	EDP			EDP		MoU	EDP			EDP		MoU
2011	EDP			EDP		MoU	EDP			EDP		MoU & P-MoU
2012[a]				EDP		MoU	EDP	IMB		EDP		MoU & P-MoU
2013				EDP		MoU		IMB				MoU & P-MoU
2014		IMB		EDP	IMB			Ex-IMB				P-MoU
2015		IMB		EDP	IMB			Ex-IMB			IMB	P-MoU
2016		IMB			IMB			Ex-IMB				
2017		IMB			IMB			Ex-IMB		SDP		
2018		IMB			IMB			Ex-IMB		SDP		
2019		IMB			IMB			Ex-IMB		SDP		

Source: **Council recommendations on national reform programmes (2011-2019). [a] The revised SGP and the new MIP process came into force in 2012. SGP (Stability and Growth Pact): EDP (Excessive Deficit Procedure); Significant Deviation Procedure (SDP). MIP (Macroeconomic Imbalance Procedure): Ex-IMB (Excessive Imbalance), IMB (Imbalance). MoU (Memorandum of Understanding on Financial Assistance): P-MoU (Precautionary MoU).**

The impact of economic governance procedures, however, not only depends on the level of supervision that a member state is facing. Equally important are the weak, significant or very significant sanctions that a noncomplying state would risk, depending on the origin of a specific policy prescription or recommendation, as outlined in Table 2.

Table 2: Origin and degree of constraint of NEG prescriptions

Origin of Prescription	Enforcement Mechanisms	Coercive power
MoU Process MoU- & Precautionary-MoU-related prescriptions	Withdrawal of Financial Assistance [a] Withdrawal of EU funding [b] Financial Fines [c, d] Naming and Shaming	**Very Significant**
SGP / MIP Processes SGP- & MIP-related prescriptions for states with excessive deficits or excessive macroeconomic imbalances	Withdrawal of EU Funding [b] Financial Fines [c, d] Naming and Shaming	**Significant**
SGP / MIP Processes SGP- & MIP-related prescriptions for states with NO excessive deficits or excessive macroeconomic imbalances **Europe 2020 Strategy Process** Europe 2020-related prescriptions	Naming and Shaming	**Weak**

Source: **Adapted from Stan and Erne (2018). [a] EU Financial Assistance to a member state is conditional on the implementation of the corresponding MoU. [b] Since 2014, European Structural and Investment funding to all EU member states is conditional on 'sound economic governance', i.e. the implementation of corrective EAP-, SGP-, and MIP-prescriptions (Article 23, Regulation No 1303/2013 of the European Parliament and of the Council of 17 December 2013). [c] Since 2011, a member state of the euro area that has not 'taken effective action to correct its excessive [budget] deficit', risks 'a fine, amounting to 0,2 % of the Member State's GDP in the preceding year.' (Art. 6, Regulation No 1173/2011 of the European Parliament and of the Council of 16 November 2011). [d] Since 2011, a member state of the euro area that 'has not taken the corrective action [against excessive macroeconomic imbalances] recommended by the Council' risks an 'annual fine of 0,1 % of the GDP in the preceding year of the Member State concerned' (Art. 2, Regulation No 1174/2011 of the European Parliament and of the Council of 16 November 2011).**

Further, in order to be able to assess the social trajectory of European economic governance, Table 3 below distinguishes different trajectories in three areas based on their commodifying or decommodifying content. For wage policy, there is a simple division between wage level increases and restraints. For labour market institutions, there is a focus on whether there is a call to increase or decrease workers' employment protections. For collective bargaining, we distinguish between policies that favour solidaristic or individualising bargaining institutions. We define bargaining institutions as solidaristic if they are taking wages and working conditions out of competition through the setting of standards that apply to multiple employers. By contrast, collective bargaining policy recommendations are commodifying labour if they call for a decentralisation of multi-employer collective bargaining agreements.

Table 3: Policy trajectories and themes of NEG prescriptions

	Wages	Employment Protections	Collective Bargaining
Decommodification Trajectory	Increase wage levels	Increase job protection	Solidaristic bargaining
Themes found in NEG prescriptions	Sustain wage growth Reinstate national minimum wage	Facilitate transition to standard employment	Improve social dialogue
Commodification Trajectory	Restraining wage levels	Decrease job protection	Individualised bargaining
Themes found in NEG prescriptions	Reduce national minimum wages Monitor effects of minimum wage Reduce public sector wage bill Establish transparent minimum wage setting mechanism	Ease legislation regulating dismissals Increase the use of fixed-term contracts	Decentralise collective bargaining Reform sectoral wage-setting mechanisms

***Source:* Our Analysis of Council Recommendations on National Reform Programmes (2009-19) including the MoUs quoted in them. See online annexe.**

Finally, decontextualised studies also often disregard where the receiving state is situated within the EU's combined but uneven political economy. There is no attempt to understand, let alone explain, why a specific set of policies may be targeted at a member state at a given point in time. Therefore, we analyse the content of the EU's NEG regime only in relation to a set of four member states as opposed to all 28 (at the time), but in much more depth, including two larger countries, Germany and Italy, as well as two smaller ones, Ireland and Romania. We chose to study these four countries as proxies for the relative power of larger/smaller and richer/poorer states in the EU in order to be able to capture the national and transnational dynamics that are at work.

2009-2019: No social orientation of economic governance in the area of industrial relations

The results of our analysis are summarised in Table 4 below. They distinguish between decommodifying and commodifying trends, as well as between very significant (black), significant (grey) and weak (white) degrees of constraints depending on its particular policy area, its timing, and the country position in the EU's political economy. Ultimately, our analysis shows that there has been no socialisation of the EU's NEG regime between 2009 and 2019 in the policy fields and countries under study.

Table 4: EU prescriptions on wages, employment protection, and collective bargaining

	Decommodifying				Commodifying				
	DE	IT	IE	RO	DE	IT	IE	RO	
2009								●	2009
2010							● ■	●	2010
2011			●			△□	● ■	●▲■	2011
2012	○					△□	● ■	●▲■	2012
2013	○ △					△□	● ■	●▲■	2013
2014	△				○	▲■		○	2014
2015	△					▲■		○	2015
2016	△							○	2016
2017	○ △					■		○	2017
2018	○			□				○	2018
2019	○							○	2019

Content of Prescriptions: ○ = Wages; △ = Employment Protection Legislation; □ = Collective Bargaining.

Degree of Constraints:●▲■ = Very significant; ●▲■ = Significant; ○△□ = weak, based on Table 2 above.

***Source:* Our Analysis of Council Recommendations on National Reform Programmes (2009-19) including the MoUs quoted in them. See online annexe.**

For Italy, there was a continuing insistence on both the commodification of job protection laws and wage bargaining decentralisation, despite the implementation of several major labour market reforms since 2012. In 2018, however, the issue of bargaining decentralisation was dropped. But this did not happen due to a higher sensitivity to social or local concerns, as the Commission in its 'Country Report' continued to call the efforts on decentralisation insufficient. The recommendation was dropped only after the Employment Committee of the Council evaluated the level of decentralisation achieved by the Italian reforms as enough.

The MoU for Romania called for major wage cuts and a commodification of individual and collective labour law. This would suggest that there would be no need for further *new* prescriptions after the acute phase of the crisis. In 2013, however, the EU started to worry about the increases in public sector and minimum wages that the new Social Democratic government promised to implement unilaterally. In June 2017, the Council opened a Significant Deviation Procedure (SDP) that meant that the government had to take decisive action to ensure that the nominal growth rate of net primary government expenditure would not exceed 3.3% in 2017. In turn, the Social Democratic government counteracted its own wage increases with a new law that shifted most social security taxes of employers to their employees. Since 2018, the public sector and minimum wage increases have thus effectively been financed by the employees themselves, given the savings for public and private employers created by this 'tax revolution'.

For Ireland, the MoU also called for major wage cuts and liberalisations of its already very flexible collective wage setting regime. After the abolishment of the provisions for binding sectorial minimum wages and their replacement with a more flexible regime in only a small number of sectors, Ireland did not receive any commodifying CSRs in our field, as the centre-right Irish government made sure that the austerity wage cuts were restored at such a slow pace that they did not cause any concern in Brussels. Irish growth rates also increased again, not as a result of the austerity cutbacks, but due to the growth of actual and transfer pricing activities that multinational firms reported in Ireland. In turn, Irish nominal Unit Labour Cost (ULC) increases for the 2014-16 period remained a stunning 29.5 per cent below the upper ceiling set by the EU's MIP scoreboard.

The German government, by contrast, received weak recommendations that point in a decommodifying direction. Since 2013, Germany has faced persistent calls to increase wages and to increase transitions towards more stable forms of employment. This, however, is not due to a concern for the German economy being besieged by precarious work, but because of its position within the EU economy. According to EU policy makers, German wage policy alone would be able to generate so much demand-led growth domestically that it would have positive 'spill-over effects' for the rest of the EU. What on the surface looks like a shift towards social concerns about the wage moderation that has been forced upon German workers since the start of the century, is in fact an economic concern with the role current account imbalances have played in shaping the macroeconomy of the EU.

From NEG prescriptions on wage retrenchment to an EU law on fair minimum wages?

Our analysis of EU wage policy recommendations between 2009-2019 shows that policies were mostly oriented in the direction of wage moderation or retrenchment. This stems from diagnosis of the Euro crisis where growing unit labour costs were identified among the main causes of the increasing imbalances among EU member states. Even after the most acute phase of the crisis, wage setting institutions and collective bargaining still had to be adapted to support so-called national competitiveness.

The recent proposal by the new Commission on fair minimum wages in the EU may signal new concern among EU leaders about the fact that for too many workers wages are too low to guarantee a decent standard of living. At the same time, however, the ongoing debate around the Eurozone budget also shows the continued commodifying bias of the EU's new economic governance regime, as the proposed budget has no stabilisation function, but would serve to reward member states that implement 'structural reforms' suggested by the Eurogroup. Therefore, it remains to be seen whether the EU's conflicting aim of moderating wages in order to increase national competitiveness and giving workers fair wages providing a decent standard of living can be reconciled.

Trade unions might play a role in this respect, pushing for an increase in wages across Europe. In the absence of labour mobilisations, there is indeed hardly a need for social concertation, which means that even moderate unions must complement the force of their Keynesian arguments with the argument of force. Given the methodological nationalism of the EU's NEG regime, its inaccessible, technocratic language, and the different policy directions of CSRs for countries at the centre and periphery of the EU's political economy, the politicisation of the supranational NEG regime is not easy in a transnational public sphere.

However, considering the much more uniform commodification patters of CSRs on the provision of public services by comparison to the labour politics areas analysed in our study, EU economic governance may be politicised by European public service unions rather than the manufacturing unions, even if the latter have been integrated in transnational production regimes for much longer.

For more information, see the authors' accompanying paper in the British Journal of Industrial Relations

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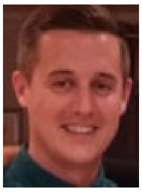

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