Getting Europe back to work: alternatives to austerity

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Conference report

European Trade Union Institute
Martin Myant, Senior Researcher and Head of Unit European Economic, Employment and Social Policy at the ETUI opened the conference by painting a picture of the “continuing depression in the European Union, widening divergences and all sorts of political dangers and challenges that may lie ahead.” The job of the conference, he said, was to “understand and interpret what seems to be happening and discuss and present alternative policies.”

He drew attention to Europe as an exception to the general global recovery since 2010: “Something seems to have gone wrong... And it seems to us that it could go on for quite a long time. We are told that we are turning a corner,” he went on, but pointed out that the European Commission is making “remarkably selective use of indicators” that do not give the overall positive picture. Commission forecasts, he reminded the audience, always turn out to have been over-optimistic, but even the latest figures do not represent a full recovery.

He suggested it was necessary to examine the reasons behind the differences in unemployment rates between different countries to refute the idea that the crisis is all down to expensive labour markets.

**Session 1: Failing austerity and beyond**

Martin handed over to ETUI Senior researcher Sotiria Theodoropoulou to chair the first session, which she introduced as intended to address macro-economic issues against the background of the latest economic forecasts. Austerity policies, she asserted, have neither led to economic recovery, nor solved the debt crisis in Europe. They have, however, undermined social dialogue. “The consensus is they are going too fast.” There is a need to consider measures for the longer term, she insisted, but we also need to be aware of what kind of social and growth models structural reforms can lead to. She then wondered who will make these decisions, given that “currently programmes, especially in the countries most affected by the sovereign debt and banking crises, do not leave much room for national governments to decide on adjustment strategies.”

The first speaker, Cinzia Alcidi, Head of Economic Policy Unit, Centre for European Policy Studies, started by querying why austerity policies, basically an extreme case of fiscal correction, had to be put in place. She reminded the audience that originally fiscal policy was supposed to contribute to sustainable growth, but that in 2010, public debt started to be seen as unsustainable. In some countries, data showed clearly that past policies were unsustainable, but in others it was due to the bursting of credit bubbles as seen across the world. However, a large amount of private debt added to sovereign debt puts pressure on public finances and pushes towards corrective fiscal policies.

Such policies have a clearly negative effect on GDP: 2010 calculations foresaw a 20% drop in Greek GDP. So, she asked, why apply austerity with the objective of reducing debt? Externally financed countries obviously have no choice, she
responded, but in others policy choices are also necessary to share the burden. For example, in Italy, without structural reforms, the country risks default.

However, she asked, “Can we combine austerity with growth? In reality we don’t know how to do it.” Economic literature indicates that a credible government can improve market sentiment and restart growth. Unfortunately, this transmission mechanism appears broken. Demand stimulus is currently impossible, so in the periphery exports are compensating for domestic demand shortfalls.

Long-term policies, by nature, deliver only in the long term. Even if, she said, citing Italy, there had been a lot of waste in the past, short-term policy should take care not to undermine the long term, for example the development of human capital through education.

Alcidi compared the experience of the peripheral countries, going through a long adjustment with the Baltic countries, which, with less debt, went through a very deep, intense, but short crisis before returning to growth. Adjustment is necessary, she concluded. The debate should be about the length and distribution of the burden of adjustment and what is acceptable to the people.

The next speaker, Professor Nikos Christodoulakis from the Athens University of Economics and Business and former Greek Minister for Economy and Finance, started his presentation “From Grexit to Growth, or Trapped in Recession?” with a slide portraying the fiscal adjustment of peripheral countries, which he described as “almost a miracle,” especially in Ireland and Greece. Fiscal deficits are back at pre-crisis levels and external deficits are all in surplus.

So, he asked, “is it possible to say mission accomplished? Well, not quite, because meanwhile there has been a terrific impact on the economies.” These figures are bad enough, he went on, but a better measure is looking at contraction relative to potential output (see graph).

This shows the intensity of austerity equals the intensity of the recession, a correlation missed by the designers of austerity packages. The IMF thought effect would be limited with a fiscal correction of 1% of GDP only leading to a 0.5% reduction in output and 0.3% rise in unemployment, while others theorised that a public debt to GDP ratio above 80-90% was detrimental to growth. As this debt level was the average at the time for the euro area, the dictum was “don’t dare to do any fiscal expansion.”

But the prescription failed: unemployment and debt have both risen “unstoppably” in Greece, Christodoulakis showed, before pointing out “the snow-ball effect,” which means “there is no way to achieve debt sustainability under such a huge contraction of output.”
As austerity gets more intense, its impact becomes stronger

This is in sharp contrast with the early optimism adopted by IMF and ECB, that a front-loaded adjustment would have only small and transient effects.

Major shortcomings in Greece were a fierce attack on private sector wages, universal public sector cuts, too many taxes driving revenues downwards, recapitalisation of banks through issuing new public debt, Grexit fears, but above all a recession in which the debt burden increases.

He explained further that domestic devaluation has not led to increased competitiveness: just a 3.9% increase in non-oil exports, despite a 23% decrease in wages. Tax revenues are 1.5% of GDP lower in 2013 than in 2012, despite tax increases, notably in VAT. The 2012 PSI debt restructuring operation involved Greek banks cutting their holding of Greek bonds briefly, but the government borrowed more to recapitalise the banks, so there was zero effect on total debt, but serious effects on the real economy.

Christodoulakis pointed to the need for banks to be recapitalised through the EFSF, not with more public debt, more reforms with less austerity, more public investment but fewer taxes, no universal cuts that destroy incentives and substantial growth initiatives via the Community Support Framework and the European Investment Bank. Finally, he recommended regaining credibility through constitutionally-endorsed fiscal rules “rather than pushing the country year by year to its limits.”

“The official scenario has failed miserably,” he went on, the forecast for debt stabilisation envisaging unachieviable primary surpluses. Christodoulakis suggests reducing these targets by 2% to boost growth, thereby achieving a debt level below 100% by 2020 because of the snow-ball effect. This formed the basis for his conclusion that adjustment programmes should be relaxed immediately.
The next speaker was **Maria Helena André**, Director of ACTRAV, the Bureau of Workers’ Action at the ILO in Geneva and former Portuguese Minister of Labour.

Echoing previous contributions, she said that current policies have had no impact in solving the crisis: finance has not recovered and access to credit remains very difficult with very high interest rates in the periphery. She said that the global growth impact of the crisis should not be overlooked, which undermines the argument that exports will compensate for internal demand: global unemployment remains above pre-crisis levels at 202 million with 32 million jobs lost over the past five years.

She declared that she need not focus much on her home country, as the picture of what is happening in Greece given by Nikos Christodoulakis could be extrapolated to Portugal. However she pointed out that in Portugal from 2008 to the second quarter of 2013, the active population fell from 4.8 to 4.2 million. “This means that economic activity is being shut down,” she underlined, “which is not just a problem for the present but is a serious medium and long-term problem.” Just like in Greece, public sector restructuring, tax increases, lower private sector wages, deterioration of working conditions are having an impact on real people’s lives.

Austerity measures, especially front-loaded, were in her opinion “too quick, too deep and with extreme adverse effects” while not achieving greater competitiveness and debt reduction.

“Are we just waiting for the crisis to go away?” she wondered, when action is needed at national European and global levels. International institutions give cause for concern: the IMF says austerity cannot continue, the EU and the ECB say there are limits to austerity, but there are no changes in policy on the table. Similarly the declaration from the G20 offers an interesting agenda that can be viewed favourably, but again there is no timetable for implementation.

Agreeing with Cinzia Alcidi that there is no doubt public accounts need to be put in order, she nevertheless questions the wisdom of the pace and intensity of austerity with the disruption of public services and reductions in purchasing power that are destroying economies and the social fabric.

She feels the pace of austerity should be slowed and consideration given to what type of development model is being put in place. “Where are we heading?” she asks, fearing that on emerging from the crisis the social model will surely be unrecognisable as “many changes are being made in the social area with very little democratic participation.”

“People are getting left behind,” she went on, “highly educated young people unable to enter the labour market, others finding it very difficult to get back in, with wholly unemployed families having a major impact on child poverty.”
The correct response in her view is to expand credit to SMEs, enabling them to create jobs, be more innovative and help with the greening of the economy. Also, labour-market institutions need to be repaired following attacks upon them during the crisis and subsequently reinforced.

Concluding, she declared “Europe needs to get its act together.” And asked, “Where is this banking union? Where is the financial transaction tax? Where is the demand boosting by surplus countries?” “There are no inevitabilities,” she said, “We need to move forward to find a fair way of sharing the burden of adjustment, replace austerity with investment in the real economy, go back to collective bargaining as a fundamental tool and restore the social dialogue with a coordinated agenda.”

Sotiria Theodoropoulou summed up the presentations before launching questions to the panel with one of her own: “How can we finance austerity going more slowly? Is there willingness at EU level to prolong support for countries?”

Members of the audience put further questions about whether surplus countries are doing their share of adjustment, whether the public debt narrative misses the private debt flows encouraged by the euro that may lead to another crisis if the euro does not change much.

First to respond, Cinzia Alcidi said that there was considerable focus in Brussels on the issue of symmetric adjustment and whether the 6% German surplus is harmful. She felt it was not clear as, while macroeconomic imbalances were mostly in Europe before the crisis, now the counterpart is largely China. This changes the debate slightly as any adjustment by Germany could have only a marginal effect on other Member States.

Nikos Christodoulakis stated that slower adjustment could be financed by growth while a lack of growth means any target for fiscal adjustment is bound to fail in the long run. Northern countries could help southern exports by spending more. If the south stays in recession, he felt, there was no way that the debt is going to be solved. More money from the ECB is needed: the debt criteria may have been right in the 90s, but wrong now as Europe in no danger of inflation.

Agreeing with Nikos Christodoulakis, Maria Helena André added that the skyrocketing cost of unemployment benefits also adds to counterproductive effects of austerity. She wondered whether more could be done if the EU had a budget capable of helping the union as a whole get out of recession. Fearing that already not very bright forecasts will no doubt be revised downwards, she called for re-examination of issues “that have been put in the freezer,” such as the multi-lateral trade agenda. She felt that politicians at EU level have not been up to the task of responding to the crisis in time and with the correct measures and that surplus countries should play a role, even if it has only a small impact.
A final questioner wondered if just slowing the pace of austerity was really an alternative and asked how can EU or national politicians define a new model for growth when financial markets can freely speculate against their currencies and bonds?

Nikos Christodoulakis agreed that financial markets should be regulated and declared his support for the Tobin tax. He felt however that this is a different matter that won’t change fiscal problems dramatically in the short term: “We cannot avoid tackling the fiscal burden, but we are in a very serious cul-de-sac.”

Maria Helena André said one problem was the same recipe being applied to different sorts of problems: one size fits all doesn’t work. Portugal decided to front load and went beyond the Memorandum of Understanding terms leading to destruction of economic activity and credit to SMEs, with cases of companies unable to buy raw materials to satisfy demand. She fears social peace could be ending very soon, with no light at the end of tunnel leading to desperation. Fiscal adjustment needs to be reoriented so that it doesn’t suffocate the economy; long-term social costs need to be addressed. She remarked that the shift from stimulus to austerity came in 2010 when countries other than Greece were seen as needing help and concluded “Perhaps it should change again.”

Cinzia Alcidi suggested the banking sector should be completely restructured, but that this is not happening, referring to the example of slow progress on the banking union. Growth from 2000-2007 was fake, she asserted, based on a bubble and so should not be extrapolated and the shift to austerity was in response to credit-fuelled growth. She feels that there are two alternatives: real structural reforms or putting real money on the table. Admittedly the short-term effect of reform is negative, but money is clearly unavailable in some countries. However, she concluded, reduced current account deficits mean countries will be able to access external markets, bringing some oxygen to the rest of the economy.

Session 2: The myth of success from labour-market deregulation: what lessons from Germany and Poland

ETUI Senior Researcher Béla Galgóczi launched the second session with a plea not to forget that “we have a catastrophe: unemployment is over 26m and still growing, by one million alone in the past year and youth unemployment in Greece is 61%.” “Deregulation is seen as a remedy, but labour markets were not the cause of the crisis,” he continued.

The session would focus on Germany and Poland, he explained, two countries that are both performing well, with jobs generated in Germany even if there
is a downside and Poland avoiding recession, but with an underperforming labour market. It would aim to discover the relationship between quantitative and qualitative aspects of both labour market models.

Professor **Klaus Dörre** from the Friedrich Schiller University in Jena, started by reminding the audience that “ten years ago Germany was branded the sick man of Europe. It had a highly regulated labour market, the unions, it was said, had a stranglehold. Now all of a sudden we’re the shining example and governments, under our triumphant Chancellor, are calling this success story a model for Europe.”

On the contrary, Professor Dörre claimed, “the Federal Republic of Germany has become a society based on full precarious employment.” “Precarity is about relationships,” he went on. “Defined in comparison to what is normal on the labour market, precarious employment is non-permanent and falling below standard levels of protection and integration.”

Looking at trends on labour market over the past 20 years, he showed, the number of wage earners has increased, but the number of hours worked has decreased. Since 2005 there has been an increase, but less than the increase in workers: meaning the number of hours per worker has continued to decrease.

Since the mid 1990s there has been a big increase in atypical forms of employment: mini-jobs, part-time, self-employment. Even the term has become misleading as in some sectors, atypical employment has become the norm. Meanwhile normal employment contracts have decreased.

However these figures don’t necessarily reflect the extent of precariousness within the German labour market, he continued. Since the Hartz legislation in the mid 1990s, there has been a dramatic expansion in low wage jobs with about 50% of employees now in the low-wage sector defined as less than two-thirds of the median wage. Not only are over 6 million people earning less than €8.50/hour (the level sought for a statutory minimum wage), but some, in call centres, are earning only €2.30/hour, which is far below a living wage.

Former Chancellor Gerhard Schröder may have “wanted to have the most modern low-wage sector,” Dörre remarked, but he certainly created the largest in Europe. Furthermore, it has expanded beyond just for low-skilled workers to strike at the core of the labour market: 6.3% of highly qualified people in full-time employment are in the low-wage sector.

In addition to quantitative, there are qualitative developments. More and more large companies are using agency work strategically rather than tactically: no longer for replacements, but for normal work with lower pay and no protection in a crisis. This means three categories of workers: normal, agency workers and other, hidden, forms of precarious employment. This has also had a huge impact on the collective bargaining system.
Hartz IV (the system of reforms of the German labour market from 2005) was designed to change way people choose their jobs to adapt better to the labour market. It is said that long-term unemployed have developed a passive attitude and willingness to sponge off others so they needed to be shaken up and benefits lowered.

A recent study uncovered a tendency for case managers in employment offices to blame the unemployed client over the past seven years. Meanwhile, benefit recipients fall into three categories:

- Workers-at-any-cost, for example earning an extra 1 euro/hour in cafes
- As-if-workers, doing voluntary or social work as if it were a normal job
- Non-workers, unable to find work and no longer wish to do so

Hartz reforms has not changed attitudes, but engineered circular mobility (moving from 1 euro job to agency work to a scheme) and a social survival strategy: rather than encouraging integration, has created a stigmatised minority.

In sum, he concluded, the German jobs miracle is not a miracle at all, not the right model for Germany and certainly not the right model for Europe.

The next speaker, Adam Mrozowicki from the University of Wrocław, began by stating that Poland also a high-flier in terms of non-standard employment.

Looking back, he said the mass unemployment from reforms in the 1990s was softened by generous and unconditional benefits in return for trade union support. Major reforms in 2002-2003 led to flexibility without security, notably with the introduction of temporary work agencies and easing of
regulation of fixed-term contracts. A further deregulation wave in 2009-2011 to respond to the crisis extended this trend.

This has led to an increasing share of employees with contracts of limited duration over the period.

Figure 3  **Non-standard employment and LM performance**

It could be said, he continued, that atypical employment has enabled a higher rate of employment, but this would overlook other factors such as massive emigration during the period. Also, temporary jobs are much less a matter of choice in Poland than in Germany, where a much larger proportion of people in atypical employment are also in education or training.

Fixed-term contracts generally involve 30% lower wages, which in turn is linked to higher levels of poverty and deprivation and knock-on effects such as the impossibility of getting loans or making pension contributions. A minority of people are satisfied with the arrangements, but the majority are unsatisfied, with acute feelings of economic insecurity leading to decisions to postpone marriage and children.

The situation has been seen as temporary, he concluded, but as it is perpetuated there is a risk of a rise in social tensions and the long-term effect will be the exclusion of a large part of the population from pension rights and disbelief among the young in any kind of social security.

Next, ETUI Researcher Agnieszka Piasna focused on job quality in the crisis, which she stated has deteriorated as much as quantity. In part, she said, this has been due to loss of bargaining power by employees, they cannot resist
pressure to worsen working conditions, while deregulation has impacted working time and contracts.

Admitting that it is hard to agree on what constitutes job quality, Piasna emphasised that there is agreement on what dimensions are involved: wage elements (level and equality) and non-wage elements such as prospects (contracts, job security, career progression), working time (closely related to work-life balance), working conditions (use of skill, autonomy, physical and social environment at work) and collective interest representation.

Indices can show part-time employment as a favourable development, whereas this form of compromise on incomes should not be seen as positive and is largely involuntary. Data show that there has only been net creation of part-time jobs since the start of the crisis, with none in full-time employment: even for men, where the rate has slowed, there is a drop of 1.2 million full-time jobs per year. Data on hours worked also show that employment rates disguise the sharp drop in the volume of work across many countries.

Questions included how trade unions are reaching out to precarious workers and in what ways a massive redistribution in Germany of total working time could be seen as a positive phenomenon when looking to the future in terms of climate and demographic change.

Klaus Dörre responded to the first question by saying that unions have ignored these developments for quite a long time, through focusing on full-time employees, but have been helpful in setting agenda for policies to deal with phenomenon. A living wage has been a central requirement from unions, plus there have been attempts to organise temporary workers and negotiate on their behalf, but with limited success.

Regarding possible positive effects of changing the labour market, there is a very asymmetrical effect, with women affected first and foremost by precariousness. There is a boomerang effect of precariousness setting the status quo and setting a dangerous precedent. Established workers fear that temporary employees may be the future as they manage to do the same jobs.

Adam Mrozowicki added that a minimum wage would help precarious workers, but in Poland organising is undermined by “junk” civil-law contracts and the standard approach of unions is to get people back into standard employment rather than focussing on those in non-standard employment.
Session 3: Collective bargaining in the crisis and the real way forward

Charing the third panel of the day, Martin Myant, first introduced ETUI colleagues Magdalena Bernaciak and Torsten Müller to talk on the impact of the crisis on wages and collective bargaining across Europe.

Müller started by recalling how austerity policies have introduced pay freezes and cuts in order to reduce public expenditure and consolidate state budgets while increasing downward flexibility of wages in order to reduce labour costs ("internal devaluation") and improve (cost) competitiveness.

European economic tools, he explained (European System of Economic Governance: European Semester and its Country-Specific Recommendations, Memorandum of Understanding and Stand-by Arrangements signed with “Troika” or IMF/EU, ECB intervention on sovereign bonds secondary markets) have been used in accordance with the DG ECFIN doctrine that nominal wage development should stay in line with productivity and that help is given only in return for structural reforms.

All these lead in one direction: moderate wage development and decentralisation of collective bargaining. Political pressure has also been put on non-crisis countries, he pointed out, with 18 out of 28 receiving specific recommendations. While most severe effects have been in countries under the Troika, such effects are also present in others.

Figure 4 Development of real wages in the EU 2010–2013 (%)*

*Nominal wages deflated by harmonized consumer price index (HCPI)
Data for 2013: European Commission Forecast
Source: AMECO-Database and calculations by WSI
Magdalena Bernaciak continued the presentation by pointing out that where minimum wages are statutory, their level can be influenced directly by governments and that many countries have seen a decrease relative to consumer prices. Moreover, when looking at the development of real wages in the EU from 2010 to 2013, 18 out of 27 countries recorded lower real wages, a development welcomed by the Troika among others as a necessary adaptation process, but largely induced by downward wage competition under deflationary pressures.

Meanwhile, the decentralisation of collective bargaining systems has led to increasing company-level bargaining if not individualisation of industrial relations.

She concluded that there was already a general trend towards deregulation before the downturn, but the crisis has brought in a new tool: political intervention in collective bargaining outcomes and processes, leading in turn to abrupt de-collectivisation and de-centralisation in “problem countries” and downward pressures on wages across the EU.

Next, Vera Glassner, from the Johannes Kepler University of Linz spoke on the need for trans-national trade union strategies in European wage policy faced with a common monetary policy in the eurozone and the pressure on multi-employer bargaining.

She pointed out that EU enlargements had increased the heterogeneity of industrial relations and welfare regimes and noted the asymmetry of social and economic integration in the EU: capital mobility versus nationally embedded trade unions. She lamented the withdrawal of the European Commission from European social policy and social dialogue and lack of interest among employers’ associations in wage policy coordination. She suggested this should be countered with unilateral initiatives by European and national trade unions to coordinate wage bargaining across borders, based on trans-national solidarity rather than wage competition.

There had been Europeanisation before the crisis, she concluded, but re-nationalisation since. In order to create trans-national institutions supportive of wage bargaining coordination, she suggested, European state support is an absolute precondition for solidarity in wage policy that also includes the employers’ side.

The next speaker, Andrea Garnero from the Université Libre de Bruxelles, focussed on the question of a minimum wage for Europe.

He started by recalling what Jean-Claude Juncker said in January 2013: “We need a basis of social rights for workers, minimum social rights for workers, including of course one essential thing, a minimum wage - a legally compulsory minimum wage in the euro-zone member states.”
No formal proposal exists, but some elements recur in the debate: European minimum wage rate at 40% or 60% of the national median or average wage and that the EU should monitor that all Member States reach minimum wage targets.

However it is not just a problem of fixing a rate, he suggested, but the fact that Europe does not have a single system. After 20 years of debate about employment effects it appears not to have much impact on average. Part of the lack of proper knowledge is that studies only cover statutory minimum wages, not other wage-setting mechanisms.

A recent ETUI report extends study to sectoral and occupational minimum wage systems and takes into account interaction between different institutions. If wage levels are fixed at sectoral level, collective bargaining needs to be effective.

If the rate were set at 40% of median earnings, many countries would see a decrease. At 60%, the statutory minimum wage would rise in most countries, but would lead to reductions in France and Italy. However, a significant proportion of people are not covered in Italy.

Coverage is important. We should not forget, he said, people who are legally paid less than a minimum wage, such as fake self-employed in France, mini-jobs, etc. The minimum wage needs to adapt to new realities as opposed to the traditional model of men in long-term jobs.

Garnero suggests the main issues should be discussing alternative systems available, rather than establishing an EU-wide 60%, better to adjust national systems, and the possibly rising lack of coverage and compliance.

**Session 4: The alternatives**

ETUI Head of Communications Willy De Backer launched the final session by remarking that despite agreement on austerity having failed, the TINA “there is no alternative” narrative had been uppermost in the first session and he hoped that alternatives could be put forward in this last one. He said he also wanted to bring the green dimension back into the discussion and the political dimension of needing to sell any alternatives to citizens.

First to speak was Mehrdad Payandeh, Head of Department for Economic, Financial and Fiscal Policy at the German Trade Union Confederation DGB. He took as his starting point the situation after the September elections in Germany, which he sees as more positive than it was in the past, even if in the negotiations internal political issues naturally come first and foremost. In his intervention he referred to the DGB’s Marshall plan for Europe.
“There is a need for huge investment, but the CDU don’t seem able to find a response.” Payandeh hopes they will listen when we say “this is important not just for Europe, but also for Germany. Unfortunately a lot of surplus countries are reluctant, but Germany should put itself forward with solutions for Europe.”

“Investment in specific sectors, in education, in training, in energy efficient buildings, everything that we’re doing for Germany that seems sensible needs to be passed on. Also there are points in common with the programme of the Greens. If we move together strategically, there is a huge potential.”

De Backer interjected: “You might be able to sell this in Germany, but can it be sold to European citizens?”

“Yes, we have to create that link. The old government didn’t have a solution for Europe and slowly, little by little, realised they had to take certain steps and now I think we need to do more.” “Dangers for the German economy are now visible: French automotive manufacturers are not the only ones affected. We need to stabilise the economy and ensure growth in Europe.”

“Our programme envisages working with employers who are willing to invest: a cross-society union talking about moving capital from the financial markets into economically wise and environmentally friendly investments.”

De Backer asked the next speaker, Guillaume Duval, editor of Alternatives Économiques, whether Hollande has succeeded in shifting things in Europe and, following referring to François Heisbourg’s call to abandon the euro in his book “La fin du rêve européen”, whether support for Europe is dwindling among the French intellectual elite.

Duval confirmed the situation in France and throughout Europe is extremely serious. “Those who think we are turning the corner are mistaken. The situation is getting more dangerous, both on the social and political fronts, with everyone trying to save their own skins, especially in France, which has never had the experience of the far right in power, whereas Germany, Italy, Portugal and Spain have been vaccinated.”

Nevertheless, he considers that alternatives do exist. “The Germans are getting fed up with the Schröder reforms and they are thinking about increasing domestic demand, which is possibly the most useful thing they could do to help the Eurozone out of the crisis.” However, he cautioned, would this occur fast enough and go far enough to make a difference? German wages have been increasing, but this has slowed and external pressure will be needed. Unfortunately, François Hollande hasn’t voiced his views loudly enough in recent months and everybody has been waiting for changes until after the German elections.

However, he went on, though it made little difference in France, traditionally suspicious of the USA, the Snowden affair may be a turning point in
German-American relations. “It could be possible to sell the Germans on the French initiative to establish a European digital economy, which will open up opportunities for the South and make us less dependent on American companies such as Google, Facebook, Amazon who pay absolutely no taxes at all in Europe. The German state has so far opposed the rationale of a European industrial policy, but the Snowden affair creates new opportunities.”

Turning to tax harmonisation he emphasised that “To avoid social dumping, we need to avoid fiscal dumping,” expressing the hope that with the new German government Luxembourg might be persuaded to see reason and that progress could be made on the consolidated corporate tax basis to avoid fiscal optimisation.

Thirdly, Duval has hopes for the banking union. “The previous government had good reason to put the brakes on banking union as the German banking system was particularly badly managed, but we need a banking union as soon as possible if we want to alleviate the situation in the southern states and ensure that central bank policy is carried out correctly.”

The German attitude that the euro and Europe have to be approached on the basis of rules is an error, he concluded. “There must be the possibility of taking discretionary decisions.” There are legitimate concerns about democratic legitimacy, he explained, so real solutions needed, for example a parliament for the euro zone based more on extensions of national parliaments rather than the European Parliament.

Turning to the employers’ representative, UEAPME’s Gerhard Huemer, Willy De Backer asked for his reading of what austerity has actually achieved and whether SMEs are willing to invest in quality jobs.

“SMEs have been negatively affected by lack of growth on account of a policy that focused too much on austerity,” Huemer responded, “so we are starting from a similar position in this debate.”

In Austria, he explained, social partners are fighting together for a larger cake rather than over the parts of a smaller cake. Austerity leads to lower growth. Instead budget consolidation must be done with measures that enhance growth and encourage private investment to go into the real economy and into job creation.”

“The money is there, but no one is willing to invest it,” he explained. Welfare is dependent on growth, he went on, investment is needed for growth, investment needs incentives, which means there needs to be a potential for profit and new possibilities for investments. Some countries need reforms and greater investment in productivity, infrastructure, training, etc. “Otherwise growth will not be possible.”

Distribution of welfare is problematic globally and there are problems between capital income and labour income. At the regional level of Europe, in
the end we have to accept that the original idea of monetary union that if you can’t devalue, market pressure on social partners will force them to come up with better wage solutions for competitiveness has failed. This has led to huge imbalances and huge amounts of private and public debt.

This will not be solved without solidarity in Europe between better and less well off. Cohesion in the past at national level was only achieved through solidarity. Europe is only transferring 0.8% of GDP, he explained, compared with 2.5% from the richer to poorer regions in Austria and 2% from the West to the East in Germany. However, it is “politically impossible for the richer countries to transfer money to the poorer without wanting to have a say about what will happen there.”

The pressure has so far been one way, he asserted, “but I am convinced that the discussion the European Commission has started with the social dimension paper could be effective.” As regards the capital/labour problem, he went on, “we need regulations and tax policy to incentivise real economy investments, but investors need to make profits, which means adapting wages to be competitive.”

Finally, Huemer turned to inequality, or the distribution between higher and lower salaries. Globally, he said, the spread in the primary income distribution is widening. This needs to be managed through tax and welfare measures and subsidised wages. Regarding minimum wages, regional differences taking competition and living costs into account are very necessary: “across Austria’s nine regions, we have nine different minimum wage levels.” In conclusion he raised the problem of the widening spread between insiders, with better contracts and organisation, and outsiders. And while being no fan of precariousness, he said, there are problems on the other side with a lack of flexibility undermining competitiveness.

The final speaker on the panel, ETUC General Secretary Bernadette Ségol started by emphasising that “all of us here are convinced there is an alternative. I fear however that we are facing a problem as our message is not getting out to the people it should reach and is certainly not getting across to Barroso or Van Rompuy.” “The crisis is far from over,” she continued, “we are not winning the battle against austerity and the right think we should disengage from Europe.”

“Our idea is that we need to have a European plan to relaunch the economy. We can argue about the details, but it needs to be a joint plan,” she insisted, “a plan that we can all be proud of.”

“There are very few institutions that are actually putting forward a plan based on solidarity,” she said, turning to Gerhard Huemer, “and I am happy to hear an employer talk about the need for it.”

Ségol recounted how she had heard other employers talk of the need for investment and growth. “Without it, we would be left with a decade of very high levels of unemployment and precarious work.” This would promote
scepticism about the value of the euro and the value of the European Union more generally. “The plan needs to be accepted and then unions need to work to promote it.”

Of course, the plan will not work if there is no end to austerity first, she continued. “We need to convince people and we need to convince politicians.” Otherwise, people will move towards the radical right. “It’s not going to be easy, but it’s not a lost cause: unions have a remarkable network. We need to use its strength more.”

Turning to precarious employment, Ségol insisted that the relaunch plan must impose conditions on the type of jobs to be created as well as benefiting companies and give people the idea that it offers a shift from austerity to quality jobs.

Before taking questions, Willy De Backer asked one of his own: are the structural reforms sufficiently radical to move towards a more ecologically sound basis for growth? Other contributors had questions about the need to overcome the disconnect between Brussels and grass roots movements, what emphasis should be placed on the R&D sector, how to channel private wealth into long-term investment and whether SMEs are the best recipients for a stimulus plan.

Mehrdad Payandeh responded that the best regulation of tax systems could only work in a growing economy: “We need that to ensure the cake gets bigger. It’s not by driving wages down that you’ll get a bigger cake.” “We don’t need structural reforms, we need institutional reforms and make sure the super-rich pay their taxes.”

Payandeh sees the French-German axis as very important and must be a driver for growth, in an alliance including Italy. “The stability of Europe is more important than individual economic interests,” he insisted, “A strategic, broad-based alliance is needed.”

Guillaume Duval said that Merkel is correctly considered as more socially-minded than the Schröderians and that, contrary to what Bernadette Ségol said, austerity is more widely considered a failure than she thinks.

Policies to combat and adapt to climate change are very important, he said. He also feels that R&D should be more developed, but the Troika is acting in the opposite direction by dismantling universities.

He then turned to the German idea that young people should move there to work. This might resolve their demographic problem, but risks exacerbating the demographic deficit in Portugal and Spain and turning those countries into a “mezzogiorno to the power of 10.” The Germans may have enjoyed a competitive advantage in not having had so many children, but perhaps they should pay for their education, he joked.
He feels the policy mix is crazy: a loose monetary policy is subsidising banks while people have to tighten their belts: “Social, political and economic madness.” There is also a contradiction in financial regulation, he added, with a drive to boost capital buffers that reduces the availability of credit.

Gerhard Huemer said he can understand unions being allergic to structural reforms, but cannot understand people thinking they are not necessary.

He questioned the wisdom of piling up more debt as an alternative to austerity policies. “If you don’t want more public debt, you have to motivate private people to spend money in Europe instead of investing it in Singapore or Hong Kong as I doubt you’ll get enough political support for confiscating it.” Finally, Huemer said how glad he was to find unions seeing SMEs as partners.

Bernadette Ségol responded that “structural reforms are facilitating redundancies, not job creation.”

On R&D, she remarked, Spain used to be a model before the crisis and the cuts are counter-productive. Our contacts, she continued, lead us to believe that there are companies and private funds that are looking for opportunities to invest.

On SMEs, Ségol, felt that small companies have not created as many jobs as medium-sized ones. “We don’t believe that the future is in micro-business, which don’t have to apply all the rules.”

On green jobs, “we need an industrial policy that promotes these changes, but we have a responsibility to find solutions for the workers who will be affected. We can’t just tell Polish coal-miners or construction workers that your day is done. We need to find openings so that these people don’t oppose ecology.”

“Finally,” she concluded, “I am pleased to hear from Guillaume Duval that public opinion against austerity is so strong: we have perhaps underestimated the effectiveness of the campaigns we have been running.”

The conference was closed by ETUI Research department director Maria Jepsen, who summed up the day’s discussions by saying that the time is right to go forward, but it is a delicate time with risks of disappointment.

“The issue of solidarity is full of tensions,” she continued, “but European-wide industrial policies are a necessity, or we will start creating bubbles or setting countries against each other.” She recalled that financial systems are still an underlying risk.

Above all, she concluded, “alternatives should create jobs without tradeoffs for quality, especially because of undesirable long-term spill-over effects.”