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Oskar Lafontaine's dream: an opportunity for economic policy co-ordination?

In January 1999, the European Central Bank (ECB) became responsible for the single monetary policy in the whole of the Euro zone. Three years later, it is already minting coins. On 1 January 2002, in an atmosphere of wild "Europhoria", national coins and bank notes were magically transformed into euros, the culmination of a long process of Economic and Monetary Union (EMU) inaugurated by the Maastricht Treaty in 1992. The euro is now a reality. Every single one of us must now get used to the new currency, and the policy-makers of the European Union (EU) are no exception. Many of them in fact consider that EMU is incomplete. According to Lionel Jospin, "*what we need now is economic government*" ([1]). However, according to Romano Prodi, "*much remains to be done in order to achieve this*" ([2]), because "*at present the ECB has no permanent interlocutor with an overall vision of the European Union's economic policies*".

In this article, we shall take advantage of the opportunity afforded by the completion of monetary unification to take stock of what we consider as one of the major weaknesses of the construction of Europe: the lack of any real strategy for macro-economic policy co-ordination.

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1 "*L'avenir de l'Europe*": the French Prime Minister's contribution to the debate on 28 May 2001, *Agence Europe*, No.2239.

2 "*L'avenir de l'Europe*": speech by the President of the European Commission at the Institute of Political Studies (Institut d'études politiques) in Paris, 29 May 2001.

We believe that this is the result of an initial flaw in EU history, whereby economic interdependency takes precedence over political agreement. During the 1990s, the so-called "spill-over" process caused a lack of economic co-ordination, which was sometimes costly. In 2001-2002, the fall-off in growth experienced by the EU, after two very good years, gives us cause to reflect. The details of possible economic co-ordination are still vague, not only because of the predominance of liberal ideologies within the European institutions in Brussels, but also because of the complicated institutional set-up that would be necessary. We refer throughout this article to an ideal model: a system of economic and social policy co-ordination ([3]) which we call "Lafontaine's dream" (see Appendix).

In June 1999, at the Cologne European Council, Oskar Lafontaine, then the German government's Finance Minister during the European Presidency, proposed the creation of a new process: the Macro-economic Dialogue (which we call the "Dialogue" throughout this chapter). This was not, of course, the first attempt at co-ordination. But it was original in that it aimed to introduce a new procedure involving three categories of participants: national governments, responsible for budgetary policy, the social partners, who define wage and working conditions, and the Central Bank, which implements monetary policy. Was this attempt at co-ordination the embryo of a new configuration of the policy mix ([4]), a balanced combination of the three macro-economic policies? And, in that case, what respective roles should macro-economic and structural policies ([5]) play in promoting employment?

First of all, we shall look at the innovative process launched in Cologne, from a technical and organisational point of view, in order to assess its

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3 For an explanation of this theoretical model, see Heise (2001), Delalande (2000), Jacquet and Pisani-Ferry (2000).

4 The traditional definition of the *policy mix* is the combination of monetary and budgetary policies.

5 Structural policies relate to the operation of the labour market, tax systems, pension systems, and commodity and capital markets.

development since 1999. Then we shall show that the new process, whose stated aim was to improve growth and employment, has got no further than a mere "exchange of views".

To explain the difficulties involved in creating a real deliberative body responsible for macro-economic co-ordination, we shall study the lack of symmetry caused by the institutional framework presently in place. We shall look at the difficulties experienced by politicians and the social partners, caused by the all-powerful ECB's single monetary policy. The former try to achieve co-ordination of national budgetary policies consonant with the traditional policy mix, while the latter seek to develop co-ordination of collective bargaining. We shall highlight the wage flexibility (a policy of restraint) and social flexibility (structural reform on the labour market) necessitated by this fundamental imbalance.

Finally, we shall consider the prospects afforded by the post-Lisbon strategy since the Laeken European Council. As the European Union apparently does not wish to adopt a post-Keynesian macro-economic approach, is there a judicious mix of micro- and macro-economic policies it could adopt?

1. Creation of the Macro-economic Dialogue, or "eau de Cologne"

It is interesting to look in detail at the preliminaries leading to the establishment of the Macro-economic Dialogue in its present form, in order to grasp the differences between this new institutional configuration (which I call here "eau de Cologne") and the concept on which it was based ("essence of Cologne") which we shall consider below. To appreciate these differences and put the new process into perspective within the institutional framework, please refer from now on to the general diagram in the Appendix.

Before the Macro-economic Dialogue, in 1996, the "Confidence Pact for Employment" presented by Jacques Santer, then President of the Commission, had already mooted the idea of an overall mix of macro-economic policies to be discussed by the three main categories of players. He thought this would make it possible to "create a general macro-economic framework favourable to employment and at the same time to avoid the risk of conflict between the various instruments".

Then, in October 1998, under the Austrian Presidency, the informal summit of Heads of State and Government in Pörtschach - largely dominated by Socialists and Social Democrats - gave new life to the policy mix, which was considered too monetarist. At the German government's instigation, "the idea of European economic governance came of age" (FGTB, 1999). Here again, it was a question of reinforcing EU action in the area of employment by ensuring the co-ordination of economic policies. This idea was received enthusiastically by some Member States, including France and Italy, and by the European Trade Union Confederation (ETUC) (see below). However, during the negotiations, it became apparent that the Fifteen were not all in agreement. "*Some thought that the EU should establish verifiable, binding and quantified economic policy objectives, whilst others considered that it was impossible to follow a specific recipe for economic growth, and that the credibility of the Member States would suffer from a potential and all too quantifiable failure in this area*" (Degryse, 2000). One week before the Cologne summit, these differences of opinion prevented the adoption of an ambitious pre-agreement on the content of the Dialogue. The German Presidency then had to scale down its plans until only a formal procedure remained. Here we can see the distance between "Lafontaine's dream" – a determination to work towards an economic pole – and the institutional reality that resulted from the debate between the various Member States. The "essence of Cologne" had been watered down into "eau de Cologne". We shall see below whether any but the slightest hint of its fragrance remains (see diagram).

The Dialogue that was set up, also known as the "Cologne process", was part of a more general process, the "European Employment Pact". The latter aimed to forge two existing, micro-economic processes of structural reform into a single dynamic process [6]: the Luxembourg

6 More specifically, the Luxembourg process (now entitled the European Employment Strategy, EES) aims to "implement a co-ordinated strategy of employment in order to increase the efficacy of labour markets" by means of

process (1997) for the labour market, and the Cardiff process (1998) for goods, services and capital.

Principles and operation of the Macro-economic Dialogue

Having considered its genesis, let us now look at the participants in the Dialogue, and the principles on which it is based in order to "*improve the interaction between wage development and monetary, budgetary and financial policy*" (European Council, 1999a: 3). In Cologne, the European Council described the new structure as a basis for effective co-operation between all those involved in dialogue: representatives of two configurations of the Council [Ecofin, and Labour and Social Affairs (LSA)], the European Commission, the ECB and the social partners (7). Since its very first meetings, three groups of participants could be distinguished. The ECB, UNICE, and the Monetary and Financial Committee (8) coalesced on the liberal side, opposite the ETUC, the Employment and Social Affairs Directorate-General (DG), and the Employment Committee. The Commission's DG for Economic and Financial Affairs (ECFIN), the Economic Policy Committee (9), and CEEP came together in the centre.

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guidelines; and the Cardiff process consists of "in-depth structural reforms to improve the innovateness and efficacy of markets for goods, services and capital". For more details relating to the EES, see articles in Social Developments in the EU 1999, 2000 and 2001.

7 The social partners UNICE, ETUC and CEEP prepare together for Macro-economic Dialogue meetings within a macro-economic working group, which is part of the Social Dialogue Committee. The latter should not be confused with the Collective Bargaining Co-ordination Committee, which is under the sole jurisdiction of the ETUC.

8 This Committee is made up of senior civil servants from the Exchequers of the Fifteen and the national central banks, and two representatives of the European Commission and the ECB. This is a very powerful committee, which prepares for Ecofin meetings.

9 The Committee is made up of senior civil servants from the Member States, the Commission, and the ECB. It helps with the preparatory work for some Ecofin meetings and is mainly involved in exploring structural reform.

Distribution of seats within the Technical and Political Committees

The figures given below indicate the number of seats initially allocated to each of the participants.

The **technical group** has a total of 40 members (although de facto only 15 have speaking rights), half of whom represent the social partners: 10 are UNICE and CEEP experts; 10 are ETUC experts. The group also includes 2 members of the ECB, 1 representative of a national bank outside the euro zone and 3 representatives of the Commission (senior civil servants from the ECFIN and EMPL DGs), and 2 from the secretariat of DG ECFIN. The group also includes 11 representatives of various Committees: 5 members of the Economic Policy Committee, 2 members of the Economic and Financial Committee, and 4 members of the Labour Market and Employment Committee.

In theory, the **political group** is composed of a total of 25 political representatives (plus 17 observers, not taken into consideration here). The social partners are represented by the heads of each of the European organisations: Emilio Gabaglio (ETUC), Georges Jacobs (UNICE), and Rainer Plassmann (CEEP) and their colleagues, with a total of 7 seats allocated to UNICE/CEEP and 7 to the ETUC. The Member States are represented by the chairman of the Ecofin Council, who also chairs the meeting, accompanied by Willy Koll, the technical group's permanent chairman, and the two incoming chairmen, plus the present and incoming chairmen of the Employment and Social Affairs Council. As far as the monetary authorities are concerned, although 3 members of the ECB Governing Council are expected, only one senior representative attends (O. Issing/W. Duisenberg), plus one Board member from one of the central banks of a country outside the euro zone. One seat was initially allocated to President of the European Commission, but only the two Commissioners responsible for economic policy (P. Solbes) and employment (A. Diamantopoulou) attend. In addition, there is one member for each of these Committees: the Economic Policy Committee, the Labour Market and Employment Committee and the Economic and Financial Committee, and one for the Secretariat of the Council.

Meetings are now held twice a year and are organised into two working groups: one technical and the other political, one week apart, the first being in preparation for the other [10].

The technical meeting carries out an expert analysis of macro-economic forecasts, so that the political Dialogue can have full information and be more productive [11]. Each year, the first meeting takes place before the European Commission adopts its recommendations on the Broad Economic Policy Guidelines (BEPGs) (April/May), and the second after the publication of the autumn forecasts and the Annual Economic Report of the European Commission [12] (October/November) in order to discuss these documents.

The political meeting, on the other hand, is organised within the framework of the Ecofin Council, in partnership with the LSA Council. It allows confidential exchanges of views to take place between decision-makers. The first meeting is held prior to the preparation of the draft BEPGs [13] and the second before the European Council

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10 The Chairman of the technical group reports to the political group on what has been achieved.

11 The information is mainly based on Commission Communications and reports relating to economic developments (published twice a year). The European Commission also publishes three series of monthly supplements, entitled "Reports and Studies": "Economic Trends", briefly describing the economic and financial development of the EU; "Business and Consumer Survey Results"; and finally the series entitled "Economic Reform Monitor" which provides overviews of economic developments in applicant countries.

12 In 1999, in response to growing demand for full economic analysis, the publication "EU Economy: Overview 1999" replaced the former "Annual Economic Report". Similarly, it is only since February 2000, that the European Commission has published an "Annual report on the implementation of the BEPGs", within the framework of increased multilateral monitoring and in response to a Council report.

13 For more details on the procedures for the preparation of the BEPGs and how these have evolved since Lisbon, see Dufresne (2001).

adopts its conclusions on the Guidelines for Employment (for example, at a "Jumbo" Council meeting).

In practice, it seems that exchanges of views are easier in the technical group, which takes the time to hold a day-long meeting where minutes are taken, than among the high-level politicians, where the discussions (lasting an average of two hours) seem more strained. Moreover, the technical group has a permanent chairman, Willy Koll (former German Finance Minister), who ensures the continuity of meetings, whereas the political meetings are chaired by the president of the Ecofin Council, who changes every six months. This is an example of the classic institutional problem of the rotation of the European executive applied to economic governance.

Are all the participants "equal in dignity"?

The first meeting in November 1999 discussed the basis of the dialogue and expectations of it. Its operating principles were as follows: discussions were to be informal and confidential, and all participants were to be independent. In theory, it aimed to involve larger numbers of participants so as to improve the understanding of their respective views. In Cologne, the President-in-Office of the Council also made a point of saying that, although economic policy co-ordination was not strictly speaking subject to negotiation (final decisions remaining the responsibility of participants), he nevertheless hoped that "*the Dialogue would create awareness of our joint responsibilities with regard to the management of macro-economic parameters*" (European Parliament, 1999: 6).

Although, as the name of the process indicates, it was obvious that the Dialogue was not going to become a deliberative body ("essence of Cologne"), the idea was to create a wide-ranging process to discuss the main macro-economic issues. As a purely consultative body, it would provide at the very least and for the first time, "*a platform on which the main participants in the European debate would be equal in dignity*" (Taddei, 1999: 3).

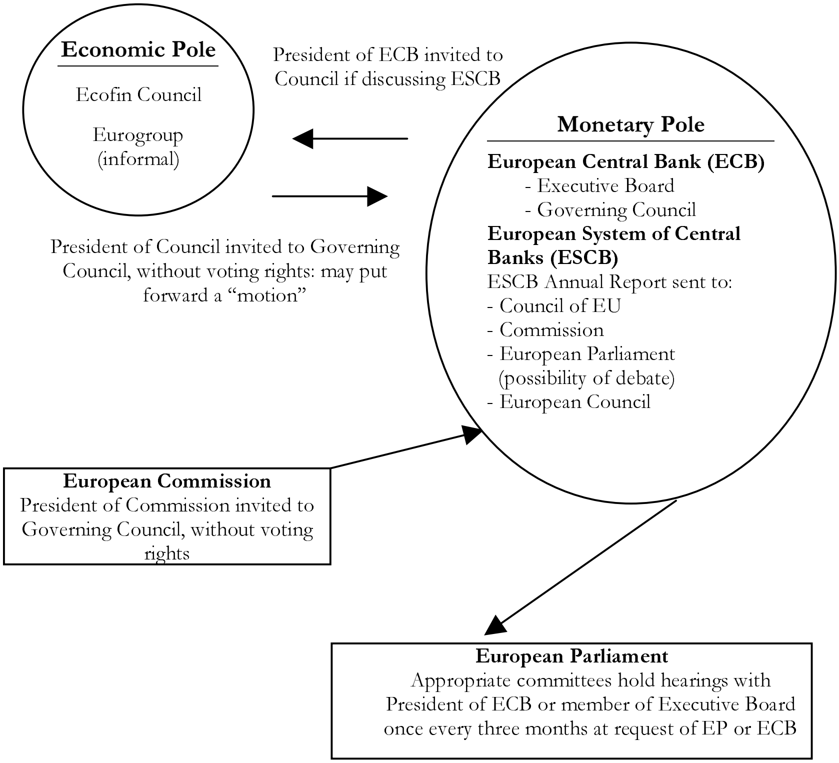
However, for the time being, the first five meetings (from November 1999 to December 2001) have not progressed beyond getting to know each other better and "exchanges of views", to use the European jargon. In reality, the political dimension of the Dialogue is lacking above all in "*a common determination to create a real climate of confidence, understanding and mutual information among the representatives of the institutions represented*" (Central Economic Council, 2001: 4).

For the time being, the Dialogue is essentially a matter of form. It is therefore not possible to turn it into an "effective means of implementing the macro-economic policy established in the BEPGs of the Member States" (European Council, 1999b: 4), which, however, was what was stated in the conclusions of the Cologne European Council. Nor does it allow for any results to be incorporated into the BEPGs, taking into account interdependency between policies. The two initiatives – the BEPGs and the Dialogue – are therefore still unconnected. Ultimately, the Dialogue appears at present to be neither a means nor an end to the definition and implementation of European economic policy. What is the reason for this?

2. Analysis of the institutional asymmetry

We have seen that Oskar Lafontaine's hopes (that all participants' viewpoints would be taken into consideration when establishing their respective macro-economic policies) have been dashed. Here is our explanation of this impossible Dialogue, which describes the imbalance between the various macro-economic policies and institutions. Taking each one separately, in their present hierarchical order, we shall try to describe the recent developments we have observed in three areas: the monetary policy of the ECB, the difficult task of budgetary co-ordination by an economic authority yet to be defined, and finally the social partners' position with regard to wage restraint.

The institutional architecture of EMU



Note: Update of the diagram in Degryse (1998: 4).

2.1 The ECB and the drive of monetary policy

First of all, let us look at the principles on which monetary power is based. The European Central Bank (ECB) is independent, and implements a single monetary policy for the 12 countries in the euro zone. In compliance with Article 105 of the Treaty, its main objective is to maintain price stability ([14]). However, notwithstanding this objective, the ECB is also required by the Treaty to implement a monetary policy, which supports general economic policies, in order to contribute towards achieving economic objectives. In particular, Article 2 refers to the objective of sustainable and non-inflationary growth and a high level of employment. It is important to note this secondary task of the ECB, which is often forgotten.

The Treaty also allows for the possibility of a dialogue between the ECB and other EU institutions in order to ensure "harmonious interaction between monetary policy and other economic policies".But, in practice, the ECB is not subject to any political interference in its management of monetary policy. This fact is a fundamental, because it demonstrates the unilateral nature of dialogue between the ECB and any other institution. The ECB's independence thus enables it to make other players bear the responsibility for achieving the objective of price stability by imposing "sensible" wage and budgetary increases.

Of all the participants in the Dialogue, only the ETUC wants a more expansionist monetary policy, which however would not affect price stability. This is a leitmotif of trade unionism, the criticisms becoming more or less virulent as time goes by, depending on the economic situation, on how the ECB adjusts interest rates, or on the strategies adopted at the various summit meetings. For example, in June 2000, the ETUC said it was "confident that the ECB can accomplish its primary aim of stability without compromising economic recovery" (ETUC, 2000a). Then, in October of the same year, after the ECB had ostensibly raised its interest rates – for the seventh time since November 1999 –, the ETUC criticised it strongly for "the way in which it tries to carry out its mandate and [for] its rather simplistic vision of how the labour market operates" (ETUC, 2000b). In this respect, it is important to note that the research departments of the

14 The ECB has quantified price stability as a medium-term increase of less than 2% in the harmonised consumer price index.

Belgian Christian and Socialist trade unions (Confédération des Syndicats Chrétiens and Fédération Générale du Travail de Belgique) have developed a method of assessing monetary policy. This is an indicator of monetary conditions, which makes it possible to verify the effect of interest rate changes and the effective exchange rate of the euro on economic growth. In March 1999, the two trade unions were already calling for a specific reduction in interest rates in order to "*prevent the slowdown in growth also having a detrimental effect on other determinants of growth (investment and consumption) and pushing growth below the level of 2%*" (OSE, 1999: 8).

Indeed, it is even more important to highlight the ECB's "monetary diktat" insofar as it appears, for the time being - both inherently and because of its statutes - to be the only European player that has to take into account in its decisions the interests of the entire euro zone. All players other than the ECB are fragmented (such as the Eurogroup, see below) or still being institutionalised. "Many fear that, in this situation, monetary policy will take priority over other economic policies (budgetary and wage policies), which are, in such a case, adjustment variables" (Pochet, 1999). Now let us look at the management and recent development of these two other policies.

2.2 Development of the Eurogroup and budgetary policy co-ordination

The first step taken in order to counterbalance the centralisation of monetary policy was to set up the Euro-11 Council (renamed the Eurogroup by Laurent Fabius, former French Finance Minister, so that it would not be necessary to change the name after every enlargement), composed of the Economics and Finance Ministers of the twelve countries in the euro zone. This group fills, in part, the vacuum caused by the inertia of the Ecofin Council. Its task is to co-ordinate economic policies, particularly budgetary policies. The first instance of institutionalisation of economic governance, it goes further than the co-ordination by default imposed by the Stability and Growth Pact

(SGP) ([15]). The latter had been created in order to tighten budgetary discipline in the countries participating in the single currency, and thus to avoid a conflict between the aim of price stability throughout the euro zone and that of budgetary policies adopted at the national level.

It is interesting to analyse recent developments in the Eurogroup, a simple, informal "club", considered at the moment to be "an ideal means for participants to co-ordinate their decisions" (Navarro, 2001: 27). During the French Presidency, Laurent Fabius endeavoured to give it more power in two ways: he saw to it not only that the Eurogroup became more "visible", but also that countries sharing the same currency would be able to confer and consult more closely in order to improve the performance of their economic policies. Lionel Jospin's government had hit upon this pragmatic method, fearing that it would be accused of re-introducing the concept of "economic government"[16] in Europe, which originated amongst the socialists. Then Sweden, presiding over the Council without taking part in the third phase of EMU, handed over the chairmanship of the Eurogroup to the Belgian Finance Minister, Didier Reynders, who had the opportunity to chair the group for an exceptional period of one year. He took advantage of this time to strengthen the role of the Eurogroup even further in order to increase its credibility.

Thus, in budgetary terms, rather than duplicating the monitoring demanded of the Ecofin Council by the Treaties, Mr Reynders tried on the contrary to make it more effective whilst remaining compatible with the BEPGs. However, according to him, "conceptual and methodological difficulties and realities in the field make the definition and implementation of budgetary policies an extremely difficult task"

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15 The principles of the Pact, signed in Dublin in June 1997, were to "ensure lasting economic and monetary convergence" by "maintaining the prohibition on excessive deficits", thus prolonging the famous 3% criteria imposed upon countries entering EMU at the outset.

16 For more information, see Conseil d'analyse économique (1998) and Boyer (1999).

(Reynders, 2001: 17). This is why he proposed greater harmonisation, whilst practising early macro-economic monitoring. He wanted to adopt a proactive attitude, which would, for example, make it possible to organise orientation debates on the Member States' budgets at a sufficiently early stage. Similarly, he hoped the Eurogroup would be able to discuss the broad thrust of stability programmes and their underlying macro-economic hypotheses even before these are drafted in detail. Would it not be also one of the roles of the Macro-economic Dialogue, a role that it is not managing to play?

Even more recently, when the Commission set out to improve the operating efficiency of the Eurogroup (European Commission, 2001a), it met with the refusal of some governments, who were opposed even to the principle of prior information.

The strengthening of the Eurogroup and budgetary co-ordination meet with opposition not only from Member States but also from the ECB, which is careful to protect its own prerogatives and independence. However, the chairman of the Eurogroup (and not of Ecofin as stated in the Treaty) attends the meetings of the ECB Governing Council, at least every two months, and its President, Wim Duisenberg, attends the meetings of the Eurogroup ([17]). Even though a "dialogue" has been set up between them, it is still however relatively unilateral. Finally, this fragile institutional balance between the ECB/Eurogroup/Ecofin could in fact play an important part in the definition of future European economic and monetary strategy. Within this context, the ECB may perhaps have already realised that it is in its interests not to be institutionally isolated and, if necessary, to be able to count on government protection. And now we turn to the third subject to be discussed at meetings of the Dialogue: wage development.

17 The ECB and the Eurogroup have to consult each other, *inter alia*, with a view to co-ordinating the positions adopted (such as joint comments on the policy mix in the euro zone) in international arenas (G7, etc.).

2.3 Wage development or co-ordination of collective bargaining?

For the time being, Community documents refer not to "wage policy" but to wage development. Wage restraint seems to be accepted by all players, although the ETUC's position seems to have evolved over a period of time.

2.3.1 Wage restraint according to economic sphere

In its latest Spring Forecasts, the Commission expressed pleasure that "*although the situation in the labour market is improving and the unemployment rate is decreasing, wage growth has remained moderate in recent years and should continue to do so for the next two years*" (European Commission, 2001b). For 2001, it is using two specific structural arguments to justify its position on wage restraint: labour market flexibility and reductions in social security contributions. More generally, it has defined a typology to describe its position on economic policy, intended to comply with the main principles set forth in the BEPGs:

1. Increases in the nominal wage bill must be compatible with price stability;
2. At the macro-economic level, overall increases in real wages by comparison with increases in labour productivity must take into account the need to reinforce the productivity of capital-widening investment, which creates jobs ([18]);
3. At the micro-economic level, relative wage development should promote the creation of cost-effective jobs and improve business competitiveness.

This three-point justification of wage restraint is included in the European Commission's reports every year. The Commission considers that, for wage development to contribute towards a mix of economic policies that will promote employment, the social partners must adopt what it calls "responsible" strategies.

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[18] This differentiation of real wages in relation to productivity may be carried out according to sector, region and/or company.

The Macro-economic Dialogue therefore seems particularly unbalanced with regard to the question of wages. As far as the ECB is concerned, it could sometimes even become a monologue, as the Bank has a tendency to try to tell the social partners what kind of wage development it will tolerate. Is this why the ECB, in September 2000, started research into labour cost indicators in the euro zone, in conjunction with Eurostat ([19])? The European Statistical Office has undertaken, according to the EMU action plan, to establish a legal basis for a wider indicator, in order to improve the methodology and rapidity of its statistics. According to the ECB, "careful monitoring of wage development and the availability of reliable data at frequent […] monthly or quarterly intervals is essential" ([20]).

2.3.2 The wage policy scenario

Does this conception of wage restraint by protagonists in the economic sphere justify a rethink of the role of wages in the euro zone economy? What scope do the trade unions have for action within the European institutional complex, and what opportunities do they have for dialogue with the economic sector, and in particular the ECB?

- **From the signalling process…**

Lafontaine's dream of real macro-economic co-ordination (full policy mix) by a "German-style economic government" raises the issue of the trade unions. Could the trade unions be involved in a signalling process with the ECB? Could a process be created at the European level, similar to that which existed between IG Metall (main point of reference on wage formation in Germany) and the Bundesbank? In Germany, a signalling process existed between the Bundesbank and the trade unions. The latter therefore had to take macro-economic objectives into account. If they did not do so, the Bundesbank used interest rates to

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[19] It analyses the three main indicators available: per capita income (the most reliable, according the ECB), hourly wage costs and gross monthly income. Note that UNICE has not been very enthusiastic about this initiative.

[20] ECB, Monthly Bulletin, Box 3: Recent developments in euro area labour cost indicators, February 2001.

bring them into line. Nevertheless, it would seem difficult to transpose this German model to the European level, given that not all the Member States share this concept of a signalling process between the social partners and the monetary authorities (Pochet, 1999).

- **… to the co-ordination of collective bargaining**

However, it is also possible that the more the ETUC allows itself to adopt a position other than that of wage restraint – which it agreed to after having accepted the principle of EMU –, the more this signalling process will become possible. Thus, in parallel to the ECB's indicators, the ETUC has supported the idea of a wage standard since its latest Congress in June 1999. The concept of a wage standard, initially launched by the European Metal Federation (EMF), involves the setting of wages in line with common objectives relating to the convergence of wage levels and rates of increase. In this wage standard, the main wage determinants are inflation and increased labour productivity ([21]). It aims to shake off the straight-jacket of wage restraint, in which wages increase, in real terms, more slowly than productivity, or in nominal terms, more slowly than inflation.

This is why numerous trade union initiatives are being set up in the form of flexible co-ordination at the cross-sectoral, sectoral and transnational levels (Dufresne, 2002). For example, the trade union confederations participating in the Doorn initiative ([22]) also wish to "continue their co-operation so that the ETUC can take advantage of it within the framework of the Cologne process" ([23]). According to them,

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21 However, in the ETUC resolution (ETUC, 2000c), a flexible formula includes - in addition to the two factors of inflation and productivity - "other quantifiable determinants, where necessary": these aim to take into account each country's economic situation.

22 The Doorn initiative was launched by German, Belgian, Dutch and Luxembourg trade unions. They have held meetings every year since 1998 in order to draw up a policy for the co-ordination of collective bargaining.

23 Quoted from the press release of the Haltern meeting on 11 September 1999.

good co-ordination between the social partners' wage policy (based on increases in prices and productivity) and co-ordinated budgetary and monetary policies could "contribute towards the economic development of the EU while preserving its stability". This presupposes however that "other players (governments, employers, ECB) are prepared seriously to commit to a dialogue […] and accept responsibility for employment". Although the trade unions point out that between 1999 and 2001 they signed "responsible" collective labour agreements, they are however concerned by the slowdown in growth, which is a result, inter alia, of the ECB's restrictive policies. According to the trade unions, internal demand is of "decisive" importance, and "the promotion of exports by means of wage competition would not speed up growth in the euro zone".

The current process of creating wage standards and the debate it is generating could allow one to hope that wages might return to centre-stage in the economy. Inter-union co-operation "also goes to show that trade unions are involved in the European debate on wages and the policy mix, and not only on the question of wage restraint and its implications for inflation and employment" (Mermet and Hoffmann, 2001: 57). And, in order to achieve employment targets, according to D. Taddei, the need for balanced growth could then be strongly affirmed, the necessary (even if not sufficient) condition being that production capacities (total supply) and effective (or total) demand would increase at the same rate. In the long term, the famous "golden rule" could be imposed, according to which hourly rates of pay would increase at the same pace as hourly labour productivity. This would mean harmonious growth in household expenditure and business investment.

The foregoing leads to an important suggestion: that, in the long term, the wage bill and total profits should increase at the same rate as national income (GDP) ([24]). This theoretical reasoning comes from post-Keynesians of the Cambridge school (N. Kaldor and J. Robinson).

24 This theorem of balanced growth is based either on a closed economy, which is the case in the euro zone, or on an open economy whose parity remains stable during a lengthy review period.

Their "social-democrat" thesis differs both from liberal attitudes (whereby the share of profit is never big enough) and from the revolutionary approach (where the share of profits must be constantly reduced). But should a new "golden rule" be written today for the "new economy"? Or is it just another excuse, like the alleged "priority to employment" at the European level, to advocate wage and social flexibility?

After the above short theoretical detour, let us return to the reality of the wage question in the European Union. One major institutional obstacle is that the Social Agreement signed in Maastricht, which has been included in the Treaty since Amsterdam, explicitly excludes wages from EC competency. Furthermore, the trade union initiatives relating to European co-ordination mentioned above are suffering, for the time being, from the lack of an interlocutor on the employers' side. The employers' representatives, however well organised (and this is not always the case at the sectoral level) refuse to negotiate or even discuss the subject of wages. According to UNICE, "wage bargaining must take into consideration a number of factors, such as competitiveness, productivity, taxation, the cost of living, etc. It must therefore remain the responsibility of national systems of labour relations" ([25]). Similarly, CEEP (which represents enterprises with public participation) does not want centralised wage discussions to take place.

Although UNICE wants the European social dialogue to remain bilateral and autonomous, it does however accept the principle of the Macro-economic Dialogue, the only process in which it has an opportunity for direct talks with the ECB. UNICE adopted a position on the Dialogue straight after Cologne. Considering that the implementation of "necessary labour market reforms is the responsibility of the Member States", UNICE appeared hesitant with regard to a pact involving binding commitments and said it preferred "a voluntary process of exchanges of information and dialogue at EU

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[25] *Libérer le potentiel de l'emploi de l'Europe, La politique sociale européenne à l'horizon 2000: les vues des entreprises*", September 1999, quoted in Pochet (2000).

level". UNICE's main message in its statements has been to reiterate the essential role of structural labour market reforms.

3. Hierarchical economic policy targets

Having analysed each of the macro-economic policies under consideration in the Dialogue, we have seen that the institutional framework considers price stability to be an essential prerequisite of economic growth and job creation. Consequently, as the sharing of powers between the EU institutions, the Economic policy objectives also have a hierarchical order.

In order to better understand this hierarchy, we must return to the main objective, monetary stability ([26]), and the logic it imposes. In fact, the resulting macro-economic non-strategy is as follows: real wage and budgetary discipline must be imposed in order to reduce the risk of short-term inflationary tension and to be able to adopt a less restrictive monetary policy in the medium term which, by keeping interest rates low, would promote investment, growth and therefore employment. Policy co-ordination is unnecessary here, as monetary policy and the objective of price stability are predominant. According to this monetarist reasoning, which informs the reality of present Community strategy, only increased market competition and "structural reforms" should accompany this restrictive monetary policy. Let us now consider the extent to which such reforms have come to the fore, in recent years, in the discourse of all the European bodies.

The importance of structural reforms

In the conclusions of the Cologne European summit, the stability policy is defined as requiring "a growth-oriented taxation policy, in particular a decrease in the fiscal and social security burden on the labour factor, and an employment-oriented wage policy". The employment-oriented growth strategy set out in the final version of the Pact in 1999 already had a liberal bias. This was accentuated even more by the "declaration

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[26] An objective initially imposed by the Bundesbank, then by the ECB on all other NCBs (see Tietmeyer, 1999).

by Blair and Schröder after the summit meeting, which reduced employment policy to structural reform of the labour market" (FGTB, 1999).

Since 1998, on the basis of two European Council resolutions, the content of the BEPGs has been broadened in order to put more emphasis on the Member States' structural policies in the labour and commodity markets. In March 2000, the Lisbon European Council again placed structural reforms amongst the Union's political priorities. Similarly, the Eurogroup's discussions were extended during the French Presidency (second half of 2000) to "cover structural or fiscal questions". It is also interesting to note that the ECB wishes to use a cross-referencing of wage indicators to determine the evolution of structural policies relating to the labour market. The disparities between indicators enable the ECB to identify "the changes which have taken place in the social security contributions paid by employers", or "the effect of variations in the number of hours worked per employee" ([27]). Here we can see a shift away from the question of wages towards that of employment. Wage flexibility is associated with "flexibility of labour markets". But are "structural reforms" or micro-economic policies the only route that can be taken?

It is interesting to put the two priorities, wage flexibility and social flexibility, into perspective by comparing them with a scientific study (Traxler and Kittel, 1999) on "wage regulation and its consequences for employment". This shows that wage restraint does have an effect on the two main criteria of economic performance, inflation and employment. But, although the results show a direct and permanent effect on the reduction of inflation, the impact of wage restraint on employment is not so clear-cut. It does, of course, help to maintain the level of employment ([28]) (defensive policy), but is however insufficient to create new jobs (offensive policy). That is why, given the level of structural

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27 ECB, Monthly Bulletin, April 2001.

28 It can also serve to reduce employment, by decreasing real wages, demand, production and therefore employment.

unemployment in Europe, wage restraint must be accompanied by other policies, either micro-economic ones (known as structural reforms in the European discourse) – which is the line taken by the "present minimum governance" strategy –, or macro-economic ones, which was the opportunity offered by Lafontaine to move towards a strategy of "maximum governance" (see diagram in Appendix).

Conclusions and prospects

All in all, we have seen that when Oskar Lafontaine created the new process of Macro-economic Dialogue, the neo-Keynesians' victory clearly failed to take place. This "innovation" could have no substance, nor could it create any political momentum, within the institutional and political framework at the time. Monetary stability and structural reforms (minimum governance, shown in grey in the diagram in the Appendix) are given priority, to the detriment of real decision-making involving European-level political deliberations about income and/or employment (maximum governance, shown in dotted lines). The Macro-economic Dialogue is in the end only considered as "a means of helping to ensure implementation of the BEPGs". Its creator, on the contrary, had wanted it to lead to "German-style economic government" whose task it would have been to determine the BEPGs, giving a meaning to macro-economic policy at the European level.

What is to become of the Macro-economic Dialogue now? It is interesting to resituate the new trends in economic policy within the context of the objectives defined in Lisbon. In March 2000, ten years of growth at 3% per annum were forecast, sustained demand being offset by a supply-side policy which would eliminate bottlenecks. The situation is now becoming more complicated. The slowdown in growth has meant that unemployment has stopped declining and new job creation has slowed. However, far from being concerned about future low demand, the European Commission considers that "the EU must adhere to its agreed policy of macro-economic stability" and absorb the "deficit in the implementation of structural reforms". The Spanish Presidency, under the direction of Mr Aznar, seems to approve of these tendencies, and has expressed an intention to "promote structural reforms leading to the growth of the European economy in the short term and to greater job-creating capacity in the medium and long term" ([29]).

However, it is possible to place another interpretation on Lisbon, whereby the Member States might be able to achieve their ambitions in terms of growth, employment, competitiveness and social cohesion if they were able to call all the economic policy tunes: monetary, budgetary, wage and structural. That is the only way in which the Macro-economic Dialogue could specifically meet the challenge of establishing across-the-board policy coherence. It does in fact constitute a potential tool of concerted economic governance at the EMU level. It could also be a means of promoting ongoing discussions, inside each Member State, on the right way to create EU BEPGs, taking national situations into consideration. Another advantage of the Dialogue is that it is one of the few processes within which it is possible to observe what adaptations to European social models might mean in terms of wage and budgetary developments, throughout the whole EU and not only in the euro zone (Denayer and Davreux, 2001). Could these potentials be exploited?

By way of an answer, it is interesting to consider the platforms for dialogue, which are not limited to those established in Cologne, proposed in the recent joint declaration of the social partners for the Laeken summit (see also article on the social dialogue). This declaration announces a trade union strategy aimed precisely at defining "the specific role of the social partners in European governance". The ETUC calls for social concertation to be developed, and for a social summit to be held as a matter of course before the spring European Council. There is thus a "need better to articulate tripartite concertation around the different aspects of the Lisbon strategy" (ETUC *et al.*, 2001).

Until recently, the platform for dialogue – aside from the Dialogue established in Cologne – was the tripartite Standing Committee on Employment (SCE) composed of social partners, European

29 First Ecofin Council of the Spanish presidency, 22 January 2002.

Commission and Employment and Economics & Finance Ministers. This Committee held meetings on the guidelines for economic policy and the employment strategy. Then, when it was decided, in Lisbon, to integrate the whole of the economic, structural and employment process by creating a spring European Council, it became apparent that the reform of the SCE had not resulted in similar integration of tripartite concertation. This Committee no longer satisfied the need for coherence between the various processes in which the social partners were involved. That is why in Laeken the social partners proposed that the SCE be replaced by "a tripartite concertation committee for growth and employment which would be the forum for concertation between the social partners and the public authorities on the overall European strategy defined in Lisbon". This committee will examine the whole Community strategy before the spring European Council (30). Could this new structure provide an opportunity to rethink the growth strategy from a trade union viewpoint, out of sight of the ECB? Unless the ECB were to be its guest of honour…

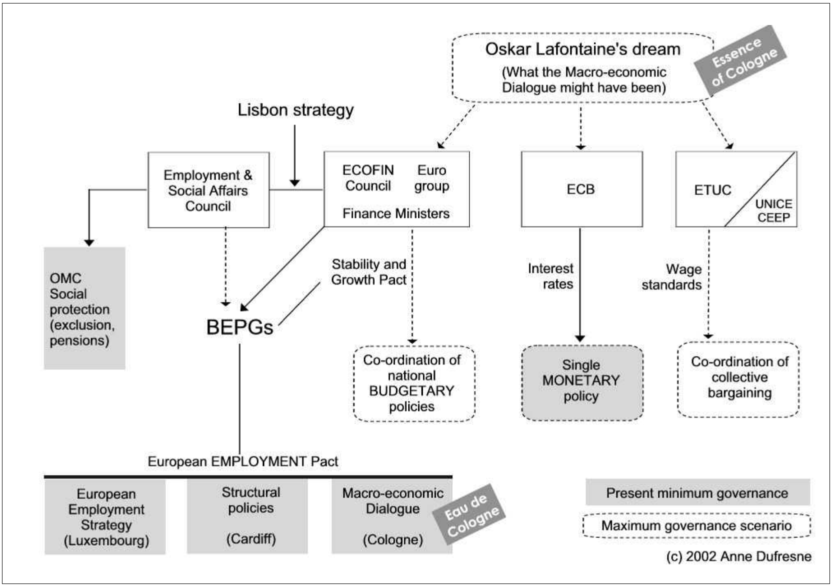
Finally, beyond these various processes of dialogue, the question of economic government cannot be raised without linking it to the even more complex issue of political union. In March 2001, the ETUC highlighted "*the overall responsibility of the European Council to ensure that the policy mix gives the EU the means to maintain the annual 3% growth rate defined in Lisbon*" (ETUC, 2001), reiterating that "*inflation having been brought under control, the Treaty requires the ECB to support general EU economic objectives*".

Could not the European Council, a new key forum for ensuring annual "substantial and complementary" co-ordination, constitute the embryo of European governance, even though it has lost its way and for the moment been appropriated by Ecofin? In that case, it would no longer be necessary to use the word "economic" to define the broad guidelines. Within such a framework, one could imagine a strategic

30 It will also examine the Broad Economic Policy Guidelines or the guidelines on employment and structural reforms with the various configurations of the Council. This equates with the work of the former Standing Committee on Employment.

enhancement of the social sector, and the indicators (Peña-Casas and Pochet, 2001) (in particular those relating to quality of work and social exclusion) already being used to prepare future reports for the spring Council would become real political objectives.

Appendix: Towards (economic) policy co-ordination?



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