

European Economic Governance and deepening the EMU – are we on the road to European wage coordination?

On 21 October 2015, the European Commission published their proposals for deepening European Monetary Union (EMU)¹. With these proposals they are implementing Stage 1 of the process of completing Europe's economic and monetary union, laid out in the 'Five Presidents' Report' published earlier this year.

CEEMET believes that increased economic policy cooperation and strong economic governance is needed to ensure a well-functioning and globally competitive European economy.

Improving European competitiveness and reinforcing the sustainability of public finances is essential for the future of Europe. This will only work if all EU countries embrace a policy approach to restore competitiveness, boost growth and jobs, and practice budget discipline.

European manufacturing industry is pivotal for growth and jobs in Europe but also dependent on a well-functioning economy and business climate. We therefore welcome the improved involvement of European and national social partners in the European Semester, underlining the positive contribution that proficient consultation with industry can bring to national reform efforts.

Considering our mandate, CEEMET is particularly interested in the stronger focus on employment and social performance in the European Semester, including indicators and upward convergence, as well as the proposal to establish national

competitiveness boards put forward in the Communication.

ECONOMIC GOVERNANCE AND WAGES – how strike a balance?

The role of wage developments in influencing macroeconomic performance has received increased attention and entered into the political focus in the Eurozone countries. Wages and labour cost clearly influence economic performance and competitiveness, both from a macro and microeconomic perspective. Wage-setting systems can therefore also have an impact on macroeconomic imbalances, in particular in the Euro area as cost and price adjustment is the only way of nominal adjustment in a monetary union.

CEEMET recognises the importance of tracking wage and labour cost developments for sound economic governance in the Eurozone but stresses the importance of not intervening in the wage setting processes. CEEMET has previously expressed its concern about corrective actions based on indicators related to wages and wage setting in the macroeconomic imbalances scoreboard.²

Wage setting is traditionally, and in some countries also legally and constitutionally, a core responsibility of mandated social partners. Wage setting and collective bargaining are autonomous processes for good reason. Social partners and companies are in the best position to peg wages to productivity, the ability to pay, other elements of remuneration³, the need to invest and so on. Therefore, wage setting must not be interfered with through European Economic Governance, which can only look at wage developments from an aggregate level.

¹ *On steps towards Completing Economic and Monetary Union*, COM(2015)600 final

² The Commission suggests in the Communication to strengthen the corrective function in terms of excessive macroeconomic imbalances. This is also referred to in the Five Presidents Report *Completing Europe's Economic and Monetary Union* from 2015.

³ Collective bargaining and wage setting inherently imply a negotiation. When wages are set, they are often set within a 'package deal' that typically can include provisions for early retirement, occupational pensions, etc. These are not paid 'on top' and vary from bargaining round to bargaining round. Therefore it is a complicated task to try and unravel the level at which wages are set and how they move in comparison to for instance wages in neighbouring countries.

ECONOMIC GOVERNANCE AND THE SOCIAL DIMENSION – what does upward convergence mean?

Within the economic governance framework, and in particular with regards to employment and social performance, the Commission has set out to focus on ‘upward convergence’. Currently it is unclear what the Commission means by this term and it will not be possible for the Commission, Member States and social partners to work towards common goals without an open discussion on convergence.

For CEEMET and its members, ‘upward convergence’ in terms of labour markets would mean working towards flexible labour markets that can cope with the challenges of globalisation and digitalisation. Successes have been achieved in Member States that recently underwent labour market reforms, such as Portugal, Spain and Italy. In our experience, flexible labour markets have proved more resilient and adept at managing macroeconomic shocks.⁴

We believe that we must identify the best performers and best practices in Europe in the employment and social policy field - and thereafter the areas where the Commission propose to formalize the convergence process. Clarity about the envisaged convergence process is absolutely necessary, not least considering the implied treaty change for the so-called ‘Stage 2’ of the process of completing a deep and genuine EMU. Lack of clarity and legal uncertainty hinders investment in industry and consequently potential jobs growth.

To further improve the social dimension of EMU, the European Commission is looking over its economic governance toolbox. From 2016, three new indicators will be added to the Macroeconomic Imbalances Procedure scoreboard: youth unemployment, long-term unemployment and activity rate. While CEEMET generally supports monitoring of social and employment developments in the European semester process, we question the value of adding ‘social’ indicators referring to unemployment,

(which is arguably a delayed effect of past imbalances) to the macroeconomic imbalances scoreboard as this is designed to be an ‘early warning system’.

Employment and social policies in Europe need to underpin our ability to compete on a global level. This must be reflected in any social initiatives put forward by the Commission, including the announced European social pillar.

A SYSTEM OF NATIONAL COMPETITIVENESS BOARDS – eroding the role of social partners?

To strengthen European economic governance, the Commission has proposed to establish National Competitiveness Boards in primarily the euro countries to track competitiveness developments, inform wage setting mechanisms, monitor policies related to competitiveness and assess their effectiveness and provide policy advice, taking into account the EU dimension. These Boards would be coordinated by the Commission and be grounded in national law.

CEEMET notes that bodies with different tasks and roles relating to monitoring competitiveness already exist in many Member States. Few of these have a mandate to put forward specific recommendations on wage setting as it would be considered interference in well-established national practices. None of them are coordinated by the European Commission. An EU-level recommendation on the specific role and structure of such bodies, coordinated by the EU level, is undesirable. In particular, this should not become a legally binding structure.

EU level coordination of these national bodies would automatically lead to streamlining and standard setting (e.g. evaluation or reporting methods). This is not consistent with the Commission’s suggestion that existing bodies can be used. These bodies are well integrated in the very different national systems and are shaped to take into account the particularities of their national social partner and collective bargaining systems. This must be seen in the context of

⁴ CEEMET 2015 survey on flexible forms of employment: www.ceemet.org/sites/default/files/final_flexible_forms_of_employment_keeping_europe_competitive.pdf



Subsidiarity, including the establishment of a body in a member state where none currently exist.⁵

Whilst the current intention appears to respect social partner autonomy⁶ in wage setting and the wage setting processes, the proposed Recommendation would weaken the role of the social partners and pave the way for an erosion of their roles. The social partners could not continue to function as they currently do, free from external interference, in the shadow of a statutory Board at national level which oversaw, influenced, or restricted the wage setting process. Moreover, social partnership is generally built on voluntary membership. Therefore it is in the profound interest of social partners to reach collective agreements that improve international competitiveness, including productivity-oriented wages.

CEEMET strongly opposes this potential intervention into the autonomy of the social partners. The European Union must fully adhere to the requirements of the TFEU⁷, and safeguard the diversity of national industrial relations systems and their social partners. This includes, in particular, wage bargaining systems, which are excluded in many Member States from legislative and executive competence of and left entirely to the social partners, including employers and workers at company level.

Finally, the Recommendation foresees the possibility of adopting “binding provisions”. Taken together with the general Communication “Steps towards Completing Economic and Monetary Union EMU” which opens up for “common principles by means of a binding instrument”, the recommendation on establishing national competitiveness boards is starting to look like European interference into national wage systems creeping in through the back door.

CEEMET is the European employers' organisation representing the interests of the metal, engineering and technology-based industries. Its members are national employers' organisations and federations, representing over 200 000 member companies across Europe. CEEMET's members generally are the recognised and mandated social partners, negotiating collective agreements (including on wages) for the greater part of the manufacturing

Brussels, December 2015.

⁵ As enshrined in TFEU art 5.

⁶ TFEU Art 152

⁷ TFEU, art 153 para 5

