

# Europe: social regression forever?

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## A three-level crisis

### 1. A debt crisis

- The true aim of fiscal austerity is to validate excessive “drawing rights” on the surplus value that the crisis has potentially cancelled. In a nutshell: the fictitious wealth that was not extracted by means of exploitation in the past will be guaranteed in the future by means of fiscal cuts.

## A three-level crisis

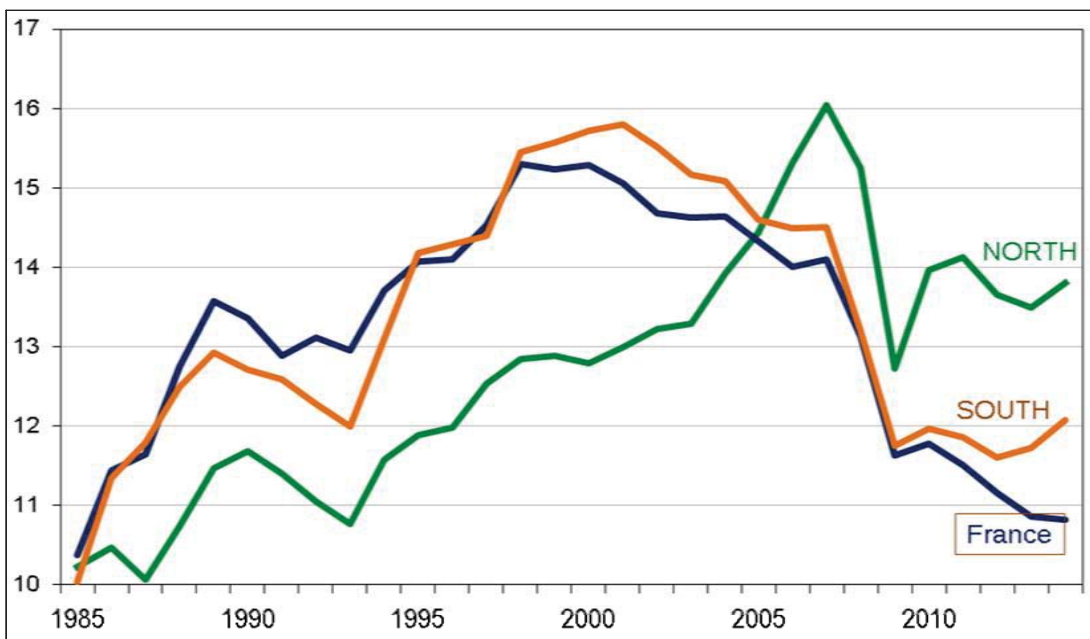
### 2. A crisis of the "euro-system"

- The mainstream analysis is that an excessive wage growth has led to a loss of competitiveness for the "South" countries (Spain, Greece, Ireland, Italy, Portugal). These countries should therefore restore their competitiveness by means of an "internal devaluation", ie a wage austerity.
- This analysis is wrong, because the wage share has nowhere increased in the euro area before the crisis.

## A three-level crisis

### 3. A crisis of profitability

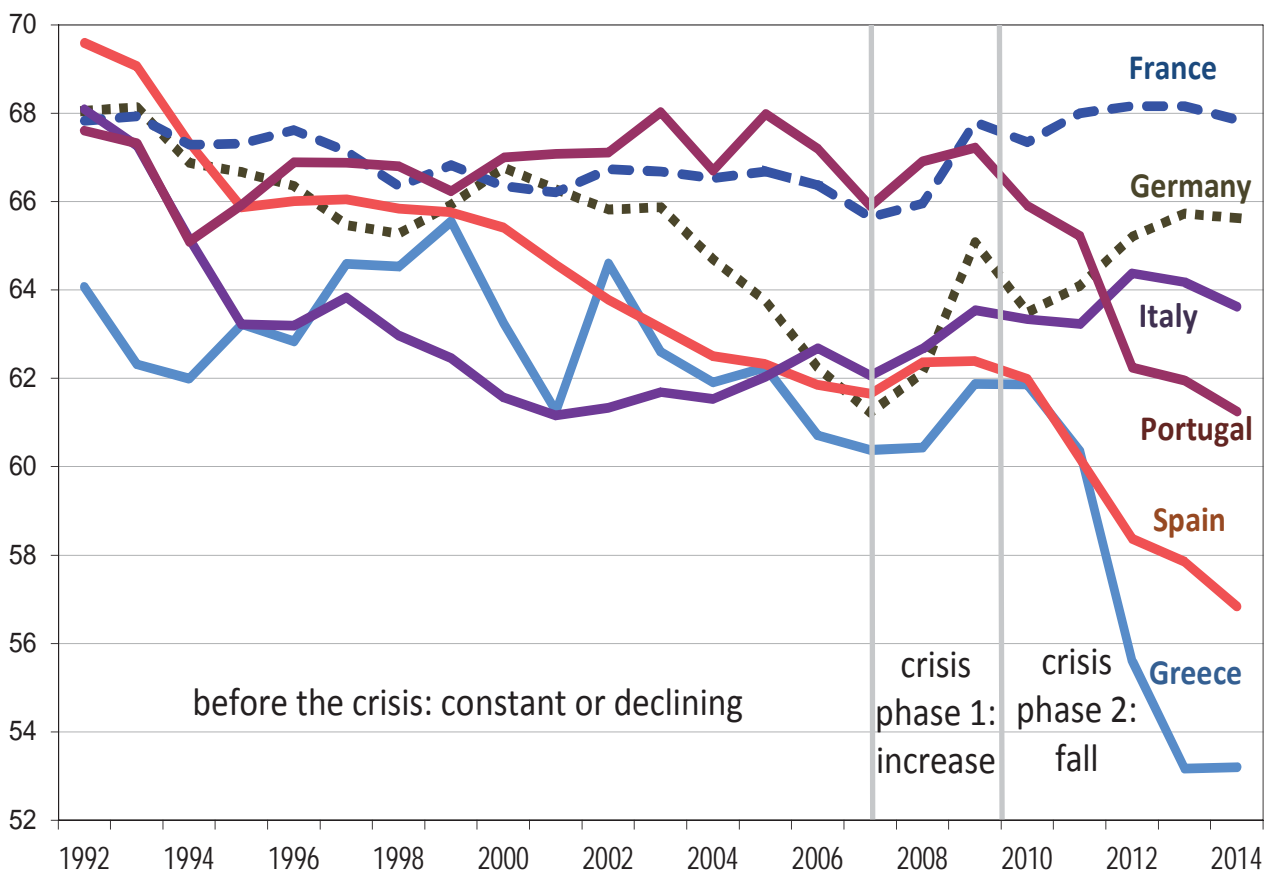
The profit rate in the Eurozone



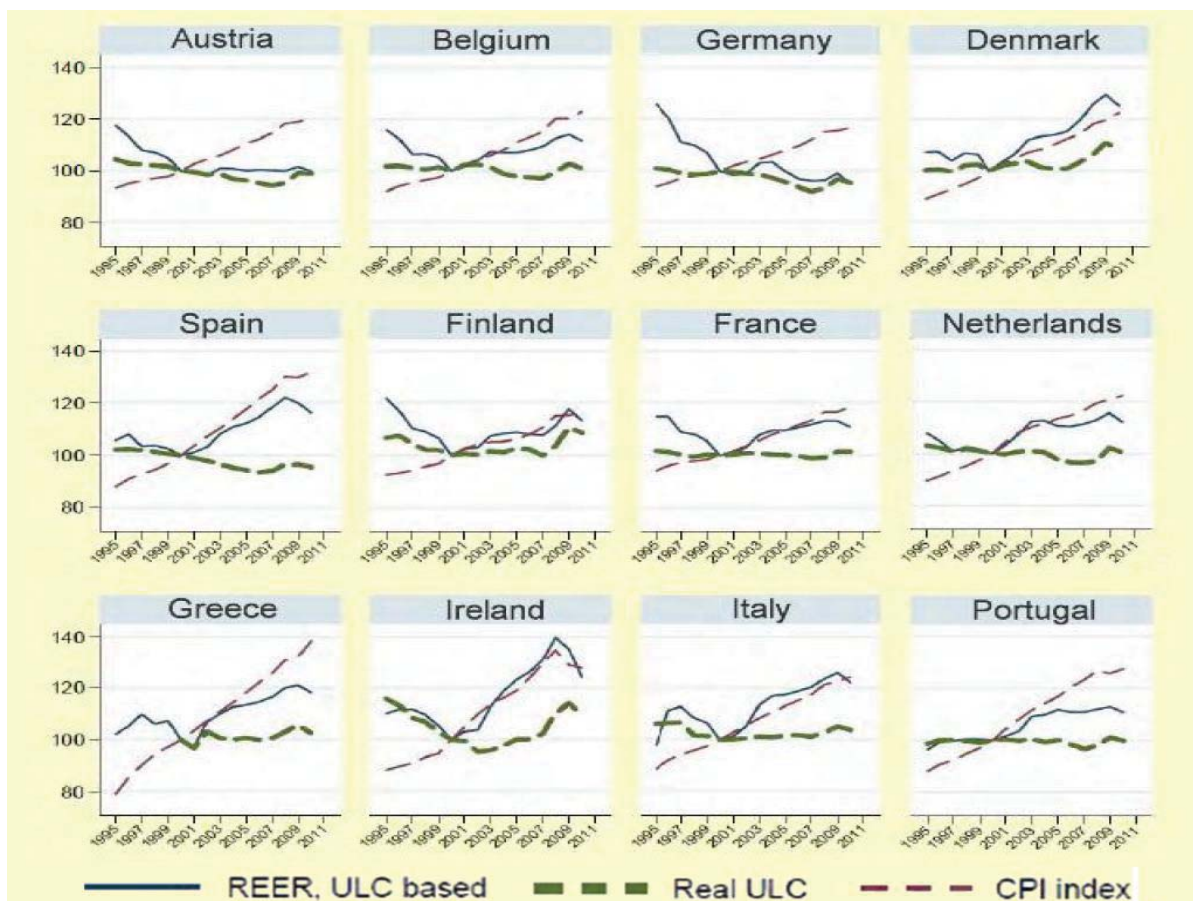
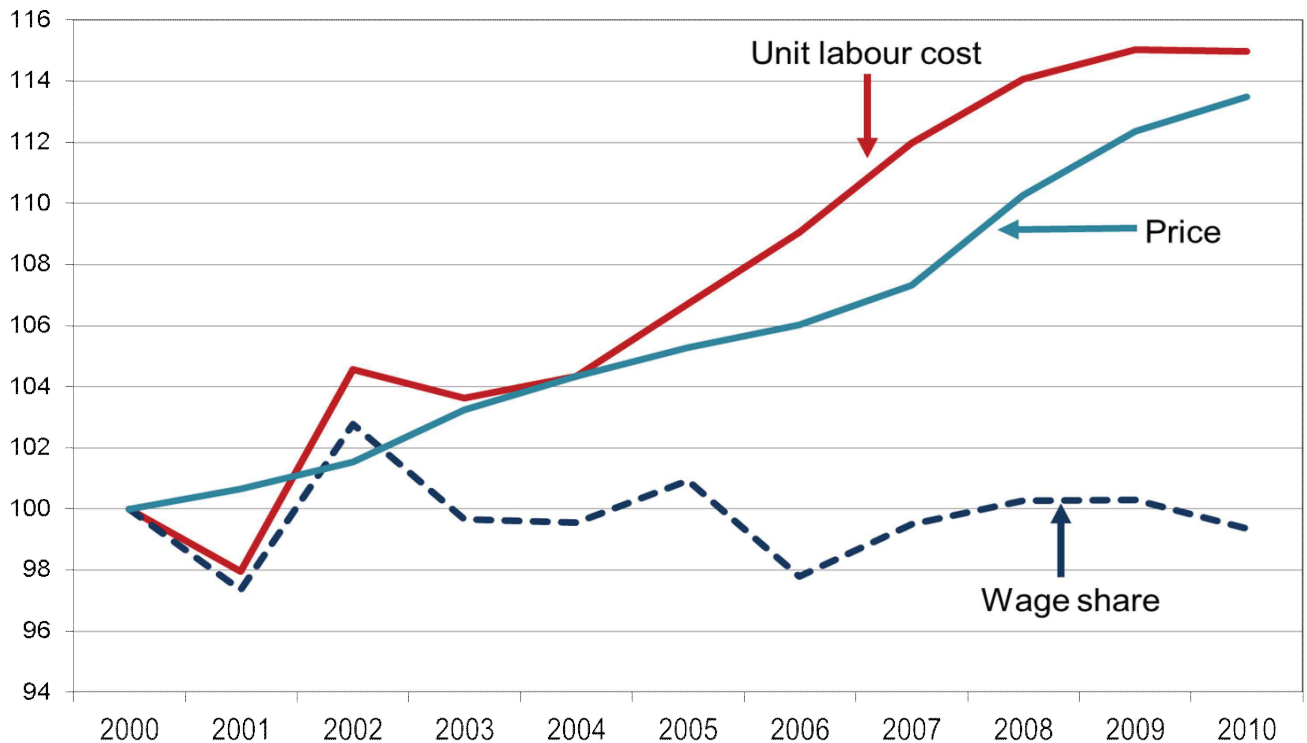
Source : AMECO

# High wages are not the source of the crisis and trade imbalances

Wage shares



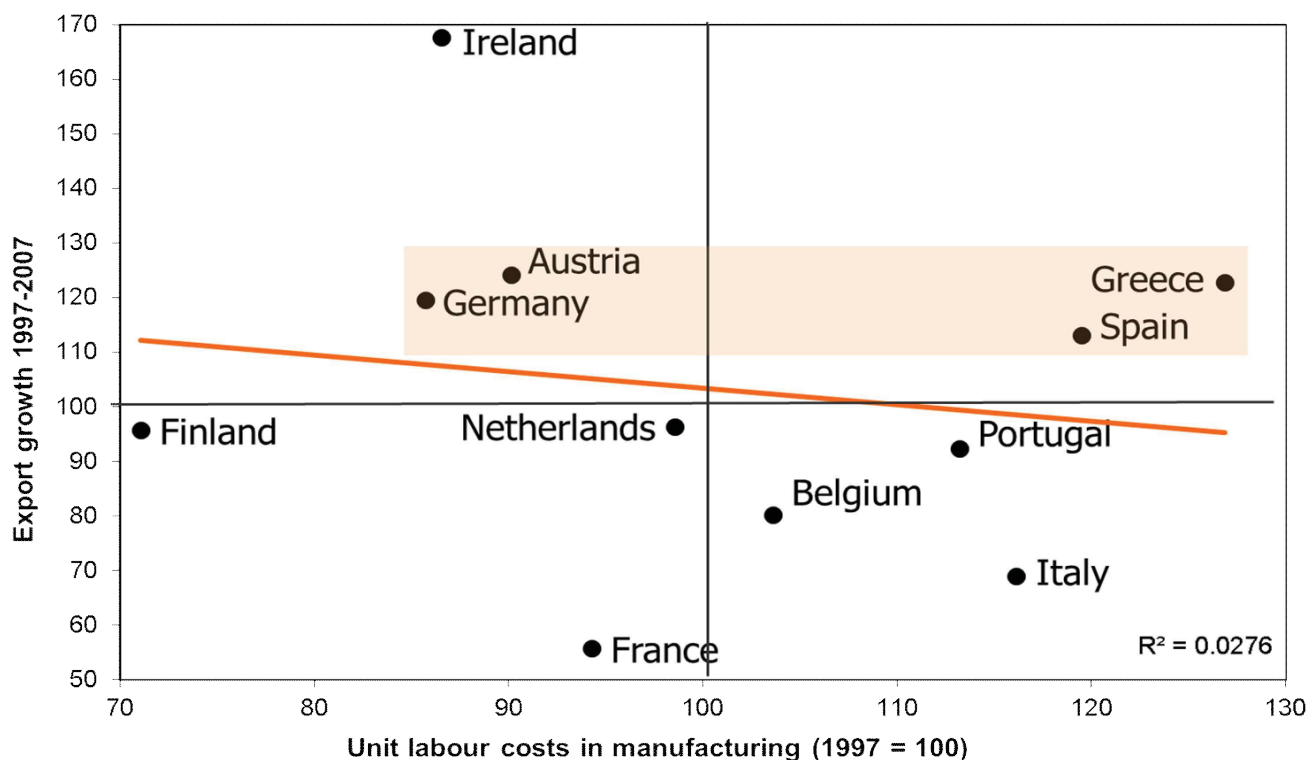
# Unit labour cost, price and wage share Greece 2000-2010



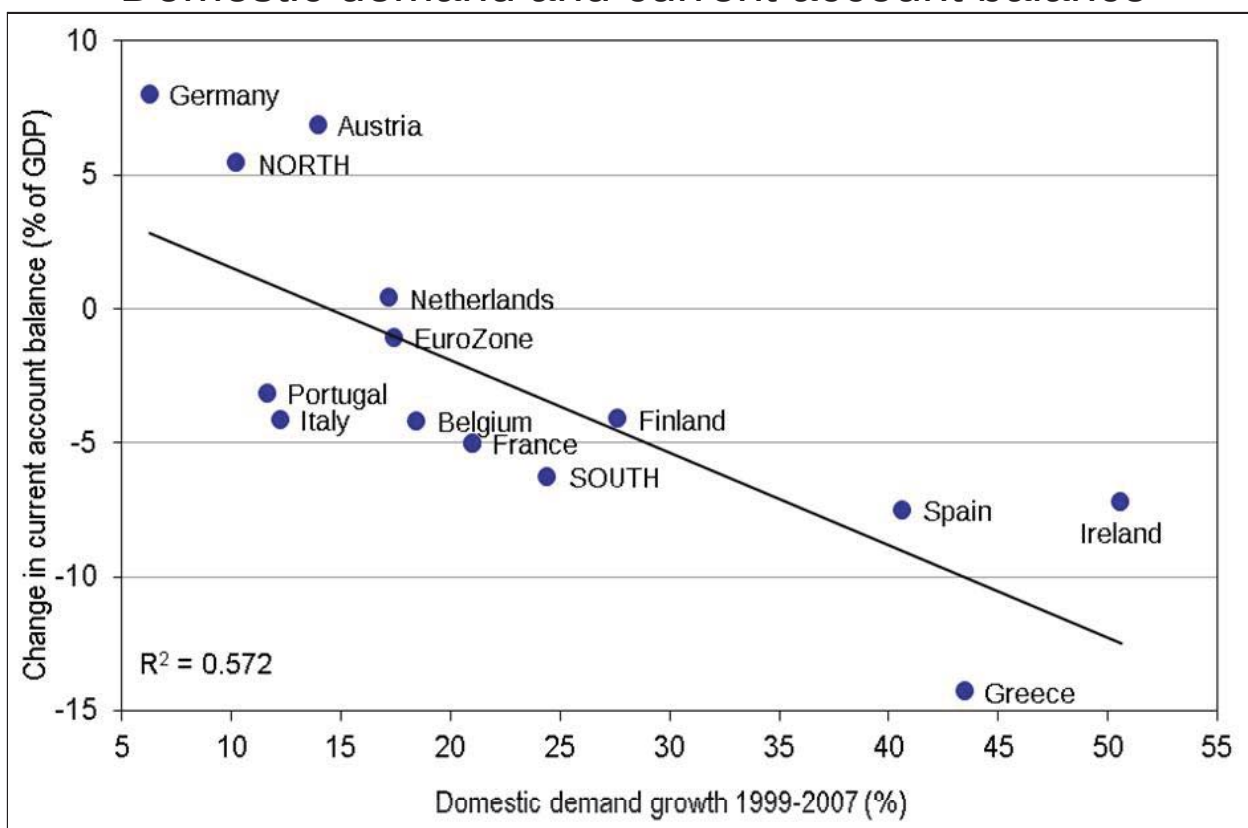
“Assessing the Links Between Wage Setting, Competitiveness, and Imbalances”  
European Commission *Note for the Economic Policy Committee*, 2011

If there is a relation between unitary labour costs and export performance, it is weak and of a secondary order of magnitude (...) and hence the former cannot be the cause of the latter.

European Commission, *European Competitiveness Report 2010*.



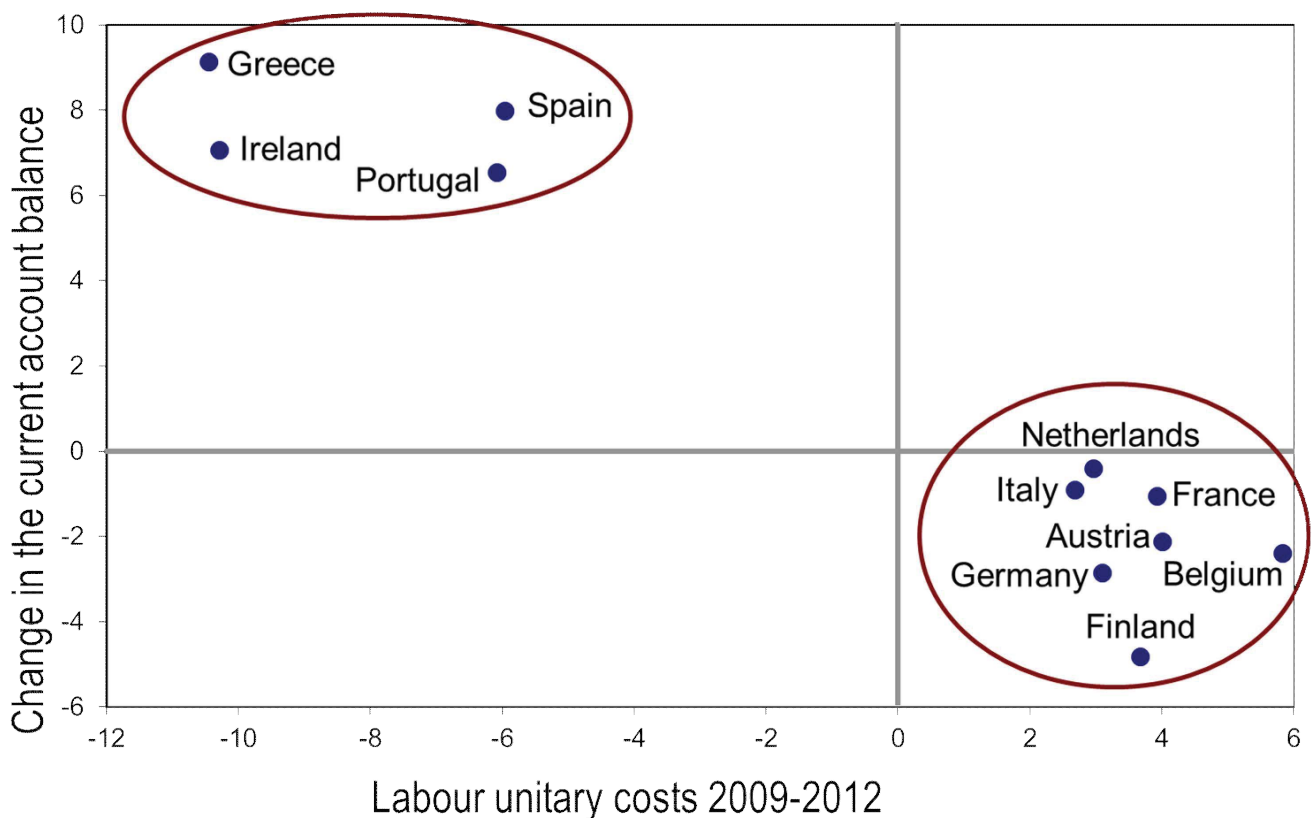
## Domestic demand and current account balance



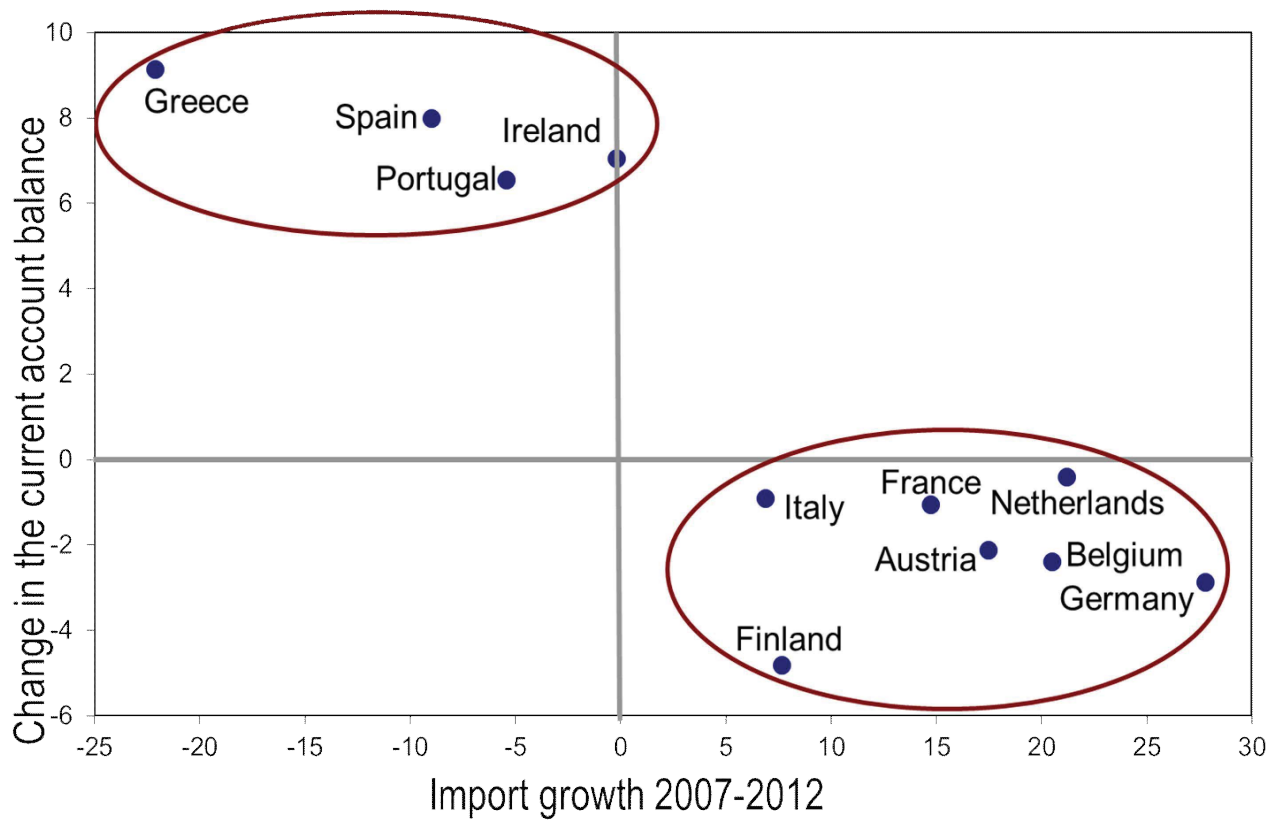
Source : AMECO

# Economically “illiterate” policies or neoliberal shock therapy?

Less wages ➡ more competitiveness?



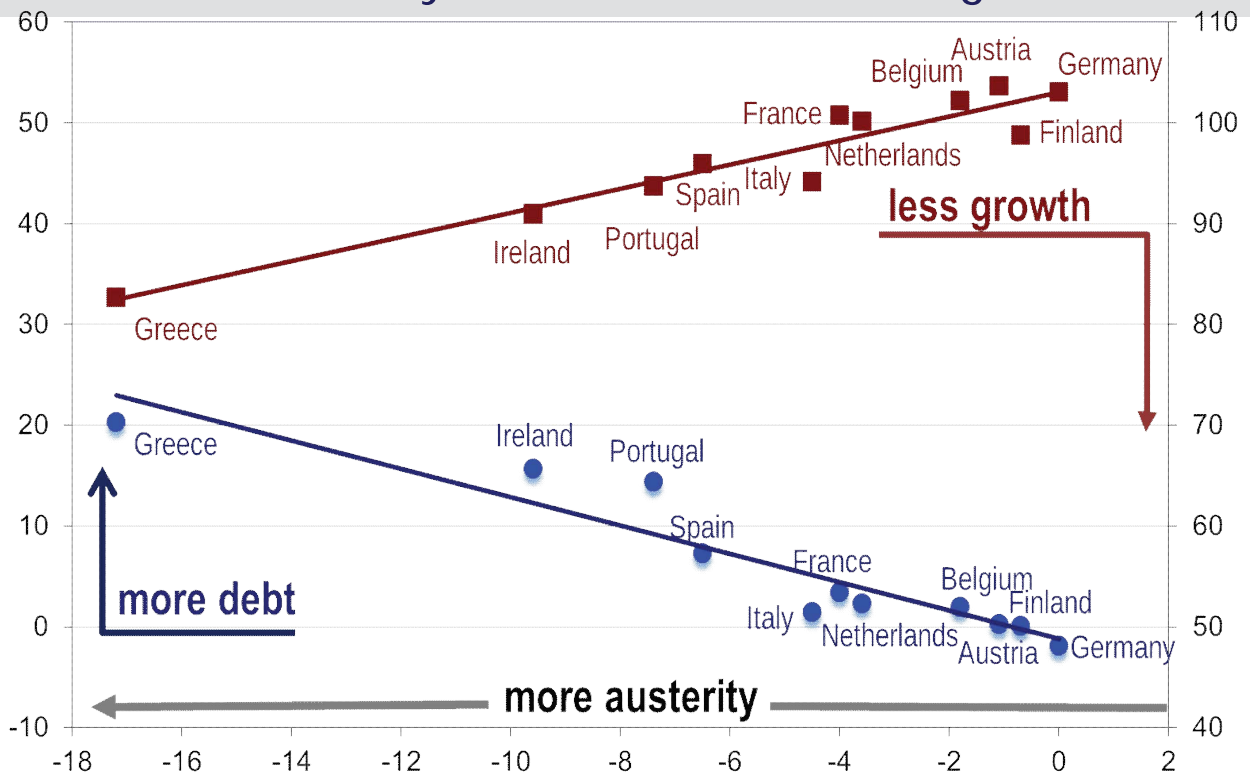
NO ! Recession ➡ less imports ➡ less trade deficit



Austerity is not  
a way to restore  
competitiveness

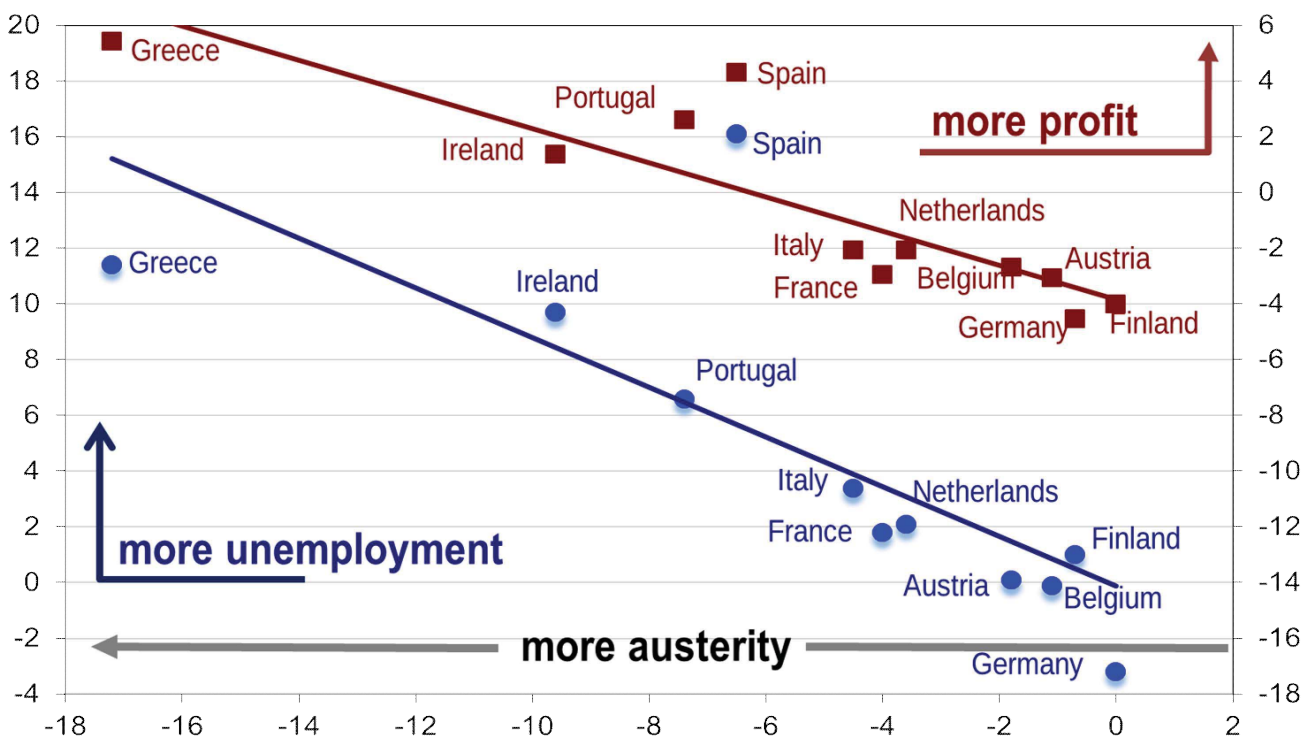
1st time : it is absurd

fiscal austerity ➡ more debt ➡ less growth



2nd time : it is functional

fiscal austerity ➡ more unemployment ➡ more profit



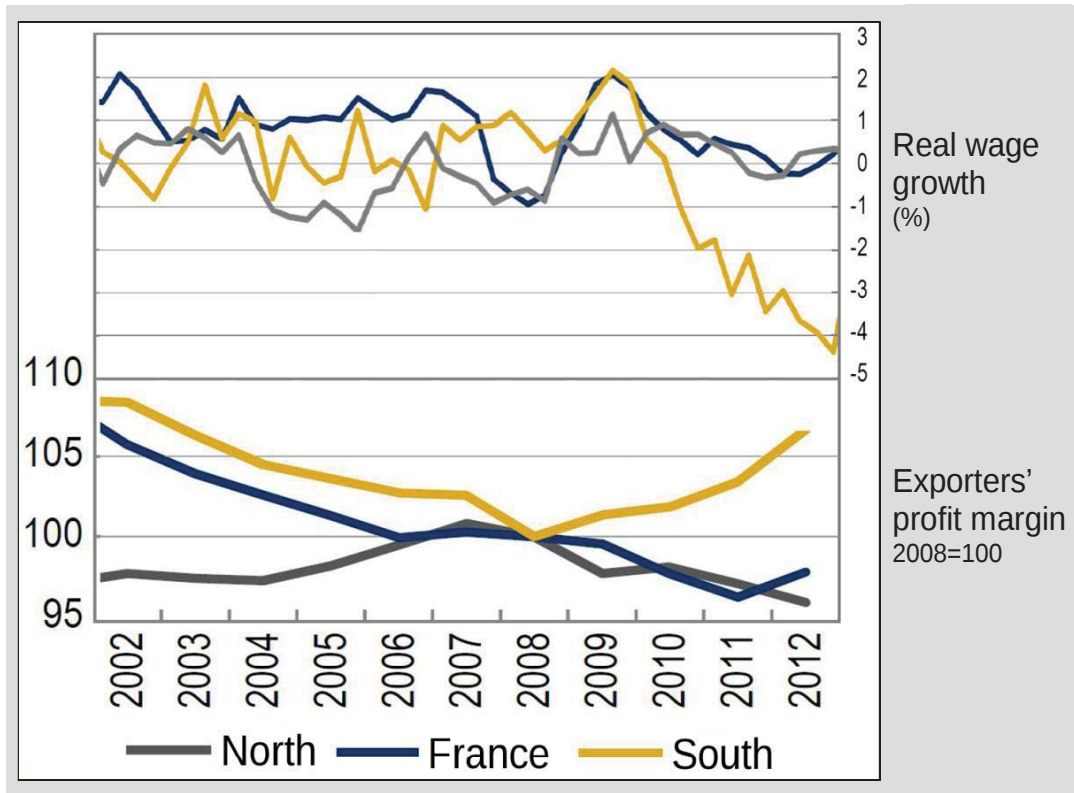
- *Nevertheless, it is expected that the structural reforms, particularly those in the labour market, the liberalisation of several sectors and a number of measures to improve the business environment, should help promote competition, spur productivity, increase employment and reduce production costs, thus contributing to an increase in employment and limiting poverty and social exclusion **in the medium term**.*

## Wage Bargaining Framework: employment-friendly reforms

- ✓ decrease minimum wages
- ✓ decrease the bargaining coverage or (automatic) extension of collective agreements.
- ✓ reform the bargaining system **in a less centralized way**, for instance by
  - removing or limiting the "favourability principle"
  - introducing/extending the possibility to derogate from higher level agreements
  - negotiate firm-level agreements.
- ✓ overall reduction in the wagesetting power of trade unions.



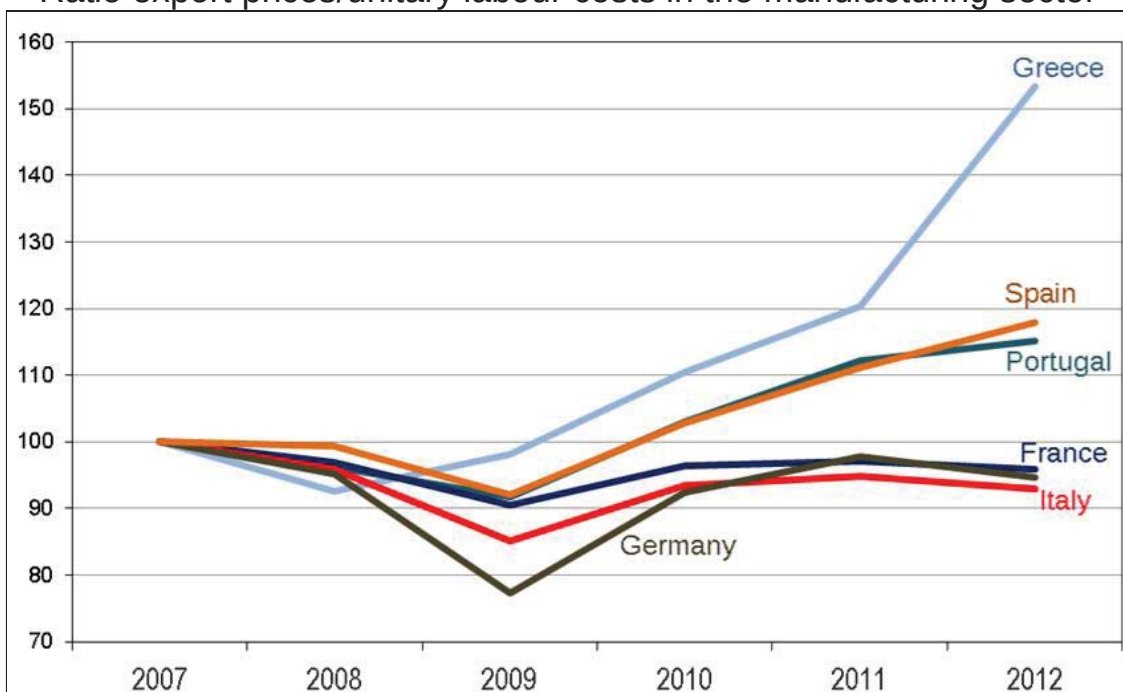
## The cuts in wages increase the profit margin, not competitiveness



Sources : Eurostat, National statistical offices, European Commission, Chagny (2013)

## Exporters' profit margin increase in the South

Ratio export prices/unitary labour costs in the manufacturing sector



Sources : European Commission, Chagny (2013)

# **The combined effects of the crisis and “structural reforms”**

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## **Fiscal adjustment and “structural reforms”: more of the least**

### **FISCAL ADJUSTMENT**

- cuts in public spending and public sector wages
- unfair tax increase (VAT)

### **SHRINKING THE WELFARE STATE**

- reduction of unemployment benefits
- reduction of social benefits
- privatising public pension schemes

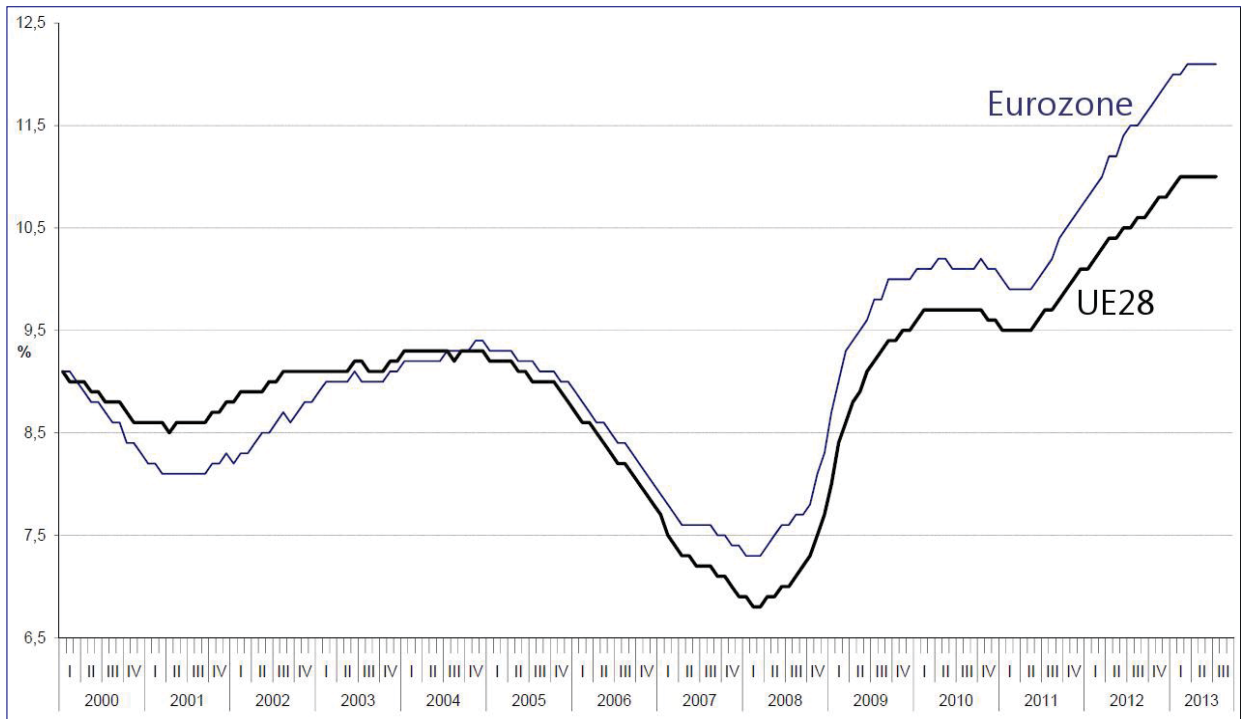
### **LABOUR MARKET FLEXIBILITY**

- reduction of minimum wages: a ‘minimal’ minimum wage’
- weakening of collective bargaining institutions
- deregulating labour laws

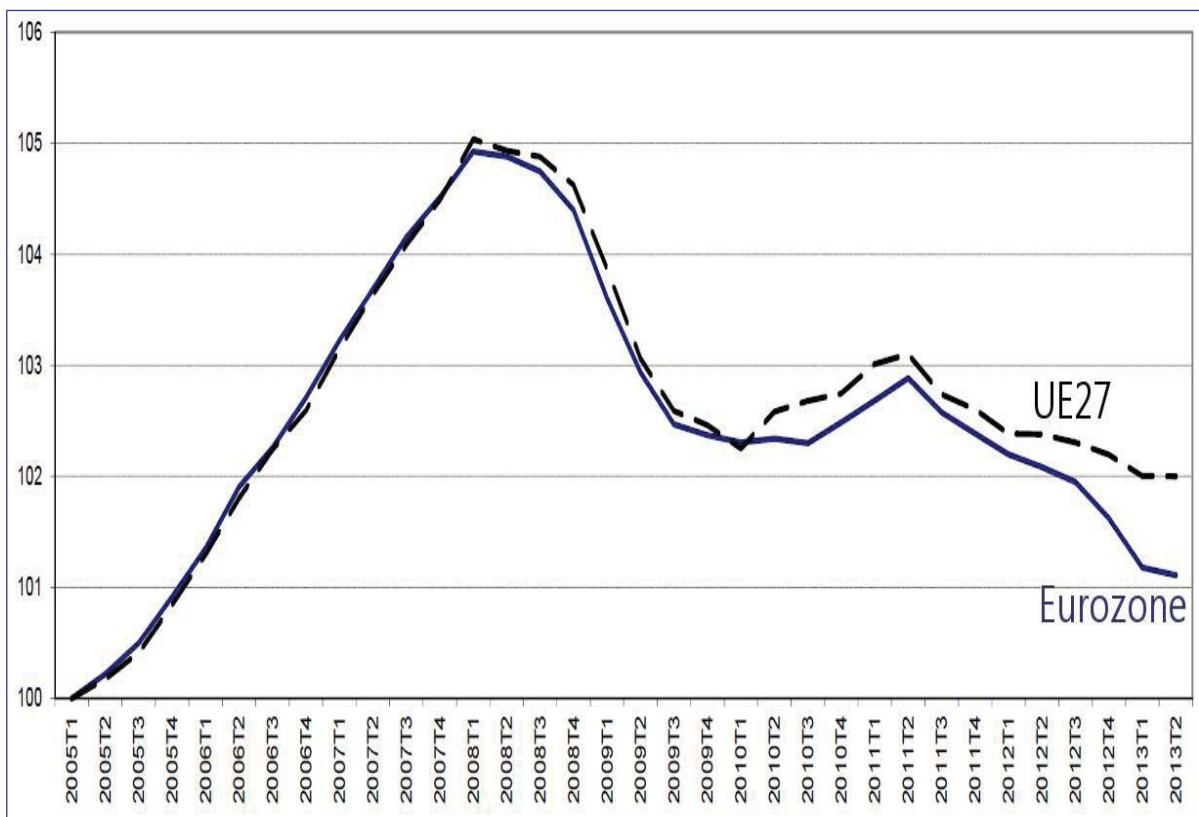
# January 2013

## Euro area unemployment rate at 11.9%

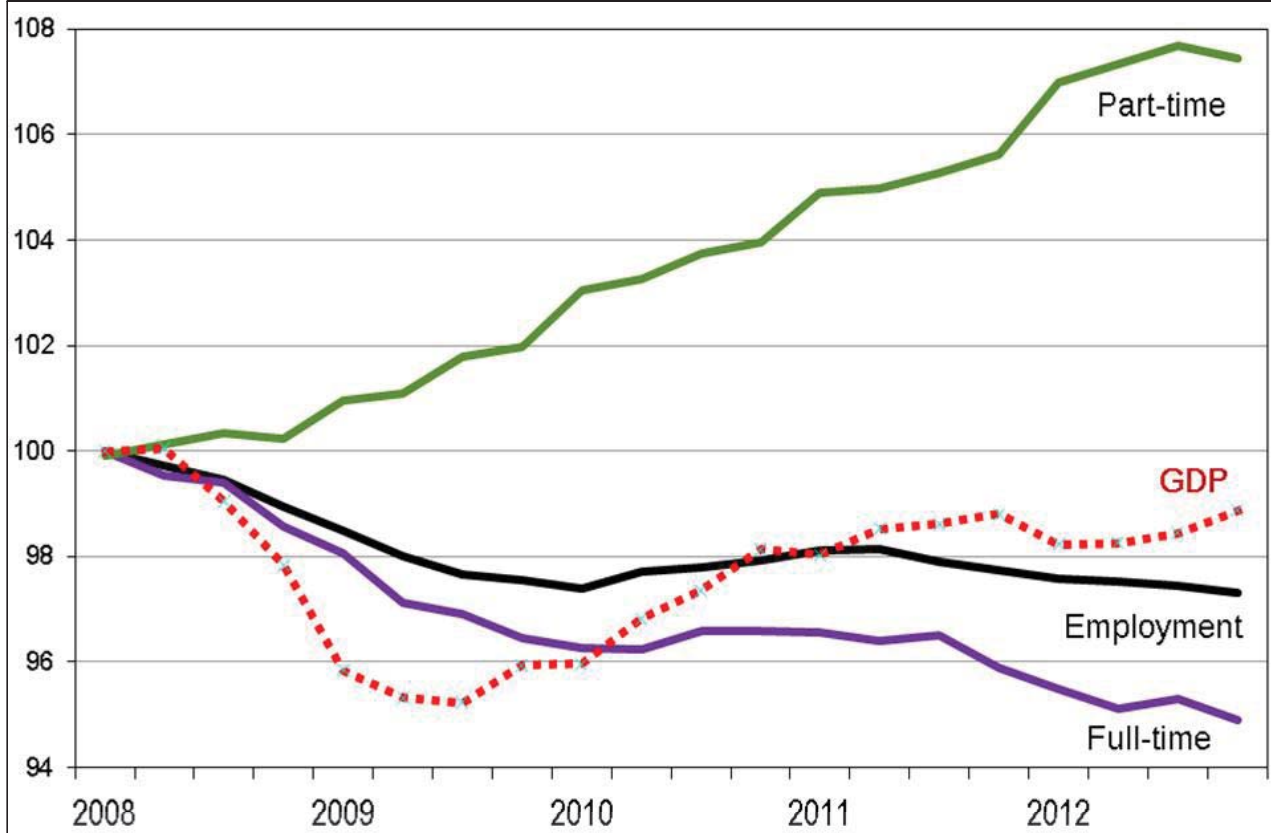
### EU27 at 10.8%



## The double dip of employment



## Unemployment : just the tip of the iceberg



## For a European strategy

### The risk of an impossible choice

- leaving the euro or:
- waiting for the advent of a "good" Europe

### A “transitional” program for a double rupture:

- with the logic of finance-led capitalism
- with the logic of “Euroliberalism”

# How to deal with the debt

- The illegitimate debt should be canceled after a citizen audit
- The states of the European Union should borrow directly from the European Central Bank (ECB) at very low rates of interest and private sector banks should be obliged to take over a certain proportion of the public debt.
- A default mechanism allowing public sector debt to be written off in proportion to tax breaks for the rich and money spent on bank bailouts.
- A fiscal reform which taxes movements of capital, financial transactions, dividends, large fortunes, high salaries and incomes from capital at a standard rate across Europe.

## ***Fiscal austerity is incompatible with the ecological transition***

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## A strategy of rupture and extension

- (1) 'good' measures are implemented **unilaterally** as, for example, with the taxation of financial transactions;
- (2) accompanying plans for **protection** such as capital controls are adopted;
- (3) the political risk of breaking European Union rules to implement these radical, initially nationally-based, policies is accepted and **challenged**;
- (4) the proposition is made to amend these rules **by extending them on a European scale** to allow these measures to be adopted by member states, for example, in the extension of a European tax on financial transactions;
- (5) the political showdown with the EU and other European states is not avoided and thus the **threat of exit from the euro** is not excluded as a possible option.

# For a European system of minimum wages

- The rule could be:  
minimum wage = 60% of median wage  
(almost the case in France)
  - A "universal" rule ...  
but taking into account the differences in wages  
between countries
  - A shield against wage dumping (between  
countries) and low wages (in each country)
  - A topical debate in Germany and Switzerland  
(but opposition from Italian and Swedish unions)
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## Very tentative conclusions

- The underlying logic of the Commission's recommendations is to question the social model(s). It leads to a prolonged recession, social regression and generalized hyper-competition.
- European integration was truncated, but the exit from the euro could cost even more.
- A refondation of Europe needs a coordinated refusal of the counter-reforms and a proposal for the implementation of solidarity rules. But it is “not an easy path” but a “demanding climb.”