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THE POLITICS OF COMPETITIVENESS ADJUSTMENT IN THE EURO-AREA

A CRITICAL POLICY ANALYSIS OF EUROPEAN INTEGRATION IN TIMES OF CRISIS

A thesis submitted to The University of Manchester for the degree of Doctor of Philosophy in the Faculty of Humanities

2019

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<tbody>
<tr>
<td>BEPGs</td>
<td>Broad Economic Policy Guidelines</td>
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<td>CSRss</td>
<td>Country-Specific Recommendations</td>
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<tr>
<td>CY</td>
<td>Cyprus</td>
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<td>DG ECFIN</td>
<td>Directorate-General for Economic and Financial Affairs</td>
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<td>DG EMPL</td>
<td>Directorate-General for Employment, Social Affairs and Inclusion</td>
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<td>ECB</td>
<td>European Central Bank</td>
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<tr>
<td>EPL</td>
<td>Employment Protective Legislation</td>
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<td>EMU</td>
<td>Economic and Monetary Union of the EU</td>
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<td>EU</td>
<td>European Union</td>
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<td>EFSF</td>
<td>European Financial Stability Facility</td>
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<td>EFSM</td>
<td>European Financial Stability Mechanism</td>
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<td>ESM</td>
<td>European Stability Mechanism</td>
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<td>GR</td>
<td>Greece</td>
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<td>HI</td>
<td>Historical Institutionalism</td>
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<td>HM</td>
<td>Historical Materialism</td>
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<td>IG</td>
<td>Integrated Guidelines</td>
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<td>IR</td>
<td>Ireland</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>LI</td>
<td>Liberal Intergovernmentalism</td>
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<td>MAP</td>
<td>Macroeconomic Adjustment Programmes</td>
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<td>MIP</td>
<td>Macroeconomic Imbalance Procedure</td>
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<td>MoU</td>
<td>Memorandum of Understanding</td>
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<td>NEEG</td>
<td>New European Economic Governance</td>
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<td>NF</td>
<td>Neo-Functionalism</td>
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<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>OMT</td>
<td>Outright Monetary Transactions</td>
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<td>OMC</td>
<td>Open Method of Coordination</td>
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<tr>
<td>PES</td>
<td>Public Employment Services</td>
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<td>PO</td>
<td>Public Opinion Research</td>
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<td>PT</td>
<td>Portugal</td>
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<tr>
<td>TESM</td>
<td>Treaty establishing the European Stability Mechanism</td>
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<td>TFEU</td>
<td>Treaty on the Functioning of the European Union</td>
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<tr>
<td>TSCG</td>
<td>Treaty on Stability, Coordination and Governance in the Economic and Monetary Union</td>
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Abstract

Christian Scholz

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2019

The onset of the Euro-Area crisis in 2008/09 brought about a rapid reorganisation of the economic governance framework of the Economic and Monetary Union of the EU (EMU). The result was the establishment of the New European Economic Governance (NEEG). The thesis explores the form and content (i.e. rationale) of the development of the NEEG. The exploration starts from the observation that, while extraordinary measures have been taken in terms of fiscal and monetary policy, the only constant throughout the politics of the Euro-Area crisis was the promotion of labour market reforms in the name of competitiveness. However, the dominant European integration literature has not investigated the significance of this initiative to the creation of the NEEG. The literature, in other words, avoids touching upon the political dimension of labour relations. In contrast, my thesis approaches the recent process of European integration precisely from this different angle bringing the promotion of labour market reforms to the forefront and reflecting upon the underlying class conflict between capital and labour. Thus, my research contributes through an innovative and empirically-grounded class-based perspective on the emergence of the NEEG to the field of European integration studies.

The argument is that the emergence of the NEEG was significantly driven by the aim to promote competitiveness adjustment throughout the EA, which reveals an underlying class strategy to empower capital over labour. The original institutional design of the EMU required Member States’ commitment to manage their national economies through labour market reforms that foster international (price) competitiveness. The establishment of the NEEG has reinforced this policymaking logic of the institutional arrangement through the creation of new capacities for EU-level executives to intervene with national labour market policy and commit Member States to competitiveness adjustment. This is illustrated on grounds of the promotion of competitiveness adjustment in practice in several Member States through the operation of the new Financial Assistance Facilities and the new Macroeconomic Imbalance Procedure. However, I argue that this policymaking logic, and the concrete pattern of labour market reforms put forward, facilitates capital’s confrontation of the working class with a view on compressing unit labour costs. In other words, the emergence of the NEEG reflects the power-laden dynamics of the conflict between capital and labour.
DECLARATION

No portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

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I am grateful to my friends in Manchester that have turned a foreign city into a home: Jon for all the delightful short and long conversations about dialectics and nonsense; Caroline for her friendship expressed in many little notes on my desk that kept me smiling; Gedis for the long nights out dancing together to electronic music; mi amiga Maria por el baile y las risas (no?); and the “etc. part of the Gang” for the great time we had. I would also like to mention here the PhD students from the Politics department and the Kassel connection – Maddi and Anne – that have turned an academic conference or workshop into a reunion of friends.

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Ganz besondere Erwähnung gilt meiner Partnerin, Nicola, die den Weg über lange Strecken mit mir zusammen gegangen ist und die schwierigen Tage in gute, oder zumindest weniger schwierige, gewandelt hat.

Zum Schluss möchte ich mich bei meiner Familie bedanken, von Berlin bis Mexiko, für ihre bedingungslose Unterstützung und Liebe über diese letzten Jahre. Ich wusste immer, dass ich mich auf Christoph, Alexandra und Jan verlassen kann, falls mich in Manchester der Mut verlässt. Das Vorbild meines Vaters, Dieter, und meines hermano, Adrian, sind grundlegend für meine persönliche und intellektuelle Entwicklung. Especialmente, quiero expresar mi agradecimiento a mi Madre, mi amiga, que su amor siempre ha sido una fuente central de mi energía. Finalmente quiero recordar a mi tío Mauricio y mi abuela Lila quienes fallecieron en estos años en que estuve escribiendo la tesis. Que este logro les traiga felicidad en dondequiera que estén.
INTRODUCTORY CHAPTER
The Politics of Competitiveness Adjustment

Introduction

The euro is like a bumblebee. This is a mystery of nature because it shouldn’t fly but instead it does. So the euro was a bumblebee that flew very well for several years. And now – and I think people ask “how come?” – probably there was something in the atmosphere, in the air, that made the bumblebee fly. Now something must have changed in the air, and we know what after the financial crisis. The bumblebee would have to graduate to a real bee. And that’s what it’s doing.

– Mario Draghi, ECB President (2012b, para. 2)

The collapse of the US subprime market leading to the bankruptcy of Lehman Brothers, the US investment bank, in 2007/8 was the herald of a global financial and economic crisis reminiscent in its severity of the 1930s. The massive credit crunch was followed by a dramatic plunge in world manufacturing production, trade and equity prices (Almunia, Benetrix, Eichengreen, O’Rourke, & Rua, 2010). The Euro-Area (EA) entered a recession with real GDP per capita declining from +2.5% in 2007 to -0.1% in 2008 and -4.8% in 2009.\(^1\)

The immediate response by European policymakers was the public provision of liquidity to bail out the overly indebted financial sector and to stimulate domestic demand temporarily through the short-lived ‘Economic Recovery Plan’ in addition to the automatic stabilisers (cf. De Grauwe, 2013b). However, the European Commission (henceforth referred to as the ‘Commission’) was unmistakably clear in the elaboration of the latter programme that this extraordinary measure was supposed to be conducted in line with the fiscal-policy constraints of the Stability and Growth Pact (SGP), so that “corrective action will have to be taken” by Member States that would “breach the 3% GDP deficit reference value” through these measures (European Commission, 2008a, p. 9).

Indeed, public debt and deficits skyrocketed in the Euro-Area, triggering a crisis of sovereign debt as several Member States were practically cut off from access to capital

\(^1\) Retrieved, June 2018, from Eurostat data on Real GDP per capita:
markets. By the end of 2009, gross public debt in the Euro-Area had risen from 65% in 2007 to almost 80% of GDP and gross public deficit from -0.7% to -6.3% of GDP. Member States and investors could not rely on the European Central Bank (ECB) to act as a lender of last resort, as this was foreclosed in the design of the Economic and Monetary Union of the EU (EMU), provoking a ‘sudden stop’ and reversal of capital movements from highly indebted southern European Member States (including Ireland) to countries that were granted more ‘confidence’ by investors, including Germany (De Grauwe, 2013a, p. 9). The large-scale selling off of governmental bonds led to dramatic increases in the rates of interest making it de facto impossible for several Member States to rollover their debts (De Grauwe, 2013a, p. 9). This is the beginning of the ‘Euro-Area crisis’ and, as scheduled by the Commission, of the “corrective action” taken by policymakers in response to it – that is, the politics of austerity.

The dominant narrative puts the blame for the Euro-Area crisis mistakenly on the fiscal profligacy of the highly indebted Member States (Blyth, 2013, pp. 5–7, 73–74; Scharpf, 2016, p. 3). The Commission’s DG ECFIN (Directorate General for Economic and Financial Affairs) informing the ECOFIN council (the EU council of economic and finance ministers) had maintained the position that underlying the sovereign debt crisis was essentially a crisis of economic imbalances and competitiveness divergences as manifest in the current account imbalances and the gap in unit labour costs between (broadly speaking) southern and northern Member States (cf. European Commission, 2009b, 2010d; Scharpf, 2016, p. 3). The narrative is that the large current account deficits were caused by unproductive financial flows from north to south fuelling credit expansion, consumer spending and real estate bubbles in the context of deteriorating competitiveness that was dragged down by sluggish productivity growth and non-alignment of labour costs. The policy approach to the crisis had, thus, to be more than austerity in the narrow sense of fiscal retrenchment and necessitated according to the Commission (2009b) “Competitiveness Adjustment” through the implementation of structural reforms.

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In the subsequent years, Member States across the Euro-Area, above all the ones facing difficulties to finance themselves on capital markets, implemented massive programmes of such economic adjustment through fiscal retrenchment, cutting governmental spending, and structural reforms repressing unit labour costs (cf. Scharpf, 2016). In Greece, Ireland, Portugal and Cyprus these measures were imposed, *inter alia*, as a policy-conditionality in return for the financial assistance provided for by new financial institutions created by the Member States to prevent debt default. Moreover, the potential failure of the crisis-ridden banks led to the late and controversial intervention of the ECB to provide liquidity to the financial sector for the buying of governmental bonds supporting in turn, therefore, the struggling Member States. While this was pursued first in 2011 to an only limited extent (Securities Market Programme (SMP)), the lagging results of this measure forced the ECB to announce unlimited purchases through the Outright Monetary Transaction (OMT) programme in 2012 (De Grauwe, 2013a, pp. 11, 16–18). In the famous words of the ECB President Mario Draghi (2012b), the ECB was “ready to do whatever it takes to preserve the euro” (para. 19). However, this was also expected from the Member States, whom he urged to enforce “all the structural reforms that will actually graduate the bumblebee into a real bee”. The latter was turned into a condition for the Member States’ participation in the OMT programme giving credibility to Streeck’s view of the ECB as the “ideal dictator” (Streeck, 2015, p. 370) for the implementation of structural reforms.

However, over the years between 2010 and 2013, European decision-makers had not only orchestrated extraordinary, *ad hoc* measures of crisis management but launched a general overhaul of the supranational governance framework of the Economic and Monetary Union of the EU (EMU). The imposition of fiscal retrenchment and competitiveness adjustment had been contested by strong popular, labour and party-political resistance at the national level. Nevertheless, governing elites circumvented this resistance through the creation of “Euro-compatible” governments – with or without elections – that would support the course of EU politics, while referenda would be sidestepped (Schimmelfennig, 2014, pp. 332–334). On these grounds, the “new European economic governance” (NEEG) (Degryse, 2012) emerged as a stricter and more punitive framework for fiscal and economic policy surveillance based on executive and
technocratic decision-making. As Draghi (2012b) proclaimed in his memorable speech: “for the first time in many years, all the leaders of the 27 countries of Europe, including UK etc., said that the only way out of this present crisis is to have more Europe, not less Europe” (para. 10).

This deepening of European integration during the crisis has naturally turned into a key concern of contemporary debates in the academic field. A recent issue of the Journal of European Public Policy postulated the current fundamental problem for European integration scholars: “In spite of substantial media, policy-making and academic attention, the fundamental questions of why and how the euro area (EA) has remained not only intact but also expanded and integrated further during the crisis require deeper theoretical investigation” (Ioannou, Leblond, & Niemann, 2015, p. 155). My PhD project follows this call, asking: why and how has the Euro-Area integrated further during the crisis?

My approach to this question goes via a different route than the dominant literature. It starts from the observation that, while extraordinary measures have been taken in terms of fiscal and monetary policy, the only constant throughout the politics of the Euro-Area crisis is the implementation of structural reforms in the name of competitiveness adjustment – which, in Draghi’s (2012b) words, “will actually graduate the bumble bee into a real bee” (para. 2). Indeed, it appears that every official policy measure, or institutional innovation, proposed by European policymakers, which express a variety of monetary and fiscal policy options – from the European Recovery Programme (cf. European Commission, 2008a) to the unsuccessful proposal for Euro-bonds (cf. European Commission, 2011d) – include the promotion of competitiveness through structural reforms. The latter refers to “labor and product markets’ liberalization and deregulation” (Alesina, Ardagna, & Galasso, 2011, p. 1). The distinctiveness of my approach to European integration is to focus on the former - labour market reforms. The research question is therefore narrowed down by asking: How does the promotion of labour market reforms through the governance framework of the EMU contribute to our understanding of the recent process of integration?
The dominant debates, however, miss the forest for the trees. The main point of reference to approach the NEEG is fiscal policy in relation to monetary policy, while labour markets fade into the background. This neglect is not surprising. The direction of European integration has always been accounted for with reference to conceptions of “stable money and sound finances” (Jones, 2013, p. 145). Nevertheless, as the Commission (2011e) remarked at the heights of the crisis: “While fiscal imbalances are at the forefront of the current policy debate, they are by no means the only area where policy action is needed” (p. 21, original emphasis). I elaborate therefore a broader approach that brings labour markets to the forefront. By following this path, my research leads to the “hidden abode of production”, as put by Marx\(^3\), and towards the abode of reproduction that sustains it. My thesis, in other words, does not avoid the “political” when it comes to labour (Burnham, 1999, p. 37) and goes, therefore, beyond the dominant approaches by conceiving of European integration as an expression of capitalist class relations. Thus, my research contributes, on one side, to the current debates on European integration during the crisis in general and, on the other, to the “critique of the Political Economy of European integration” initiated by Marxist scholars (Werner Bonefeld, 2001b, p. 1). In this Introductory Chapter, I will, first, explain the rationale for the thesis by discussing the academic debate in the field of European integration studies. Next, I will present the research questions and the original contributions of the thesis as well as the research method. Finally, I will give an overview of the thesis outlining the key arguments and chapter structure.

\(^3\) Retrieved, June 2018, from: https://www.marxists.org/archive/marx/works/1867-c1/ch06.htm
1. Rationale and academic debate

Why and how has the Euro-Area integrated further during the crisis? Deeper theoretical investigation of this question has been elaborated by numerous scholars who overwhelmingly turned to the dominant theories of European integration (EI) to explain the emergence of the new institutions of the NEEG. “Integration theory”, according to Bulmer and Joseph (2016), “is (...) concerned with the dynamics behind the transfer of competences and allegiances to the EU level from the Member States. Such shifts may occur through adding new policy sectors, such as fiscal union, and new institutional transfers of power, such as to the European Parliament (EP), or through enlargement” (p. 727) (cf. Wiener & Diez, 2009). Thus, Schimmelfennig (2015a) has looked at the recent process of integration through the lenses of Liberal Intergovernmentalism (LI); Niemann and Ioannou (2015) have made the case for a Neo-Functionalist explanation (NF); Verdun (2015) has applied categories of Historical Institutionalism (HI); and Hobolt and Wratil (2015) have turned to post-functionalist Public Opinion (PO) research⁴. In principle there are two main arguments that follow from these traditional approaches to European integration plus one complementary argument, which serve as main reference points in the dominant literature: (1) the intergovernmental argument; (2) the broadly neo-functionalist one; and (3) the complementary public opinion argument. In the following sections, I will review these arguments briefly, consider contentions made, and discuss the variants in the debate that draw on constructivist research and the literature on economic growth models. Overall, however, my contention is that the dominant debate shares a reductionist focus on the fiscal policy framework and the restrictive assumptions of the “European integration orthodoxy” (M. Ryner, 2012). The rationale for my research project is, therefore, to provide for an alternative account of the recent process of integration that goes beyond these limitations by applying a class-based perspective that focuses on the economic policy framework beyond fiscal policy, in other words the promotion of labour market reforms.

⁴The choice of these four analytical accounts, as main representation for the literature on the process of integration during the crisis, is vindicated by the choices made in the special collection of Ioannou, Leblond and Nieman (2015) and the state of the art review by Bulmer and Joseph (2016, pp. 727-730).
Perhaps the prominent explanation put forward views the process of integration primarily as the result of intergovernmental bargaining driven by national preferences. The argument is that the politics of crisis, and the establishment of the NEEG, reflect ultimately the preferences of the northern Member States – the creditor countries – led first and foremost by Germany, which prevailed over the southern coalition – the debtor countries (De Grauwe & Ji, 2013; Iversen, Soskice, & Hope, 2016; cf. Scharpf, 2016, p. 5; Schimmelfennig, 2015a). The prime example has been elaborated by Schimmelfennig applying the analytical framework of Liberal Intergovernmentalism\(^5\) to the recent process of integration, as initially developed by Moravcsik (1993). Schimmelfennig (2015a) argues that the process of integration was shaped by a “chicken game situation” (p. 191) in which the stabilisation of the EA was the paramount common concern, while national governments tried at the same time to push the burden of economic adjustment onto each other. After periods of hard bargaining and brinkmanship, the collective agreements and new institutions reflect primarily the interests of the German-led northern coalition, given their relative bargaining power. These governments “sought to limit their own financial commitment but to strengthen the credibility of the highly indebted countries’ commitment to fiscal discipline.” (p. 189). Schimmelfennig concludes correspondingly that “the crisis produced a major leap in financial and fiscal integration designed to stabilize the euro and the EA” (p. 177). Moreover, there is also a constructivist version of this argument in which the northern, especially German, national preferences were constituted by ordo-liberal thought (Olender, 2012; Young, 2014).

While the significant influence of a German-led northern coalition can hardly be negated, Scharpf (2016) has compellingly challenged the argument in a recent intervention. According to Scharpf, the New European Economic Governance, and its politics of austerity, cannot be reduced to the national preferences of a northern coalition as it reflects a much broader consensus across EU-level institutions and Member States. “The present regime is not only defended and justified by Germany and its northern allies, but it was also proposed, designed, justified, and elaborated by the Commission. It is fully supported by the ECB and has not yet been rejected even by the governments of the

\(^5\) LI explains European integration as the result of rational choices in intergovernmental bargaining in a situation of international interdependence based on “the constellation national preferences and bargaining power” informed by “the economic interests of powerful domestic groups” (Schimmelfennig, 2015a, p. 178).
countries suffering most under its strictures” (p. 5). Thus, the promotion for the course of integration during the crisis appears to go beyond dividing national lines and includes supranational actors (see also Bulmer & Joseph, 2016, pp. 742–743).

In the context of this debate over the intergovernmental argument, Schmidt (2016) has observed a general revival of the traditional split between “intergovernmentalists” and “supranationalists” (p. 2). The two camps are divided over the question of “who is in charge” (Schmidt, 2016, p. 2). The former argue that European integration is directed by national governments pursuing their national interests, while the latter contest that supranational actors (i.e. Commission, ECB, etc.) lead the process in the context of institutional dynamics. However, the problem with the intergovernmental and supranational split, according to Schmidt (2016), is that plausible arguments can be made for both positions and, while conceptually such distinctions might be possible, they seem empirically untenable, not least as the governmental and supranational actors are in continuous interaction with each other “thereby making for supranational intergovernmentalism – or is it intergovernmental supranationalism?” (Schmidt, 2016, p. 6).

Ultimately, the debate whether the development of the NEEG is to be understood in intergovernmental or supranational terms appears to be a rather fruitless conceptual exercise. In fact, these perspectives remain prone to the critique of Historical Materialist (HM) scholars who have urged to “move beyond a merely formal analysis of levels of governance, and in particular beyond the institutionalist focus on the form of the integration process of established integration theories, to identify the socio-economic content of the integration process, or the social purpose underpinning political authority in the contemporary EU” (van Apeldoorn, Overbeek, & Ryner, 2003, p. 20) (see also Andreas Bieler, 2005). My own research project, in contrast, follows this call of HM

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6 A new contender in this debate has been the “New Intergovernmentalism” (Bickerton, Hodson, & Puetter, 2015), which in contrast to the ‘old’ intergovernmentalism, emphasises the deliberative and consensus-building nature of intergovernmental negotiations in the pattern of integration since Maastricht. (The originality of this approach, however, has been put in question by Schimmelfennig (2015b).) In contention to this New Intergovernmentalism, Schmidt (2016) also identifies a tendency towards a “new supranationalism” that concedes the leadership role to the European Council, while emphasising that the latter “enabled all supranational technical actors – whether the Commission, the European Central Bank, or other de novo bodies – to gain even greater powers of enforcement than in the past” (Schmidt, 2016, p. 4) (see e.g. Dehousse, 2016).
scholarship by conceptualising the social purpose on grounds of class relations (see further below).

(2) The second argument represents the process of integration in a broadly neo-functionalist manner, that is, as “a dynamic and progressive integration process that transcends its intergovernmental origins as a result of endogenous interdependencies, spillovers and path-dependencies” (Schimmelfennig, 2014, p. 327). Such a perspective views European integration as primarily an endogenous supranational process, as originally developed by Haas (1968), in contrast to the intergovernmental focus on exogenous national preferences. The crux of this explanation is that the process of integration during the crisis was driven by functional pressures, which arose from the asymmetrical institutional design of the EMU’s governance framework, more specifically, the asymmetrical relation between centralised EU-level monetary policy and decentralised national fiscal policy. On one side, this institutional arrangement provided the ground for the development of unsustainable fiscal positions in several Member States and, on the other side, it excluded the possibility for Member States to have recourse to monetary policy and a common fiscal capacity to respond to the crisis quickly. Thus, new institutions had to be developed to handle the unsustainable public debt positions of several Member States and ensure the common objective of maintaining and stabilising the monetary union overall. This argument has been made not only from a stricter neo-functionalist perspective focusing on spillover effects 7 (Niemann & Ioannou, 2015; cf. Tosun, Wetzel, & Zapryanova, 2014, p. 203) but also from broader Historical Institutionalist (HI) accounts (Schimmelfennig, 2014; Verdun, 2015) concentrating on the institutional context in which “political struggles are mediated” (Verdun, 2015, p. 221). Moreover, the argument appears to cohere well with the, more Keynesian, Optimal Currency Area (OCA) theory according to which a currency areas can be made more sustainable through a common fiscal authority with the capacity to mediate fiscal transfers (cf. De Grauwe, 2006).

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7 The key analytical category of NF is the notion of functional spillover that refers to a pressure which occurs “when an original objective can be assured only by taking further integrative actions” (Niemann & Ioannou, 2015, p. 198), although other spillovers, as “political” or “cultivated spillovers” (pp. 198-199), might be regarded as significant as well.
However, while the focus on the institutional logic of the EMU is indeed relevant, the analysis does not conceptualise the social purpose underpinning the institutional arrangement (and is thus prone to the critique of HM scholars mentioned above). Instead, the research is guided by the notion of an original sin of a “deficient” initial design of the EMU (Verdun, 2015, p. 224). Consequently, the neo-functionalist account begs the question why the EMU was designed in its “deficient” way in the first place. Economists had warned of the “shortcomings” of the institutional arrangement of the EMU (Niemann & Ioannou, 2015, p. 212) already before its creation (Feldstein, 1997; Giavazzi & Wyplosz, 2015). For the same reason the argument begs the question of why the recent steps made in the development of the fiscal-policy framework remained so limited and did not proceed further to the establishment of a common EU-level fiscal capacity. As conceded by Niemann and Ioannou (2015): “Neofunctionalism (...) struggles to account for the limits of European (economic) integration. For example, that decision-makers have not yet agreed on a fully fledged fiscal union by now cannot be adequately explained” (p. 213) (see also Verdun, 2015, p. 225). In this way, the failure to conceptualise the social purpose underpinning EU political authority limits the capacity of this approach to account for the development of European economic governance.

Finally, the argument also fails to capture appropriately the policy mix of the institutional arrangement of the EMU – which arranges monetary, fiscal and labour market policy in relation to each other according to a specific logic – that has been referred to as the ‘Brussels-Frankfurt Consensus’ (De Grauwe, 2006; Jones, 2013). However, the specific logic of the policy mix is not recognised, and the key role of labour market policy is overlooked. Consequently, the key developments in European integration during the crisis in this respect, that is, beyond the fiscal policy framework, also remain under-researched (as I argue further below). These gaps, however, are addressed by my research project that recognises the significance of functional pressures arising from the institutional framework without, however, breaking apart the integrity of the policy mix institutionalised in the EMU.
(3) The third explanation follows a post-Functionalist approach\(^8\) by shifting the focus from an elite-based process of integration, whether in intergovernmental or supranational form, to the influence of domestic public opinion and mass-level politics. However, this argument does not amount to an explanation of European integration by itself but is rather to be considered alongside other perspectives (Ioannou et al., 2015, p. 170). Nevertheless, it is worth mentioning it in this context, as post-functionalist research is one of the main contenders and reference points in European integration studies. The central question from this perspective is whether public opinion supports European integration or restricts further steps through a “constraining dissensus” (Hooghe & Marks, 2009). Hobolt and Wratil (2015), for instance, have turned to public opinion research to measure the support for monetary integration during the crisis within and outside of the Euro-Area. According to the authors, the salience of the crisis management seeking to ‘stabilise’ the EA has increased the politicisation of monetary integration in the general public and party politics. Surprisingly, the authors argue that insiders of the Euro-Area have actually become more supportive of the euro in contrast to outsiders during the crisis, based on “rational cost-benefit considerations”, as the EU institutions were perceived as the most effective means of crisis management (Hobolt & Wratil, 2015, p. 251). While this insight is interesting, the comparison between Euro-Area insiders and outsiders is overly generalising and obscures the differences of public opinion within the Euro-Area (Schimmelfennig, 2014, pp. 322–323). In comparison, the argument of Iversen et al. (2016) is been more nuanced. They argue that, while voters in the debtor countries have indeed chosen to accept the Euro-Area despite the unpopularity of the austerity measures, the ‘constraining dissensus’ for further integration - beyond a regime of imposed austerity - is in fact posed by the electorates of the creditor countries, above all Germany (pp. 178-181).

The more nuanced argument from Iversen et al., however, is eventually prone to the same criticism as raised on the intergovernmental explanation of the recent process of

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\(^8\) The prevailing integration theories - LI and NF - have been criticised for treating European integration as a process that is driven by economic and governing elites operating on the basis of a “permissive consensus” (Hooghe & Marks, 2009). Instead, Hooghe and Marks (2009) argued in their seminal work on a Postfunctionalist Theory of integration that EU studies have to turn to domestic mass-level and party politics as well as public opinion research as the increasing politicisation of EU politics have increased its salience in the general public, which is placing limits upon elite decision-making through a “constraining dissensus” fuelled by national sentiments.
integration above. The reduction of the development of the NEEG to the national preferences of a northern coalition is an inaccurate representation. Furthermore, Schimmelfennig (2014) has refuted the validity of a post-functional explanation of European integration during the crisis. The author argues that the increased politicisation of EU politics “has not decisively affected the integration outcomes” because “governments have proven capable of limiting the impact of politicization by isolating policy-making at the European level from the constraining dissensus through Euro-compatible government formation, avoiding or taming referendums, and supranational delegation.” (p. 335). Eventually, European integration remains a political project of governing elites and – as some commentators have warned (Habermas, 2012a; Streeck, 2015) – since the onset of the Euro-Area crisis it has been even more so.

Overall, the debate in the dominant literature opposes different arguments about the level of governance that is regarded as the significant driver of European integration. However, there is common focus on fiscal policy in relation to monetary policy to account for the policy content of the institutional changes, while labour market policy fades into the background. Correspondingly, the general tenor in the dominant European integration literature is that the development of the New European Economic Governance has meant further integration in the fiscal policy framework (Bulmer & Joseph, 2016, p. 742; Ioannou et al., 2015; Schimmelfennig, 2014, p. 323; Tosun et al., 2014). As put in the state-of-the-art review of Tosun et al. (2014) “While differing on their predictions and prescriptions, studies mostly agree on the importance of the new fiscal framework and its potential extensions as a key moment in European integration that also has consequences for the future of political integration” (p. 204).

However, this reductionist understanding of the policy mix of the EMU sits at odds with insights from the economics of European integration and the literature of the field of Industrial Relations. In regard to the economics of the currency union, economists have been clear that labour market policy has a key role to play in the policy mix of the EA to facilitate economic adjustment through wage-price flexibility (Alesina et al., 2011; Blanchard, 2007; De Grauwe, 2006; Feldstein, 1997). Indeed, statistical analysis of the European Commission’s LABREF (labour market reform) data base shows that since the crisis, “most EU countries have stepped up their reform agenda by reviewing existing
interventions to support employment and by taking action to reform labour market institutions” (Turrini, Koltay, Pierini, Goffard, & Kiss, 2015, p. 1). Industrial relations scholars affiliated with the European Trade Union Institute (ETUI) have published numerous studies of the increased labour market reform activism since the crisis, emphasising reforms made to collective bargaining institutions, wage regulations and employment protection legislation, among others (Clasen, Clegg, & Kvist, 2012; Stefan Clauwaert & Schoenmann, 2012; Koukiadaki, Tavora, & Martinez Lucio, 2016; Schulten & Mueller, 2015; Van Gyes & Schulten, 2015). A few scholars have even pointed towards an increased political authority gained at EU-level over questions of labour market and social policy (Erne, 2012; Schulten & Mueller, 2015). However, as Smismans (2012) has pointed out, Industrial Relations scholarship has “largely remained off the radar of EU studies” (p. 1) and the effects of the European governance framework on industrial relations “remains understudied” (pp. 2-3). Correspondingly, the issue of whether there has been “a key moment of integration” (Tosun et al., 2014, p. 204) in the economic policy framework beyond fiscal policy has been neglected in the European integration literature.

The failure in the dominant literature, however, is not that labour market reforms go unmentioned, or that there are not specific studies (see e.g. Verdun & Zeitlin, 2018). Rather, the failure is that the process of integration is not reflected upon in light of the coherency of the policy mix between fiscal, monetary and labour market policy in the EMU in which the latter is the key to economic adjustment. Instead, labour market policy is externalised from the policy mix and the coherency is lost. Thus, the implementation of labour market reforms, as part of the policy mix of the EMU, is not regarded as significant to understand how and why the EA is integrating further. This shows the large gap that exists between European integration studies, on the one hand, and the Economics of integration as well as Industrial Relations research, on the other (for the latter see Smismans, 2012, pp. 1–3). A key contribution of my research project is to overcome this gap and bring in research on labour markets to the study of European integration – without, however, neglecting the coherency of the policy mix of the EMU overall.

The neglect of labour market policy hints, however, at deeper methodological constraints following from the underlying assumptions of the dominant European integration literature which Ryner (2012) has referred to as the “European integration orthodoxy”.

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Much criticism has been raised by Historical Materialist (HM) scholars on the dominant European integration (and International Political Economy) literature, for approaching their subject of investigation on the grounds of the separation of disciplines and the corresponding separation of the ‘political’ and the ‘economic’ – or more bluntly ‘state’ and ‘market’ – as two separate forms of social organisation. Such an approach creates blind spots by separating, for instance, the politics and the economics of integration. More significantly, it abstracts the development of European governance from the social relations of production – that is, from the historically specific labour relations of capitalism (Andreas Bieler, 2005; Werner Bonefeld, 2001b; Burnham, 1994, 1999; Nousios, Overbeek, & Tsolakis, 2012, pp. 10–12; M. Ryner, 2012; van Apeldoorn et al., 2003).

Thus, the state of the dominant European integration literature is reminiscent of Burnham’s (1999, p. 37) seminal intervention in the field of International Political Economy that it “eschews the ‘political’ (…) in respect of its conceptualisation of labour”:

...in general markets are fetishised as discrete, technical, economic arenas and the overwhelming tendency is to view them in terms of trade, finance and the application of new technology. Not only are labour markets generally ignored, but, much more significantly, the category of labour itself is often viewed as external to state/economy restructuring and is equated simply (in a pluralist sense) with trade union bargaining power. In other words (…) there is no systematic conceptualisation of the internal relations between state, labour and capital. (p. 38)

In short, the methodological limitation is that the development of European economic governance is not adequately related to the power-laden conflict between capital and labour. The literature eschews addressing the role of the economic governance of the EMU in regard to the class struggle over the domination and exploitation of labour. Correspondingly, the imposition of structural reforms to reorganise labour markets does not appear as significant to the process of integration during the crisis – despite their constant and uncompromising promotion. Hence, my research project intervenes here to account for this gap.

However, the European integration orthodoxy does not conceptualise European governance on grounds of the conflicts of capitalist social relations. Instead, ‘state’ and
‘market’ are seen as separate social organisations and it is assumed, as Bruff (2011) has criticised for such research paradigms, that the former is endowed with intrinsically benign properties. Indeed, the dominant debate presupposes that European governance is serving the common good, that is, the promotion of a “well functioning EMU” for “growth and jobs” (Van Rompuy, Barroso, Juncker, & Draghi, 2012, p. 13). This assumption, however, leads to the conundrum that the crisis management and the establishment of the NEEG appear as dramatic policy mistakes. This problem comes also clearly to the fore, in the arguments that conceptualise more rigorously the social purpose of European integration by drawing from constructivist research, or the literature on economic growth models. In sum, this literature avoids the class conflict by adhering to the view of ‘benign but mistaken policymaking’.

Before, however, going into more depth with this point, it is relevant to highlight a particular contradiction encountered by the constructivist-intergovernmental argument. The prominent view that the rationale underlying the NEEG is determined by the German ideology of ordo-liberalism (Olender, 2012; Young, 2014) contradicts Helgadóttir’s (2016) research. The author argues that that the preferences of European policymaking circles have been significantly shaped by the Italian economic doctrine of “expansionary austerity” (p. 393) developed and disseminated by a network of economists related to the University of Bocconi in Milan (cf. Blyth, 2013, pp. 165–157). To top it, Dymski and Ioannou (2014) speak of an “americanization process” of the economic thought underlying the institutional design of the EMU and, according to De Grauwe (2006, 2013b), the EMU is based on Monetarism and the neo-classical Real Business Cycle theory. The logical conclusion of these different standpoints is to abandon the intergovernmental argumentation and focus on the “dangerous idea” of austerity overall (e.g. Blyth, 2013).

Yet, the argument that policymakers adhere to an economic doctrine of austerity for purely ideological reasons encounters the problem that the policy content of European integration appears as irrational, or mistaken policy of uninformed politicians (cf. Dunn, 2014). The point raised here is that the imposition of austerity across the Euro-Area, and one should add the institutionalisation of “austerity for ever” in the NEEG (Corporate Europe Observatory, 2011a), fails to create sustainable conditions for economic growth on the grounds of a ‘fallacy of composition’ as several commentators have shown (Blyth,
(2013a) goes even so far as to argue that “European political leaders did not understand the economics of a monetary union” (p. 8). Likewise, Olender (2012, pp. 13-15) is caught up arguing that Germany does not understand its own interests, and Young (2014) concedes that “Myth Trumps Reality” in the process of European integration. None of these three, however, attempts to go further, abandon the assumption that European governance is intrinsically benign and look for the rationale underpinning integration on grounds of the social conflicts that pertain to capitalist societies. They eschew the political dimension of capitalist labour relations.

The same problem arises with arguments that explain the social purpose of the recent process of integration with the adherence and dissemination of the northern, export-led growth model either as an intergovernmental argument (Iversen et al., 2016) or in contention to it (Scharpf, 2016). While this argument is descriptively accurate and insightful, it cannot account for the rationale underlying integration without causing the impression that the crisis management and the NEEG are dramatic policy mistakes. The issue is again a ‘fallacy of composition’ (cf. Magnus Ryner, 2015, p. 281). If one country has current account surpluses, another needs to have deficits. It is therefore impossible for the Euro-Area as a whole to run current account surpluses at the same time without other national or regional economies absorbing these surpluses through large deficit. According to Ryner (2015), an increase of the Euro-Area surplus to 6% would mean doubling China’s current account surplus. “It is inconceivable”, as Ryner concludes, “that the rest of the world could or would absorb such surplus production” (p. 281). Nor would the rest of the world take this as a “friendly gesture”, as pointed out by Veselý (2017, para. 6). However, even if the EA were successful in running over the long-term a significant current account surplus under friendly acceptance by the rest of the world, then the improvement in economic growth would be offset sooner or later by the appreciation of the currency, as Scharpf (2016) recognises himself (cf. Veselý, 2017). The latter would also be detrimental to Germany’s own export strategy. Moreover, if the EA is a relatively closed economy (as most trade is intra-Euro-Area trade), as argued by Stockhammer & Onaran (2012), then the gains made through increased exports by moderating wages, would be cancelled out by the decline in domestic demand, adversely
affecting economic growth in the EA. Hence, conceptualising the rationale underpinning the NEEG in terms of the adherence and dissemination of the northern, export-led growth model appears as irrational, since it is not an option to create sustainable economic growth in the EA. Nor does it appear to be in the interest of Germany, as it cannot be disentangled from the prospects of the EA as a whole (cf. Olender, 2012, p. 14). However, the underlying methodological constraint of these arguments is that they do not go beyond the assumption of the “state/market dichotomy” (Ian Bruff, 2011) that European/national governance is intrinsically benign oriented towards the achievement of a well-functioning EMU for sustainable economic growth.

My own research follows, therefore, Historical Materialist scholarship to take the analysis further. HM researchers have re-called the achievements of Classical Political Economy, especially Marx’s critique of it, for elaborating a more holistic view in which the separated appearances of such forms of social organisation as state, law, market, etc., are analysed on grounds of their common social constitution, that is, the social relations of production (Andreas Bieler, 2005; Werner Bonefeld, 2012; Burnham, 1994, 1999; M. Ryner, 2012; 2015; Selwyn, 2014). In so doing, HM scholars have introduced the category of class to the study of European integration (and IPE) - that is, the antagonistic relation between capital and labour. Methodologically this means that the course of European integration is to be studied based on the contradictions and conflicts between capital and labour (or related social forces) – instead of abstracting the former from the latter, and of ascribing intrinsic characteristic to governance.

Consequently, my research contributes also to HM literature on the EU, which has been operating at the margins of the discipline. I discuss this contribution in more detail in Chapter 1. The Neo-Gramscian approach and the Regulation School have reproduced some of the shortcomings mentioned above in regard to the dominant literature. Gill’s (1998) conception of ‘New Constitutionalism’ neglects the role of labour market policy in the EMU, and the Regulationist literature replicates the view that the institutional design of the EMU was a policy mistake, which obscures its class content (cf. Bieling, Jäger, & Ryner, 2016, p. 64). My conceptualisation of the relations between European governance and class relations draws, therefore, initially from Open Marxist research (Werner Bonefeld, 2001a, 2012; Carchedi, 1997). However, I go beyond this theoretically-focused
approach through my empirically-focused and historically specific analysis of the multi-layered politics of class. For this purpose, my research leaves behind the narrow conception of class antagonism of conventional Marxist research criticised by Social Reproduction scholars (cf. Bhattacharya, 2017; Ferguson, 2016, pp. 48–54, 2017, pp. 112–113). Thus, I develop an innovative and empirically-grounded class-based analysis of the politics of class underlying the emergence of the NEEG.

In conclusion, the rationale for this research project is developed from the limitations and gaps of the dominant literature on the process of integration during the crisis. The general tenor is that the development of the fiscal policy framework is the key moment of integration during the crisis. However, this conclusion arises from an exclusion of labour market policy from the policy mix of the EMU, which is nevertheless crucial to economic adjustment in the EA. The significance of the latter during the crisis is supported by numerous studies of Industrial Relations scholars depicting a dramatic reorganisation of labour markets in recent years. Nonetheless, their research remains off the radar of dominant European integration studies, creating a research gap that builds the first rationale for my project. A key contribution of my research project is, therefore, to overcome this gap and bring research on labour markets to the forefront and reflect upon the process of integration during the crisis on grounds of the coherency of the policy mix overall.

Further, to ensure “deeper theoretical investigation” (Ioannou et al., 2015, p. 155) of the question of why the EA is integrating further, my research does not avoid the ‘political’ when it comes to labour relations. The second rationale for my project arises from this avoidance in the dominant literature that underpins the neglect of labour markets. The “European integration orthodoxy” (Ryner, 2012) is constrained by the separation of disciplines, and the concomitant separation of ‘state’ and ‘market’, that abstracts the development of economic governance from the social relations of production and reproduction. European integration can thus not be understood based on the class conflict between capital and labour. Instead, the debate remains limited by an uncritical assumption of European governance as intrinsically ‘benign’ concerned with creating a ‘well functioning’ EA, which leads, however, to the paradox that the crisis management and the NEEG appear as dramatic policy mistakes. My research project overcomes these
constraints and approaches European integration, therefore, on grounds of the class conflict between capital and labour. The second key contribution is, thus, to provide for a distinct class-based understanding of the development of the NEEG during the crisis – in contrast to arguments based on intergovernmentalism, functionalism, public opinion, constructivism or growth models. A particular originality of such a perspective is that it allows for a critique of European governance by showing the class strategy that underlies the appearance of ‘benign’ policymaking.

2. Research questions and original contribution

Following the literature on European integration, the overarching research question is: why and how has the Euro-Area integrated further during the crisis? This thesis, however, does not aim to investigate every single aspect of the recent process of integration but to reflect upon the process overall by focusing on what has been neglected by the literature indicated above: the promotion of labour market reforms as a key aspect of the policy mix of the EMU, and the political dimension of labour relations as antagonistic relations between classes. For this purpose, the broader research question is broken down into three blocks of sub-questions according to three different research themes (RTs) that address these specific dimensions of the process of integration:

1. RT: Institutional changes of the European governance framework
   What is ‘new’ about the New European Economic Governance?
   More specifically, what was the initial institutional design of the economic governance framework of the EMU? How has it changed with the development of the New European Economic Governance’? What is the rationale for this change?

2. RT: The promotion of labour market reforms through the European governance framework
How does the promotion of labour market reforms through the governance framework of the EMU contribute to our understanding of the process of integration?

More specifically, what is the role of labour market policy in the policy mix of the EMU? What is the policy strategy for labour market reforms articulated during the years of crisis management (2008-2015)? How did its promotion through the new institutions of the NEEG play out in practice?

3. RT: The politics of class of the European economic governance

How can a conceptualisation of the European economic governance framework on the basis of class relations contribute to the understanding of this process of integration?

More specifically, how does the initial and new governance framework of the EMU relate to the class antagonism between capital and labour? How does the promotion of labour market reforms through the governance framework reflect the class conflict?

In answering these research questions, the thesis makes the following original contributions to scholarship:

1. The research project brings in the study of labour market reforms to the study of European integration. It therefore overcomes the gap between European Integration studies, on one side, and the Economics of integration as well as Industrial Relations scholarship on the other. The key role of labour market reforms to the policy mix of the EMU has not been problematised by the current European integration literature, even though economists have clarified their significance. In addition, the promotion of ‘structural reforms’ appears to be the only constant in the European crisis management and Industrial Relations research has shown the intensive reform activism in this area since the crisis. Thus, a key contribution of this thesis is to reflect upon the process of integration through a focus on the promotion of labour market reforms as a key aspect of the policy mix of the EMU overall.
2. Empirically, the Thematic Analysis (see below) of an extensive number of policy and legal documents, supplemented by elite interviews, creates rich material on the development of the new institutions of the NEEG, the policy strategy for labour market reforms (referred to as ‘competitiveness adjustment’) and its promotion through the relevant new institutions: the Financial Assistant Facilities and the Macroeconomic Imbalance Procedure. The elaboration of the strategy of ‘competitiveness adjustment’ and its specific promotion through the NEEG between 2008 - 2015 in the concrete cases of 8 relevant Member States (Greece, Portugal, Ireland, Cyprus, Italy, Spain, France and Slovenia) is original empirical content of this thesis that, to my knowledge, is not provided for by any other research project.

3. The thesis provides for an innovative, empirically-grounded and multi-layered understanding of the politics of class reflected in the reorganisation of the economic governance framework of the EMU and its operation in the years between 2009 and 2015. In contrast to the ‘European integration orthodoxy’ that abstracts European governance from capitalist relations of production, the research project conceptualises the internal relations between European governance, capital and labour. This conceptualisation is developed throughout the investigation of the recent establishment of the NEEG and its operation in practice – on grounds of the Thematic Analysis of policy documents – revealing different layers of the underlying politics of class. This is made possible through a broader conception of class relations than found in more conventional Marxist research criticised by Social Reproduction scholars. Thus, my research contributes not only to the dominant but also Historical Materialist literature on European integration through an innovative and empirically-grounded class-based understanding of the social purpose underlying the recent process of integration (see Chapter 1). This includes a critique of the political economy of European integration. The apparent ‘benign’ character of European governance is put into question by showing the power-laden dynamics of the underlying conflict between capital and labour.
3. Research method and methodological considerations

The research project conducts a policy analysis that focuses on the institutional innovations of the NEEG and the promotion of labour market reforms through the EMU from the onset of the financial crisis in 2008 until the publication of the five presidents’ report in 2015, which called for a renewed commitment to deepen the EU after years of crisis management. The method is primarily a Thematic Analysis (Bowen, 2009; Braun & Clarke, 2006; Fereday & Muir-Cochrane, 2006; Vaismoradi, Turunen, & Bondas, 2013) of policy and legal documents which, similar to content analysis, is a “method for identifying, analysing and reporting patterns (themes) within data” (Braun & Clarke, 2006, p. 79) (see below). I chose this method as it is not only adequate for the analysis of texts but also as it can be applied within the historical materialist approach proposed here as it is “essentially independent of theory and epistemology, and can be applied across a range of theoretical and epistemological approaches” (Braun & Clarke, 2006, p. 78). In addition, some further inspiration for the improvement of the Thematic Analysis has also been drawn from qualitative discourse tracing (LeGreco & Tracy, 2009) and case-study research (Flyvbjerg, 2016).

I further supported the Thematic Analysis of the policy and legal documents with a three-week study visit (from 25.09.2017 to 13.10.2017) in the Secretariat of the Committee of Employment and Social Affairs of the European Parliament and the completion of 15 semi-structured expert interviews. All of these were officials from EU, or EU-related, institutions that are relevant to the co-ordination and articulation of labour market policy in the EU including the DG ECFIN and the DG EMPL of the European Commission, the DG IP and EMPL of the European Parliament, the Ecofin of the Council of the

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9 While Thematic and Content Analysis are usually treated as similar methods (or sometimes even conflated), the latter is distinguished from the former by its orientation towards quantification (Braun & Clarke, 2006, p. 98).

10 The European Parliament provides EU citizens the opportunity to conduct a study visit in a department of the Parliament (see: http://www.europarl.europa.eu/at-your-service/en/work-with-us/study-visits). I applied to visit this particular Secretariat as it appeared most closely related to the focus of my research project on labour market policy.

11 Directorate-General for Economic and Financial Affairs
12 Directorate-General for Employment, Social Affairs and Inclusion
13 Directorate-General for Internal Policies of the Union
14 Committee on Employment and Social Affairs
15 Economic and Financial Affairs Council
European Union and the European Trade Union Confederation. The interviewees have, therefore, been selected on grounds of their official function and, in some cases, of recommendations of other insiders. A full list is attached in the appendix. Four of the interviews were requested to be off the records. The other eleven experts agreed to the audio recording of their interviews. All of them were ensured anonymity\(^{16}\) and the secure retention of records in accordance with the ethical guidelines of the University of Manchester. The purpose of this study visit was to get a view of European governance from ‘inside’ and to use expert interviews to reflect upon my own ideas and clarify questions arising from the analysis of the policy documents. In addition, where relevant and appropriate, I use descriptive statistics to illustrate specific macroeconomic developments (unemployment levels, unit labour costs, etc.) by drawing exclusively from the data provided for by Eurostat as the official statistical authority of the EU.

The ontological context for the policy analysis follows from the Historical Materialist approach of the thesis, which privileges the historically specific relations through which human beings labour (that is, reproduce themselves) to make sense out of the world (Werner Bonefeld, 1992; Brand, 2013; Ferguson, 2016). “Every analysis requires a context within which the available texts are examined. The researcher must construct a world in which the texts make sense allowing them to answer research questions” (Vaismoradi et al., 2013, p. 401). The conception of the world underlying this research project is not a fragmented reality in which the ‘state’ and ‘the market’ are separate entities but rather that these separately appearing social organisations have a common social constitution, that is, capitalist social relations of production (Andreas Bieler, 2005; Werner Bonefeld, 2012; Burnham, 1994, 1999; M. Ryner, 2012; 2015; Selwyn, 2014). Thus, the methodological suggestion is that the development of European governance can be understood on grounds of the class antagonism between capital and labour that pertains to capitalist societies. The empirical analysis of the policy and legal documents, interview texts and descriptive statistics is made in the context of this methodological suggestion. I will return to these methodological considerations, and more specifically, the conception of ‘class’ that guides the research project in Chapter 1.

\(^{16}\) For this reason, I only mention the organisational affiliation of the interviewee when quoting them in the thesis.
The Thematic Analysis of the policy and legal documents encompasses three phases: (1) the management of the documents; (2) the analysis of the documents; and (3) the drawing of overarching conclusions. The first phase organises the mass amount of material, the second phase works out the patterns in the documents in response to the research questions organised according to the three Research Themes (see above), and the third phase draws conclusions for the overarching research question of the thesis and the relevant academic literature. However, the actual research process is not clear-cut between these phases but iterative, overlapping and interactive.

3.1. Management of the documents

The policy documents for the analysis are selected by means of a snowballing procedure and on the grounds of secondary literature. After some initial familiarisation these are entered into NVivo as a programme for qualitative research and grouped up into different sub-research projects. Three distinct NVivo projects have been created according to the institutional focus of the analysis to be conducted. These NVivo projects correspond also to the chapter structure. The first project concentrates on the larger picture of the institutional changes of the NEEG (Chapters 2 & 3). From this follows the second and third project that focus specifically on the operation of the new governance instruments relevant to the thesis, in other words, the Financial Assistance Facilities and the MIP (Chapters 4 & 5 respectively). Each project includes the research on the promotion of labour market reforms that corresponds to the institutional focus: in project 1, the focus is the policy strategy for labour market reforms articulated at EU-level in general, and in projects 2 and 3, the specific reform measures of selected Member States under the surveillance of the Financial Assistance Facilities or the MIP respectively. For project 2 the Member States selected encompass the four ‘programme countries’ in which the Troika enforced labour market reforms: Greece, Portugal, Ireland and Cyprus. For project 3, the selected Member States are the four countries that have been under the ‘specific monitoring procedure’ of the MIP: Spain, Italy, France and Slovenia.

17 The countries under ‘specific monitoring’ have been chosen for the research project as it allows coverage of the greatest extent of the operation of economic surveillance in the MIP instead of focusing on countries that have not reached this stage of economic surveillance.
procedure, the research project seeks to grasp the overall picture, covering not only EU-level developments but also its practice affecting the national level. A list of all the policy and legal documents included in these three projects is available in the appendix.

3.2. Analysis of the documents

A Thematic Analysis of each of these three groups of documents – comprising the three NVivo projects - is then conducted consecutively, while connections are made going back and forth after the first reading. The operational principle of the analysis is to use the three Research Themes and their blocks of research questions presented above to “systematically “lift out” patterns and arguments from the qualitative data set” and “to trace the specific connections across cases or subcases” (LeGreco & Tracy, 2009, p. 1532). In this manner, patterns and arguments are worked out about the institutional change of the NEEG (RT1), the promotion of labour market reforms (RT2) and the underlying politics of class (RT3). The results are written down in reports, or draft chapters, that are continuously revised and reflected upon in connection with each other. First, draft chapters are written for NVivo project 1 that concentrates on the development of the NEEG overall and the corresponding articulation of a policy strategy for labour market reforms in general. Afterwards, draft chapters are elaborated for the operation of the Financial Assistant Facilities and the MIP including the corresponding reform measures of the selected Member States. Each of the three NVivo projects, and their corresponding chapters, are indispensable to the analysis overall. While the first project (Chapter 1 and 2) captures the strategic development of the European governance framework, the second and third project (Chapters 4 and 5) elaborate on the operation of this framework in practice and, consequently, its effects on the national level. The final answers to the research questions are, therefore, derived by drawing connections between the NVivo projects that relate the general to the particular; the EU-level to its national effects. Finally, the Thematic Analysis of the policy documents also informs the study visit and the elaboration of the semi-structured expert interviews. The insights gathered from the latter are then used to reflect upon the insights of the Thematic Analysis and the research questions of the thesis.
3.3. Drawing of overarching conclusions

Based on the answers for the research questions of the three Research Themes derived from the Thematic Analysis of the documents and the study visit, the overarching research question is addressed: why and how the Euro-Area has further integrated during the crisis. Moreover, conclusions are drawn in respect of the academic debate about the recent process of integration, the critique of the political economy of European integration and avenues for future research.

Figure 1: Process of thematic analysis

4. Chapter structure and key arguments

4.1. Key arguments according to research themes

Key argument for RT1 and RT2: The initial economic governance framework of the EMU – referred to as ‘the system of subsidiarity’ – restricts the capacity of Member States to employ monetary and fiscal policy to manage economic adjustment. Instead, the EA requires “competitiveness adjustment”, i.e. economic adjustment through the
achievement of competitive labour markets and unit labour costs. The pattern of institutional change since the crisis reinforces the ‘institutional selectivity’ of the EMU towards competitiveness adjustment. A stricter framework for fiscal discipline is part and parcel of this process. However, the key development is the creation of a new framework for EU-level surveillance and enforcement of competitiveness through which EU-level institutions have gained new competences to intervene in labour market policy. The latter cannot be regarded as a national prerogative anymore. The process of integration was, therefore, significantly driven by the objective to commit Member States to competitiveness adjustment.

RT3: From a class-based perspective, the institutional selectivity of the EMU towards competitiveness adjustment shows that the EMU is a governance framework through which Member States commit themselves to facilitate capital’s confrontation of the labour force in order to reduce unit labour costs. That is to say, to compress wages and increase the exploitation of workers’ productive capacities. The establishment of the NEEG reinforced this governance framework fostering Member States’ commitment to this politics of class. However, independent of whether more competitive unit labour costs are achieved or not, I argue that, overall, the promotion of competitiveness adjustment through the NEEG reveals a multi-layered class strategy to empower capital over labour. Thus, a class-based perspective can contribute to the understanding of the recent process of integration by going beyond the view of ‘benign but mistaken European governance’ by looking into the underlying dynamics of the power-laden conflict between capital and labour.

*In a nutshell, the argument of the thesis is that the emergence of the New European Economic Governance (NEEG) was significantly driven by the objective to promote competitiveness adjustment throughout the EA, which reveals an underlying class strategy to empower capital over labour.*
4.2. Chapter structure

Chapter 1 sets out the conceptual framework of the thesis. Chapters 2 and 3 discuss in this light the relevant developments at EU-level during the EA crisis, while Chapters four and five elaborate on their effect on the national level.

Chapter 1: European integration & Class: The System of Subsidiarity and Competitiveness adjustment

Chapter 1 introduces the socio-historical conception of class that guides the thesis. Class is conceptualised as the relation between producers and appropriators of social wealth, which is manifest in the relation between wage-labour and capital, according to Marx’s Labour Theory of Value. On these grounds, I discuss the initial institutional design of the EMU (before the crisis) and the politics of class that follow from it. In this discussion, I define the two key analytical concepts: The notion of the EMU as the “system of subsidiarity”, drawn from the work of Bonefeld (2015, p. 12), and its institutional selectivity (i.e. an institutionalised policymaking logic) towards ‘competitiveness adjustment’. Moreover, I also position my argument and contribution in regard to the HM literature on the EU.

In the system of subsidiarity, Member States’ capacities to engage unilaterally in expansionary fiscal or monetary policy (including exchange-rate policy) to manage their national economies are strictly constrained, or abolished, through supranational institutions, rules and surveillance. The consequence is that Member States have to return to labour market reforms with a view to fostering national export performance in order to manage adjustment to economic imbalances. The attainment of competitive labour market conditions, and above all competitive unit labour costs, is supposed to enhance the capacity of domestic capitals to compete on the world market - supporting in turn national economic performance. In the short term, this can only be achieved through the moderation of labour costs. In the longer term, productivity growth can do the same as long as it is not offset through wage increases. In short, I refer to this policymaking logic as the institutional selectivity towards ‘competitiveness adjustment’. This conceptualisation of the initial design of the EMU as the ‘system of subsidiarity’ allows the thesis to go beyond the limitations of the European integration orthodoxy.
The first advantage of this conception is that it does not break apart the integrity of the policy mix of the EMU by externalising labour market policy. Instead, the conception follows from the economics of integration and recognises the key role of labour market policy in the governance framework. The concept of the system of subsidiarity is thus the key analytical device to assess in the subsequent chapters the institutional innovations of the NEEG from the perspective of the promotion of labour market reforms as part of the policy mix overall (RT2). Further, the second advantage is that the conceptualisation does not separate European governance from its underlying class relations. It does not avoid the political dimension of labour relations. Rather, it follows from this conception that the EMU is a governance framework through which Member States commit themselves to facilitate capital’s confrontation of the labour force in order to compress unit labour costs. That is to say, to reduce workers’ distributional share and/or increase the exploitation of their productive capacities. Thus, the notion of the system of subsidiarity, and its institutional selectivity towards competitiveness adjustment, is also a key concept to assess the politics of class reflected in the governance framework of the EMU (RT3).

Chapter 2: The EMU in Crisis: The Strengthening of the System of Subsidiarity through the New European Economic Governance

After the definition of the conceptual framework in Chapter 1, Chapters 2 and 3 turn in this light to the relevant developments at EU-level during the EA-crisis. Chapter 2 presents an argument as to how the governance framework of the EMU has changed with the development of the NEEG, based on the Thematic Analysis of policy and legal documents. The development of the NEEG followed from the prevailing crisis narrative that Member States had failed to comply with the governance framework of the EMU and, therefore, to implement competitive labour markets and unit labour costs prior to the crisis, even though this is required in the EMU. I argue therefore that new governance instruments were established at EU-level to reinforce Member States’ commitment to fostering competitiveness through labour market reforms. In other words, the Euro-Area is integrating further by strengthening the institutional selectivity of the EMU towards competitiveness adjustment. The NEEG does not only create a stricter framework for
fiscal discipline, but establishes an EU-level framework for the surveillance and enforcement of competitiveness through which EU-level executive institutions gained new competences in the field of labour market policy. Through the creation of the MIP and the Financial Assistance Facilities, Member States are held accountable by EU-level executive institutions in respect of their commitment to foster competitiveness. I highlight in this context that the latter two instruments empower the enforcement capacity of EU-level executives, through a new sanctions regime that potentially burdens Member States’ public finances. In sum, I argue that the establishment of the NEEG was significantly driven by the objective to promote competitiveness adjustment. Hence, from a class-based perspective, it follows that the process of integration was significantly driven by the initiative to facilitate capital’s confrontation of the working class.

Chapter 2 is a key chapter as it captures the institutional changes happening at EU-level during the crisis. The general tenor in the dominant literature, which emphasises integration in the fiscal policy framework, is contrasted with my argument that it is the logic of the policy mix overall that has developed further, i.e. the institutional selectivity towards competitiveness adjustment. The most notable change from this perspective is not found in the fiscal policy framework but rather in the establishment of a framework for the surveillance and enforcement of competitiveness through which EU-level executives have gained competences to intervene with national labour market policy. The latter can no longer be regarded a national prerogative. Rather, the national competence to define labour market policies is shared with, and constrained by, EU-level institutions. However, the European integration literature has neglected the significance of this development to the process of integration.

Chapter 3: The EMU in Crisis: The Reform Program for Competitiveness Adjustment and its class strategy

After Chapter 2 made the argument that the establishment of the NEEG has been significantly driven by the aim to promote competitiveness adjustment, Chapter 3 discusses the reform programme for competitiveness adjustment articulated at EU-level
during the crisis and reveals its underlying class strategy. The discussion is grounded empirically in the Thematic Analysis of policy documents, which made it possible to specify the multiple layers of this class strategy. In sum, Chapter 3 shows the dynamics of class conflict that underpin the recent process of integration.

First, Chapter 3 returns to the paradox in the dominant literature that the approach to the crisis management, which can be described as an export-led strategy, appears as a dramatic policy mistake. In contrast, I argue that this policy mistake expresses the conflict between capital and labour. Even though this policy strategy may not be suitable to achieve sustainable economic growth in the EA, it supports the drive of individual capitalists in international competition to depress labour costs, boost labour productivity and, ultimately, to assert their control over the labour process. Under consideration of Marx’s Labour Theory of Value, I suggest that the particular aim to increase labour productivity is a class strategy to increase the appropriation of relative surplus value.

In a second step, I introduce the distinction between direct and indirect state intervention in the capital-labour relation through which I capture the class content of the programme of competitiveness adjustment. I elaborate this distinction to go beyond the narrow conception of class antagonism found in conventional Marxist work, which has been criticised by Social Reproduction scholars for neglecting the broader relations of reproduction. Thus, my conceptualisation of the class strategy underlying competitiveness adjustment includes, on one side, direct interventions into the relation between employers and workers in the private sector through reforms of wage-setting institutions and collective bargaining and, on the other side, indirect interventions into this relation through reforms of public institutions that contribute to the reproduction of labour-power, e.g. social security and education systems. This makes visible the way competitiveness adjustment operates through the mobilisation of labour-reserves, that is, through the engineering of the supply of labour-power by policymakers. Among other aspects, it sheds light on another objective of the class strategy that may realise over time. The mobilisation of labour-reserves may have the consequence of augmenting the total amount of surplus labour furnished by the national workforce.
On grounds of this distinction between direct and indirect interventions, I identify two sub-strategies related to the two objectives of wage moderation and labour productivity growth: the labour-cost-oriented and the productivity-oriented strategy for competitiveness adjustment. The former is based on the unemployment-driven reduction of wages. The mobilisation of labour-reserves through the indirect interventions is supposed to intensify the downward-wage pressure exerted by the high levels of unemployment during the crisis, while the direct interventions suspend or weaken legal provisions that back up the bargaining position and wage demands of workers. The latter is based on the capacity of employers to reorganise the workforce to drive up productivity. The indirect interventions are supposed to supply employers with a suitably trained labour force, while the direct interventions increase the freedom of employers to hire and fire and, therefore, to replace less productive workers with more productive ones. However, independent of whether these objectives are actually achieved or not, I argue that overall the reform-programme for competitiveness adjustment reveals a class strategy to assert employers’ control over workers and the subordination of wage-dependent households to international capitalist competition. In sum, the conclusion of Chapters 2 and 3 is that the emergence of the NEEG was significantly driven by the promotion of competitiveness adjustment that shows an underlying class strategy to empower capital over labour.

The discussion of the dynamics of class conflict reflected in this programme in Chapter 3 covers its quantitative and qualitative dimensions (compression of unit labour costs and balance of power between capital and labour), its multiple layers (main strategy and sub-strategies) and its broad scope (direct and indirect interventions). These different facets do not only matter to understanding how the politics of class operates in practice in different ways, but also to account for subtle changes made to the economic governance institutions. This is reflected in Chapters 4 and 5. In the former, the labour-cost-oriented strategy is at the centre of the discussion, while in the latter the productivity-oriented strategy comes to the fore.
Chapter 4: The Politics of Class of the Financial Assistance Facilities: The European Stability Mechanism and Competitiveness Adjustment in Greece, Portugal, Ireland and Cyprus

Chapters 4 and 5 make the step from the European to the national level. They discuss the effects of the developments in European governance, analysed in the previous chapters, on specific Member States. This is important as it brings the analysis of the institutional changes of the NEEG and the programme for competitiveness adjustment together and illustrates their operation in concrete cases. Here I show, therefore, how the promotion of competitiveness adjustment through the NEEG, and its politics of class, has played out in practice in uneven and varied ways. Chapter 4 focuses on the imposition of competitiveness adjustment in Greece, Portugal, Ireland and Cyprus by means of the newly created financial assistance facilities – in particular the European Stability Mechanism (ESM). Chapter 5 concentrates on the promotion of competitiveness adjustment in Spain, Slovenia, Italy and France through the new Macroeconomic Imbalance Procedure (MIP). In sum, these last two chapters illustrate, and further support, the general argument of the thesis that the process of integration during the crisis followed significantly from the objective to promote competitiveness adjustment, which entails a class strategy to empower capital over labour.

First, Chapter 4 elaborates on the regulations and procedures that define the only permanent Financial Assistance Facility, the ESM, to show how it has been set up to enforce competitiveness adjustment in situations in which Member States have lost de facto access to financial markets. The ESM provides competences to EU-level executives to hold Member States accountable in respect of their commitment to foster competitiveness through structural reforms in such cases. The key innovation in this context is that the ESM empowers dramatically the enforcement capacity of these executives, who are in fact the Eurogroup represented by the Commission and the ECB in liaison with the IMF (the Troika). Through this new governance instrument, the latter can take advantage of the pressure imposed on Member States by financial markets when increasing interest rates make it unbearable to service the public debt. If a ‘programme country’ does not comply with the policy-conditionality agreed with the EU-level executives, it risks being cut off from the financial assistance, potentially, to the extent of
public insolvency and the exclusion of the EA. Thus, the ESM strengthens the EMU’s institutional selectivity towards competitiveness adjustment by supplementing the reliance on financial market discipline with direct executive control.

Further, the Chapter discusses the varied and uneven ways in which the four ‘programme countries’ have been committed to reforms of competitiveness adjustment and, thus, to facilitating capital’s confrontation of the labour force to depress unit labour costs. The promotion of competitiveness adjustment has been uneven as Greece and Portugal have seen the most extensive adoption of the reform-program, in contrast to Cyprus and especially Ireland. It has been varied as the labour-cost-oriented strategy has been more pronounced than the productivity-oriented one. In other words, the modus operandi of the crisis management has been the unemployment-driven reduction of labour costs. The direct interventions strengthen the capacity of employers vis-a-vis workers to push down wages through revisions of wage regulations, decentralisation of collective bargaining and deregulation of employment protection legislation. This is complemented by the indirect interventions that intensify and facilitate the downward-wage pressure exerted by the high levels of unemployment during the EA crisis, through reductions in public sector employment and activation policies for the elderly (potentially retiring) and unemployed, which include cuts in social security systems. Overall, the enforcement of competitiveness adjustment in Greece, Portugal, Ireland and Cyprus through the new instruments of financial assistance entails a class strategy to assert capitals’ control over the labour force.

Chapter 5: The Politics of Class of the Economic Surveillance: The Macroeconomic Imbalance Procedure and Competitiveness Adjustment in Spain, Slovenia, Italy and France

Chapter 5 continues to illustrate the promotion of competitiveness adjustment through the NEEG by looking into the operation of the MIP. I start by showing how the MIP functions as a tool for EU-level executives to hold Member States accountable in respect of their commitment to fostering competitiveness through labour market reforms. However, in comparison to the financial assistance, the MIP is an ordinary surveillance procedure that applies to everyday policymaking. Thus, the MIP extends the imposition of
competitiveness adjustment through EU-level governance instruments from the special situation of financial assistance to a pre-emptive regime of everyday EA-wide policymaking. Also here the enforcement capacity of EU-level executives has been reinforced by combining ‘softer’ and ‘harder’ instruments: persuasion and ‘naming and shaming’ is applied in a systematic fashion and backed up with the deterrent effect of potential financial sanctions.

In the context of the operation of the MIP, the Chapter addresses subtle changes taking place in the development of the New European Economic Governance coming to the fore around 2013. After a prolonged period of skyrocketing levels of unemployment and falling incomes, the Commission put forward the initiative to strengthen the social dimension of the EMU in 2013, which led to the integration of social issues such as unemployment and poverty into the macroeconomic surveillance procedures, as well as the policy recommendations following from it. However, I argue that this development is not a shift away from the agenda of competitiveness adjustment. On the contrary, it is a strategic adaption of this agenda to make the implementation of competitiveness adjustment by Member States viable in the long run. By means of some social concessions, the Commission attempts to manage some of the contradictions that arise from the adjustment process and threaten its effective implementation, i.e. worsening conditions for the social reproduction of labour-power with suitable skills and increasing political instability.

In light of this attempted management of the contradictions arising from competitiveness adjustment, the Chapter discusses the strategically adapted promotion of this reform-programme through the MIP in Spain, Slovenia, Italy and France between 2012 and 2015. The confrontation between capital and labour to compress unit labour costs is here facilitated in a more balanced fashion placing a stronger emphasis on the productivity-oriented strategy after 2013, which is supported further through social concessions (i.e. improvements of basic social protection and demand-side employment measures). The constant direct intervention made throughout the years is the liberalisation of employment protection legislation, which gives employers more freedom to hire and fire and, therefore, to dispose of less productive workers and replace them with more productive ones. Correspondingly, the indirect interventions put forward extensive
reforms of education systems in all four countries, to supply employers with a suitable trained labour force to draw on. In concert, these measures facilitate the capacity of employers to drive up labour productivity and compete on the world market. While some key measures of the labour-cost-oriented strategy remain on the agenda, as e.g. the activation of the elderly by dismantling pension systems, others fade into the background after 2013 (including the decentralisation of collective bargaining and cuts in public employment). Moreover, insofar as social concessions take the form of subsidising youth employment by means of public funds, they run directly against the logic of the labour-cost-oriented strategy as they increase the demand for labour-power. Overall, these measures in concert show a class strategy to empower capital over labour that has, however, been strategically adapted to the changing social and political environment to make it viable in the long run.

Finally, the Concluding Chapter summarises the arguments and contributions made throughout these five chapters in regard to the three Research Themes, their three sets of research questions and the overarching research question of the thesis. Moreover, avenues for future research are proposed.
CHAPTER 1
European integration & Class: The System of Subsidiarity and Competitiveness adjustment

Introduction

In the previous section, I have argued that the ‘European integration orthodoxy’ has failed to recognise the dramatic reorganisation of labour markets in the Euro-Area as integral to the process of European integration during the crisis. The promotion of labour market reforms through the governance framework of the EMU does not factor into the analysis of the emergence of the New European Economic Governance (NEEG), even in the light of the uncompromising implementation of structural reforms. Rather, the policy mix of the EMU is reduced to an asymmetrical relation between centralised monetary policy and decentralised fiscal policy, while labour market policy fades into the background. The dominant literature remains therefore prone to the critique raised that its “institutionalist focus on the form of the integration process” prevents a deeper analysis able to “identify the socio-economic content of the integration process, or the social purpose underpinning political authority in the contemporary EU” (van Apeldoorn et al., 2003, p. 20)(cf. Andreas Bieler, 2005; cf. Nousios et al., 2012, pp. 3–15).

I have argued further that the underlying methodological constraint of the ‘European integration orthodoxy’ is the separation of disciplines and, therefore, the separation of the economic (‘the market’) and the political (‘the state’) as two distinct forms of social organisation. Consequently, the common social constitution of these social forms in the social relations of production is not considered (Andreas Bieler, 2005; Werner Bonefeld, 2001a; M. Ryner, 2012). Instead, European governance is abstracted from class relations and is attributed intrinsically benign properties. In other words, the dominant literature eschews addressing the political dimension of labour relations in the process of European integration. The conundrum that follows from this view, however, is that the politics of the NEEG appear as a dramatic policy mistake. I have thus made the case for an alternative class-based approach to European integration based on a systematic
conceptualisation of the relations between ‘the state’, (the EMU), and the social relations of production, in other words the relation between capital and labour. This conceptualisation is presented in this chapter and captured in the notion of the “system of subsidiarity”, as coined by Bonefeld (2015, p. 12).

The advantage of this conception is that it respects the integrity of the policy mix of the EMU recognizing the key role of labour markets for purposes of economic adjustment. Moreover, European governance is not understood as intrinsically benign but as an expression of the contradictions and conflicts that pertain to capitalist social relations. This conceptualisation of the EMU is, therefore, the first step to identify the institutional changes made to the governance framework since the crisis – Research Theme 1 – and to reflect upon this process of integration on the grounds of the promotion of labour market reforms and class politics – Research Themes 2 and 3. The present chapter responds, therefore, to these research questions:

- Research Theme 1: What was the initial institutional design of the economic governance framework of the EMU?
- Research Theme 2: What is the role of labour market policy in the policy mix of the EMU?
- Research Theme 3: How did the initial governance framework of the EMU relate to the class antagonism between capital and labour (RT3)?

The first section introduces briefly the social-historical conception of class as the analytical starting point. The second section analyses in detail the governance framework of the EMU, referred to as the system of subsidiarity, and its institutional selectivity towards competitiveness adjustment, which are the two main analytical concepts of the thesis. The greater part of the latter section focuses on the discussion of competitiveness adjustment introducing the underlying politics of class. The third section positions my research in regard to the relevant HM literature. Finally, the conclusion sets out a roadmap for the chapters to come.
1. A class-analytical approach

The analytical starting point for the research project is the Marxist conception of class. In this sense class is not a “structural location” but a “social relation” (Wood, 1995, p. 76). As Wood (1995) puts it:

The first and more common of these treats class as a form of 'stratification', a layer in a hierarchical structure, differentiated according to 'economic' criteria such as income, 'market chances' or occupation. In contrast to this geological model, there is a social-historical conception of class as a relation between appropriators and producers, determined by the specific form in which, to use Marx's phrase, 'surplus labour is pumped out of the direct producers'. (p. 76)

While the former conception of class serves to research social inequalities through “indirect relations of comparison among people differentially situated in a structural hierarchy” (p. 76), the latter concentrates on the “contradictions and conflicts” in the relation between producers of wealth and owners (or appropriators) of wealth to “account for social and historical processes” (p. 77). Thus, the methodological protocol is to approach the recent historical process of integration in the Euro-Area on grounds of the contradictions in the specific social relation through which “surplus labour is pumped out of the direct producers”.

The historically specific form of this relation is captured in Marx’s (2008, pp. 49–213) Labour Theory of Value, which is at the core of his critique of political economy. Value, according to Marx, is a social relationship pertaining to commodity-producing societies through which different forms of concrete labour are put into equivalence (cf. Fine, 1998, pp. 261–265). Crucial to Marx’s (2008) value theory is the distinction between labour and labour-power (pp. 181-191, pp. 200-213), “the latter being the capacity to work from which the former follows” (Fine, 1998, p. 257). This distinction allows Marx to argue that the labour market is not a “market for labour” (Fine, 1998, p. 257) but what is actually exchanged is the capacity to work – labour-power – in return for a monetary wage that contributes to the maintenance of the worker’s capacity to work. Thus, “how much work is actually delivered, and its quality, depend upon conflict within the production process itself” (p. 257).
This conflict is based on the peculiar character of the commodity labour-power that it can deliver more work than required for its own maintenance. The particular use-value of the commodity labour-power is that it is the only commodity that can produce value in excess of what its own value demands in exchange (Marx, 2008, p. 181, p. 208-209). It is, therefore, the “source of surplus value from which all forms of exploitative revenue – profit, interest and rent – are derived” (Fine, 1998, p. 257). If the owners of capital are to make a profit, then the time worked by the worker must exceed the necessary labour-time for which she is remunerated (producing consequently surplus labour). From this follows that “in the hidden abode of production the labourer is no longer free, for the reproduction of capital depends on the capitalist controlling the process of production and compelling the labourer to work beyond the necessary labour-time” (Simon Clarke, 1991, p. 7). However, the working class\textsuperscript{18} is not simply “a passive servant” (ibid.) but potentially a collective force against capital. The resolution of this contradiction is a matter of class struggle. In Marx’s (1901) well-known words:

> The fixation of its actual degree [of exploitative revenue] is only settled by continuous struggle between capital and labour, the capitalist constantly tending to reduce wages to their physical minimum, and to extend the working day to its physical maximum, while the working man constantly presses in the opposite direction. The matter resolves itself into a question of the respective powers of the combatants. (p. 120)

In sum, the wage-relation between capital and labour conceals an antagonistic relation through which “surplus labour is pumped out of the direct producers” (Wood, 1995, p. 76).

However, the contradictions and conflict between capital and labour neither starts nor ends here. Before the commodity labour-power can be bought and sold, it needs to be found at the labour market in the first place. The pre-condition for the buying of labour-power is the dispossession of the seller leaving her with no other means than to offer her

\textsuperscript{18}In the following I will use the concept of ‘labour force’, or ‘working class’, as defined by Vogel (2013): “The term working class is sometimes interpreted as referring solely to wage-workers. (...) Such categorisation abandons all those not in the labour-force – children, the elderly, and the disabled, as well as non-working wives – to a theoretical limbo outside the class-structure. Here, the working class will be viewed as consisting of a society’s past, present, and potential wage-labour force, together with all those whose maintenance depends on the wage but who do not or cannot themselves enter wage-labour. At any given moment, it comprises the active labour-force, the industrial reserve-army, and that portion of the relative surplus-population not incorporated in the industrial reserve-army”. (Vogel, 2013, p. 166)
labour-power at market (cf. Marx, 2008, 741-792). “In reality”, as Marx (1976) remarks, “the worker belongs to capital before he has sold himself to the capitalist.” (p. 723). Thus, Marx’s conception of class concentrates “on the exchange between capital and labour as a whole, in which capital monopolises the means of production whilst labour’s access to a livelihood is contingent upon selling labour-power” (Fine, 1998, p. 262). From this follows also that the category of class is analytically prior to the analysis of the institutions of bourgeois society (cf. S. Clarke, 1978, pp. 41–42). As Burnham (1999) puts it:

The presupposition of bourgeois society is not money, trade or ‘markets’. Rather, the dominance of the commodity-form is itself dependent on the prior establishment of bourgeois class relations which begin with ‘primitive accumulation’ and are maintained through continuous struggles to achieve the subordination of labour through the imposition of work. (p. 38).

Marx’s critique of political economy reveals, therefore, the “social content” of the abstract categories of economic thought (as money, market, wage and profit, etc.) by reducing them “to relations between humans” (Werner Bonefeld, 2006, p. 178). These human relations are revealed as relations of struggle and subordination of labour – in short, relations of class. Thus, instead of presupposing the separation of ‘state’ and ‘market’ as two distinct social organisations, a Marxist-inspired analysis asks for their common social constitution in class relations.

For the inquiry of European integration, Bonefeld (2001a, 2012, 2017) has suggested such an approach and interrogated the class content of the EMU. For Bonefeld, the social purpose of the EMU is to restrict popular-democratic demands, while enhancing the relative productivity of labour, in other words enhancing the exploitation of workers’ productive capacities. My own research draws from this conception of the EMU – referred to as the “system of subsidiarity” (Werner Bonefeld, 2015, p. 12) – which I discuss next. However, while I draw from Bonefeld’s work, my research treats a different topic. Bonefeld’s (2013, 2015, 2017) recent research has focused on a critique of

19 “(…) capital is not a thing, but rather a definite social production relation, belonging to a definite historical formation of society, which is manifested in a thing and lends this thing a specific social character. Capital is not the sum of the material and produced means of production. Capital is rather the means of production transformed into capital, which in themselves are no more capital than gold or silver in itself is money. It is the means of production monopolised by a certain section of society, confronting living labour-power as products and working conditions rendered independent of this very labour-power, which are personified through this antithesis in capital.” (Marx, 2000, p. 1091).
ordoliberalism and of the authoritarian character of the EU institutions. Instead, my thesis concentrates on the form and content process of European integration during the crisis. I return to the distinctiveness of my class-based approach in the last section.

2. The governance framework of the EMU: the system of subsidiarity

On 2 May 1998 Europe's leaders took the historic decision to introduce the single currency, the euro. The move to the last phase of EMU – Economic and Monetary Union – on 1st January 1999, marked a watershed in European integration. Although economic in substance, it sent a very powerful political signal...

- European Commission (2008b, p. 2)

The supranational governance framework of the EMU is based on a particular policy mix, encompassing the fields of monetary, fiscal and labour market policy, creating a Euro-Area-wide commitment towards (1) price stability (2) fiscal discipline and (3) competitive labour markets and unit labour costs (Werner Bonefeld, 2001a, 2017, pp. 135–143; De Grauwe, 2006; Jones, 2013). European integration scholars have referred to this policy mix of the EMU as the “Brussels-Frankfurt Consensus” (De Grauwe, 2006, p. 724; Jones, 2013, p. 146). Bonefeld (2001a, 2012, 2017) has articulated a critique of this policy mix, in the context of the research project of Open Marxism, and investigated the politics of class that follows from it. The crux of Bonefeld’s argument is that the governance framework of the EMU constraints popular-democratic control over economic policy, while economic adjustment depends on the achievement of “greater labour productivity” (Werner Bonefeld, 2015, p. 12). The EMU, in other words, does not only erode popular parliamentary democracy but it puts the burden of economic adjustment on the working class. “The decision to create a common currency was – at its core – political”, to borrow the words of Jones (2013, p. 147).

Bonefeld’s research on the EMU has been influenced by the work of Carchedi (1997).
The reason for this is the hierarchical arrangement of the policy mix of the EMU, referred to by Bonefeld as the “system of subsidiarity” (Werner Bonefeld, 2015, p. 12). Within this system, monetary policy focused on price stability is conducted at supranational level\footnote{I use the concepts ‘supranational level’ and ‘EU-level’ interchangeably.} by a “stateless central bank” (Werner Bonefeld, 2017, p. 137; Streeck, 2015, p. 369), which is an autonomous technocratic authority. National fiscal policy operates through a supranational rules-based framework of budgetary control under the oversight of the European executive institutions (i.e. European Commission and Council), which are committed to fiscal discipline. “Fiscal policy is the forte of neither the national state nor the EU — it is located in the twilight zone between the Member States and the EU”, as Bonefeld puts it (2015, p. 13). Further, before the establishment of the New Economic Governance, labour market policy remained the competence of national governments that operate under conditions of increased competitive pressure through the common market and currency. The consequence of this supranational governance framework of the Monetary Union is that Member States cannot adjust to macroeconomic imbalances (e.g. decline of output, current account deficits, unemployment, private and public debt) by means of inflationary monetary and fiscal policy, or exchange rate adjustment, but only through the achievement of ever greater international competitiveness through the reduction of unit labour costs (Bonefeld, 2017, pp. 136). As Bonefeld (2001a) writes:

The subsidiarity principle of EMU is hierarchically structured with monetary policy at the supranational level, fiscal policy at the intermediate level, and labour market policies of deregulation, flexibilization and privatization at the national level. Within this Troika, the supranational level of monetary policy is decisive. EMU renounces the ‘competitiveness instruments of the poor countries (inflation and devaluation), it calls industrial capital to task, and thus is functional for the greater creation of surplus (value) rather than simply for a more favourable redistribution of the (surplus) value created’ (…). Whether it will be functional remains, of course, to be seen. Nevertheless, EMU makes clear that employers will have to improve competitiveness on the basis of lower labour unit costs and that is through the intensification of the exploitation of labour’s productive power. Failure to exploit labour more effectively will carry the risk of competitive erosion and bankruptcy. (p. 89)

Thus, the governance framework of the EMU – the system of subsidiarity – creates a specific institutional logic that requires Member States to foster competitiveness, in the
form of lower unit labour costs, by facilitating employers’ confrontation of workers. I will refer to this logic throughout the thesis as the institutional selectivity of the EMU towards competitiveness adjustment. According to Bonefeld (2001a), this shows the class character of the EMU as the objective to achieve competitive unit labour costs means nothing else but “the intensification of the exploitation of labour’s productive power” (p. 89). In contrast to Bonefeld, however, I will argue in subsequent chapters, that independent of whether this quantitative objective is achieved or not, the politics of competitiveness of the EMU empowers capital over labour. I reveal, therefore, the qualitative dimension of the class relation – that is, the intervention with the balance of power between capital and labour.

In the following, I will discuss the system of subsidiarity and its institutional selectivity in more detail on the grounds of the Treaty of the Functioning of the European Union (TFEU) and, additional, policy documents of the European Commission and the ECB. Moreover, I draw from Marxist and traditional European integration scholars (especially economists

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22 In the subsequent chapters, I will keep on using this expression, which was inspired by Bonefeld’s (2001a) statement: “the politics of subsidiarity envisages that the institutionalisation of price stability at the supranational level will support national governments in the effort of achieving a full scale ‘marketization’ of the ‘factor labour’ and force employers to maintain competitiveness by confronting the working class in the contested terrain of production to increase labour productivity.” (p. 96).

23 Marxist research on statehood is much indebted to Jessop’s work, who also popularised the notion of “strategic selectivity” (Jessop, 1990, pp. 9–10), which sounds similar to my concept of ‘institutional selectivity’. However, there are significant differences in the meaning of the concepts given the theoretical framework, and the purpose of research, in which they are applied. ‘Strategic selectivity’ is used, within Jessop’s strategic-relational approach, to refer to the “bias inscribed into the terrain of the state as a site of strategic action” (p. 10). “Particular forms of the state”, as Jessop puts it, “privilege some strategies over other, privilege the access of some forces over others, some interests over others (…)” (p. 10). The purpose of the approach, in which this concept is used, is “to develop middle range concepts for analysing the state which are commensurable with the fundamental categories of Marxist political economy” (as for instance Jessop’s endeavour to analyse the “significance of Thatcherism in the transition to post-Fordism”) (p. 10, my italics).

In contrast, ‘institutional selectivity’ is used in my class-analytical approach to refer, more specifically, to the functioning of hard law mechanisms to channel decision-making into a certain direction. The concern lies not with specific modes of regulation (or other middle range ideal types) to analyse the state but with revealing the fundamental class content of the state - as a critique of traditional approaches that neglect the class content by separating the political from the economic. In other words, the approach is not to develop middle range categories, which somehow connect the abstract and the concrete, but to develop categories that reveal that the abstract is realised in the concrete. Thus, the concept of ‘institutional selectivity’ does not refer to institutional characteristics of a specific mode of capitalist regulation, e.g. fordist/post-fordist, social-democratic/neo-liberal or Keynesian or Schumpeterian modes (or ideal types), but to a concrete institutional realisation of the more enduring feature of capitalist social relations as class relations, i.e. exploitative relations through which wealth is produced and appropriated. As Bonefeld argues: “Whether one refers to it as neoliberal, post-neoliberal, Keynesian, Fordist or post-Fordist, the state’s purpose, which is intrinsic to its bourgeois character, is to ‘govern over the labour force’” (W. Bonefeld, 2010, p. 22).
of European integration) to illustrate the logic of the institutional design of the EMU. First, I will discuss monetary and fiscal policy. Afterwards, I will focus on labour market policy and its class character. In the remainder of the chapter, I will indicate the distinctiveness and contribution of my research to the relevant HM literature (including Open Marxism).

2.1. Monetary policy: price stability

The creation of the common currency has abolished the capacity to conduct monetary, and thus exchange-rate, policy unilaterally at national level. Instead, monetary policy is an exclusive EU-level competence executed *autonomously* by the European Central Bank (ECB). The ECB is limited in its policymaking capacities by a strict mandate for *price stability*, which in practice refers to an inflation target of below 2% (Flasabeck & Lapavitsas, 2015, p. 135). As inscribed in Article 119.2 TFEU (2007):

> ...the definition and conduct of a single monetary policy and exchange-rate policy the primary objective of both of which shall be to maintain price stability and, without prejudice to this objective, to support the general economic policies in the Union, in accordance with the principle of an open market economy with free competition.

Thus, the ECB was not designed, as Streeck (2015) puts it, to manage “Keynesian money” (p. 369), that is, to accommodate popular-democratic (or labour-related) demands within national economies through monetary policy measures (cf. Scharpf, 2016, pp. 1–4). The single currency is “not suitable for democratic market correction, for example in pursuit of full employment.” (Streeck, 2015, p. 369). In fact, the ECB’s mandate forecloses the possibility for the central bank “to act as a lender of last resort to indebted states and insolvent banks” (Werner Bonefeld, 2017, p. 139) (cf. Stephen Gill, 1998, pp. 15–16). According to De Grauwe (2013a), Member States have therefore lost dramatically in economic policy discretion:

> When the Eurozone was started a fundamental stabilizing force that existed at the level of the member states was taken away from these countries. This is the lender of last resort function of the central bank. Suddenly, member countries of the monetary union had to issue debt in a currency they had no control over. As a result, the governments of these countries could no longer guarantee that the cash would always be available to roll over the government debt. Prior to entry in the monetary union, these countries could, like all stand-alone countries, issue...
debtor in their own currencies thereby giving an implicit guarantee that the cash would always be there to pay out bondholders at maturity. The reason is that as stand-alone countries they had the power to force the central bank to provide liquidity in times of crisis. (p. 9)

However, the ECB has been set-up as an autonomous body for policymaking acting beyond the powers of a single Member State and was prohibited by law to take on the function as a lender of last resort. Article 123 TFEU (2007) establishes that the ECB must not make use of financial instruments to directly finance Member States (Oberndorfer, 2014, pp. 31). The more general mandate for economic policy support becomes, as a consequence, practically obsolete in this configuration. As Jones (2013) points out: “...successive ECB presidents have argued that assurance of price stability is the best and only real support that monetary policy makers can offer in the service of other economic objectives” (148) (cf. De Grauwe, 2006, pp. 724–727). In short, the EMU removed monetary policy from national governance and strictly restricted its operation at the supranational level.

This is a key institutional arrangement of the EMU, which under conditions of inflexible fiscal policy, leaves no other options for national adjustment to economic imbalances but the achievement of competitive labour markets and unit labour costs (cf. Werner Bonefeld, 2017, pp. 139–143; De Grauwe, 2006, pp. 724–727; Jones, 2013, p. 149). Conversely, exchange-rate and monetary policy also cease to be instruments to shield labour markets from competitive pressures. “Instead of adjusting national prices to world market conditions by meddling with monetary conditions and the depreciation of currency exchange rates, the achievement of greater labour productivity becomes the means of competitive adjustment”, as Bonefeld summarises aptly (2015, p. 11).

2.2. Fiscal policy: fiscal discipline

I think it will be enough if we realise that it was the system, the incomplete and vulnerable EMU that kind of forced the people to take these suboptimal decisions. Barrosso and Renzi and Merkel and Holland, they were kind of acting within the constraints of a system, which was not really set up for a bold counter-cyclical response.

- Interview 5, DG EMPL
In contrast to monetary policy, fiscal policy is a national competence of the Member States of the EMU that is, however, “shared with the Union” (Werner Bonefeld, 2017, p. 140). Member States operate through EU-level procedures and coordination within a strict rules-based framework under surveillance of EU institutions that may take actions against individual Member States. The main objective is fiscal discipline (Werner Bonefeld, 2017, p. 140; De Grauwe, 2006, pp. 724–727; Stephen Gill, 1998, p. 16; Jones, 2013, pp. 148–149) as put forward by Article 126.1 TFEU (2007): “Member States shall avoid excessive government deficits”. For this purpose, reference values for governmental debts and deficits – the so-called Maastricht Criteria of 60% and 3% – were introduced through Article 126 TFEU as well as the ‘excessive deficit procedure’, which includes the possibility for financial sanctions. Moreover, the Stability and Growth Pact (SGP) was launched in 1997 to further specify the procedures for fiscal policy coordination and excessive deficits defining a preventive and corrective arm based on EU-level surveillance (Oberndorfer, 2014, pp. 36–37). Since the outbreak of the financial crisis in 2007/8, several new legal instruments have been adopted through the Six-Pack and Two-Pack legislations in 2011 and 2013, as well as through the new intergovernmental treaty, the Fiscal Compact in 2013, to ensure the Member States’ commitment to fiscal discipline. I will address these instruments in Chapter 2.

These legal provisions for fiscal discipline restrict governmental discretion to engage in expansionary and anti-cyclical deficit spending (De Grauwe, 2006, pp. 724–727). They do so not only at national but also at the community level (Werner Bonefeld, 2015, 2017, pp. 140–141; cf. Scharpf, 2016, pp. 1–4). The EMU restricts national fiscal policy discretion through supranational rules without establishing a supranational fiscal capacity, as the latter “would have reasserted the prospects of Keynesian deficit spending and interventionism at the supranational level” (Werner Bonefeld, 2017, p. 140). Democratic pressures on fiscal policy are thus effectively restricted at national level and remain without a medium at the supranational one. This straitjacket for national fiscal policymaking, moreover, becomes reinforced through prohibitions in the legal order of

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25 The Fiscal Compact is officially called the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG). It establishes, inter alia, the balanced-budget-rule.
the EMU that prevent external financing through the community or other Member States. Article 125.1 TFEU (2007)\(^\text{26}\) legislates that neither the Union, nor another Member State, should assume the liabilities of a Member State of the EMU (cf. Oberndorfer, 2014, pp. 31). Nor is the ECB allowed to do so, as noted above (see TFEU, 2007, Article 123)\(^\text{27}\).

This fiscal policy regime is well summarised by the former Commissioner Laslo Andor (2013), reflecting on the recent crisis management. He emphasises the limitations imposed on anti-cyclical and expansionary fiscal policy:

National fiscal policies are (logically) subject to rules and oversight that aim to prevent individual governments from becoming insolvent and undermining the euro's stability. However, these rules can lead to pro-cyclical fiscal consolidation, and there is unfortunately no shared fiscal capacity that would enable collectively agreed fiscal expansion in times of massive cyclical downturn or in the case of strong asymmetries between different parts of the currency union. The EMU is ill-equipped to deal with asymmetric shocks (such as excessive capital inflows or the bursting of construction or finance bubbles in some member economies) due to the absence of fiscal transfers of a cross-national nature that could help synchronise economic cycles by channelling disposable income from momentarily stronger to momentarily weaker countries (where they could fuel the economy faster). (p. 1)

The EMU does thus not provide for a centralised fiscal capacity, nor does it provide for fiscal transfers to support economic adjustment of Member States to changing conditions at the world market (De Grauwe, 2006, pp. 724). In the creation of the EMU, the “loss of national problem-solving capacity was not compensated with functionally equivalent European governing powers”, as put by Scharpf (2016, p. 2). This, however, is not simply a ‘deficiency’ of the governance framework of the EMU. Rather, it is a commitment of Member States to prevent expansionary fiscal policy and focus on labour markets as the medium of adjustment. As De Grauwe (2006) remarks in a footnote in his analysis of the EMU:

One of the referees of this article pointed out that there is a certain coherence between the SGP and the need for [labour market] flexibility. The SGP implements a fiscal framework for the monetary union that does not provide stabilizing


\(^{27}\) Oberndorfer (2014, pp. 31) remarks therefore that Member States’ public finances become solely dependent on capital markets. This increases the pressure of fiscal discipline.
transfers. As a result, not only does it put additional pressure on national budget consolidation, but it also increases the pressure to introduce more flexibility in the labour markets. (p. 724)

Hence, De Grauwe (2006) sums up the logic of the EMU (with remarkable anticipation of the crisis management to come): “… the way to deal with asymmetric shocks is to increase [labour market] flexibility. (...) an increase in flexibility raises the sustainability of a monetary union. Thus, a monetary union can be made sustainable by introducing structural reforms” (p. 724).

2.3. Labour market policy: competitive labour markets and unit labour costs

The institutional arrangement of the monetary union places the burden of adjustment to changing economic conditions in the world market on labour. More precisely, adjustment requires competitive labour markets and unit labour costs (Alesina et al., 2011; Blanchard, 2007; Werner Bonefeld, 2015, 2017, pp. 141–142; De Grauwe, 2006). Monetary and fiscal policy are inflexible. National currency devaluations are ruled out by the single currency and fiscal transfers by the fiscal policy regime. The consequences are two-fold. On one side, labour markets cannot be protected from the pressures of world market competition through these policy instruments. Member States are “no longer able to devalue its currency or manipulate the supply of money to protect labour markets from competitive pressures” (Werner Bonefeld, 2017, p. 137). It is rather the opposite: the single market of the EMU induces further competitive pressures between the nationalised labour market arrangements, as there is no European-wide labour market regime but only national ones (Werner Bonefeld, 2017, p. 142; Grahl, 2015, p. 171). As Grahl (2015) puts it: “a unified labour market regime across the EU as a whole would hardly be welcome to big corporations, which value their ability to regime shop and the regime competition which follows from such shopping.” (p. 171). On the other side, the achievement of competitive labour market arrangements and unit labour costs become the pending option of Member States to adjust the national economic performance to changing global economic conditions, as happened during the Euro-Area crisis. A Member State of the monetary union “would be able to service and repay its debts only if it produced current account surpluses by restoring its competitiveness”, as discussed by
Flassbeck and Lapavitsas (2015, p. 141) in this context. Bonefeld (2017) concludes, thus, that the EMU “narrows the policy options available to the democratically constituted Member States to the planning of competition”, mainly through labour market policy (p. 143).

The question is, therefore, how do policymakers plan for competition in the EMU given its institutional selectivity? The secret lies in the notion of competitiveness, which requires therefore some explanation. The ECB’s President M. Draghi (2012a) summarises it as follows:

Competitiveness, broadly defined, is firmly grounded in a notion of relative productivity: a competitive economy is one that provides the institutional environment necessary to foster the development of highly productive firms. Such firms have the capacity to sell their goods and services abroad easily and profitably, contributing to longer-term economic growth (…). But competitiveness is not only international price competitiveness. Competitiveness is also related more broadly to a country’s external performance. Analysis of this broader concept of competitiveness includes indicators of export growth, market shares and current account balances. Prices, costs and wages are important factors in determining the ability of firms to compete in international markets. But for firms – and thus countries – to adjust successfully to the big changes implied by globalisation, other factors have become increasingly important. These include the range and quality of the products a country exports. In this regard, countries in the euro area can take advantage of their high technological advancement and well-educated labour forces. (…) Against this background, the domestic environment in which firms operate is central to fostering competitiveness. (para. 15-20)

Competitiveness, thus, refers to the creation of an institutional environment that enhances the capacity of individual capitals in the Monetary Union to compete in the world market and sell their products abroad profitably. “In the end”, according to the five Presidents of the main European institutions, “a competitive economy is one in which institutions and policies allow productive firms to thrive” (European Commission, 2015a, p. 8). Correspondingly, in national terms, it is also defined as “a country’s external performance and its capacity to sell its output on the world market” (European Commission, 2009b, p. 18).

Following Draghi’s words, the creation of a suitable institutional environment for “firms to thrive” can be broken down into the concise definition of competitiveness as (1) international price competitiveness and (2) a broader conception including non-price
competitiveness (cf. European Commission, 2009b, pp. 18–22). The first refers to an institutional environment that facilitates the development of the productivity of labour and reductions in the costs of labour (‘downward wage-flexibility’). International price competitiveness is, thus, most prominently measured in terms of unit labour costs, which captures both aspects (cf. Blanchard, 2007; Draghi, 2012a; European Commission, 2012f, pp. 14–16). The second refers to an institutional environment that supports more broadly the external performance of the domestic export industry including the quality and range of products. Non-price competitiveness is, however, hard to define and measure (European Commission, 2009b, p. 21). This leads to the conception of non-price competitiveness simply as everything else but price competitiveness that provides for a broader picture of the export performance, as stated by the Commission (2009b): “it can be viewed as the sum of all factors other than prices and costs that impact on trade performance (e.g. product quality, the efficiency of sales networks, industry specialisation, etc.)” (p. 21). While the broader conception of competitiveness is therefore not ignored, it is of secondary significance to the politics of crisis in the Euro-Area (see Chapter 3).

In sum, economic adjustment in the EMU requires the creation of an institutional environment that promotes international price competitiveness and non-price competitiveness.28 It is this strategy for economic adjustment to which I refer in the following as the strategy of “competitiveness adjustment”, drawing from the wording of the European Commission elsewhere (2009b). I will now discuss the functioning of this adjustment process in basic terms and touch upon the reform programme for labour markets that follows from it, which is however elaborated in detail in Chapter 3. I concentrate the discussion on price competitiveness as it has been the focus of policymaking during the Euro-Area crisis (especially as it can be implemented in the short term) and consequently also of the academic literature (cf. Blanchard, 2007; Werner Bonefeld, 2017; Flasbeck & Lapavitsas, 2015; Scharpf, 2016). My argument is that this institutional selectivity towards competitiveness adjustment reveals the class character of the governance framework of the EMU. Afterwards, I outline the competences for labour market policy within the system of subsidiarity.

28 An alternative form of adjustment, to reduce unemployment only, is the movement of workers across Member States of the monetary union, which is however a “relatively limited” (European Commission, 2015a, p. 7) option in the Euro-Area (Blanchard, 2007, pp. 8–9; Jones, 2013, pp. 149–151).
2.3.1. Competitiveness adjustment

International price competitiveness can be fostered in two ways: increasing the productivity of labour (that is, increasing the exploitation of workers productive capacities); and/or establishing downward flexibility of labour costs (that is, increasing the capacity of employers to reduce the distributional share of income of the labour force). While the former might be regarded as more desirable and politically feasible, boosting productivity is a less suitable endeavour for the short-term, as it is a longer-term process. In any case, it goes hand in hand with the containment of wage growth as productivity growth can only improve price competitiveness if it is not nullified by wage growth. This is well explained by the former Chief Economist of the IMF, Olivier Blanchard\(^\text{29}\) (2007), in an influential paper\(^\text{30}\) written before the crisis about “Adjustment within the euro”:

Higher productivity growth is clearly desirable on its own as it implies a higher rate of growth of GDP per capita. And it will improve competitiveness so long as it is not fully reflected in wage growth. (...) Even with dramatic reforms, productivity growth is unlikely however to increase overnight. Thus, another and potentially much faster way to reestablish competitiveness is to decrease nominal wage growth —indeed, given the circumstances, to achieve a decrease in nominal wages—without relying on unemployment to do the job over time. (p. 8)

The only short-term adjustment mechanism in the Euro-Area is therefore the reduction of labour costs. As put in a nutshell by the former European Commissioner for Employment and Social Affairs, Laslo Andor (2013):

In its present form, the EMU (and particularly its third stage, i.e. currency union) excludes unilateral adjustment of its member economies through the exchange rate or interest rate (by definition), as well as by inflation or fiscal expansion (by design). The only remaining adjustment mechanism is so-called internal devaluation, which involves social damage: it is an effort to restore price competitiveness by reducing costs, including through layoffs and wage cuts in both the public and private sectors. (p. 1)

Thus, according to Emerson (1992 in Bonefeld, 2017) “wage-price flexibility remains the basic adjustment channel as a substitute for the nominal exchange rate” (p. 142), even though it creates social damage. The technical mechanism envisioned here in the EMU is

\(^{29}\) Olivier Blanchard was Chief Economist of the IMF between 2008 and 2015 and therefore during the years of crisis management relevant to this research project.

\(^{30}\) An interviewee from the European Commissions’ DG ECFIN pointed out the importance of Blanchard’s paper to the crisis management in the Euro-Area (interview 8).
explained by the Commission (2012h) in the second Economic Adjustment Programme for Greece:

The prompt adjustment in wages is particularly important in the context of the monetary union, as the effective exchange rate needs to adjust through nominal prices and wages, rather than movements in the nominal exchange. The downward wage flexibility helps viable companies to reduce their production costs, thus creating a potential gains in external market shares, promote investment and thus, to accelerate the much needed change in the structure of the economy. (p. 38)

In sum, the reduction of labour costs is supposed to improve profitability, export performance and attract investment. Downward wage-flexibility is, thus, supposed to bring about a “needed change in the structure of the economy” towards international price competitiveness. In the system of subsidiarity, it is the task of national governments to create downward wage-flexibility through labour market reforms. The envisioned reform-programme is put in a nutshell by the Commission (2009b):

Recent econometric evidence backs the idea of a link between labour market flexibility and competitiveness adjustment. In particular, it shows that the response of prices to changes in activity are either smaller or slower when the level of employment protection legislation, the minimum wage, the union density and the generosity of the unemployment benefits are higher. Tight product market regulations have a similar effect. This would suggest that competitiveness will adjust more quickly towards equilibrium in economies with lower levels of employment protection and product market regulation. (p. 43)

In other words, competitiveness adjustment entails a wholesale attack on workers’ conditions of employment, unionisation, social security and income facilitated through labour market restructuring. Hence, for Lapavitsas (2013), the requirement for competitive labour markets and labour costs in the EMU has led to a “race to the bottom” for workers’ pay and conditions (p. 387). The concrete articulation of the strategy of competitiveness adjustment during the Euro-Area crisis is developed in detail in Chapter 3. The corresponding labour market reforms (or ‘structural reforms’) as implemented in several Member States are presented in Chapters 5 and 6. For now, it is concluded that the institutional selectivity of the EMU towards competitiveness adjustment reveals the class content of the EMU as it requires Member States to facilitate through structural reforms the confrontation of the working class by employers in order to reduce labour costs.
However, before considering the role of productivity growth, it is important to consider what happens if reforms cannot be pushed through at national level given possible resistance by workers. In this case, the labour force pays the bill in the EA through periods of heightened unemployment. Already before the introduction of the euro, Martin Feldstein31 (1997, pp. 34–36) had argued that the unemployment costs of the EA would be high as exchange rate adjustment is not an option nor is any other monetary or fiscal policy measure – to react to economic shocks and dampen increasing unemployment. The consequence of this is, however, that in case of an economic shock, unemployment can be prolonged and increase unhindered until the pressure exerted by the unemployed on the workers leads to the lowering of labour costs – and conversely to improved price competitiveness (initiating, potentially, the economic recovery). Thus, without governmental intervention to facilitate the reduction of unit labour costs, competitiveness adjustment operates plainly by disciplining labour through unemployment. As put bluntly by Blanchard (2007):

What happens next, absent major policy changes and major surprises, is a period of “competitive disinflation”: a period of sustained high unemployment, leading to lower nominal wage growth until relative unit labor costs have decreased, competitiveness has improved, the current account deficit has decreased, and demand and output have recovered. (…) The evidence is that it is typically a long and painful process. (p. 7)

Such a painful process may ultimately also convince organised labour to support the reform programmes, as the Chief Economist of the IMF points out further: “Unions may disagree with the diagnosis, and thus disagree with the need to re-establish competitiveness. They may hope for faster productivity growth. Many years of high unemployment may be needed to convince workers of the need for adjustment” (Blanchard, 2007, p. 16). In this context, the legal provision for fiscal discipline in the EMU becomes especially important as it ensures the functioning of the unemployment mechanism to put pressure on workers’ wage demands:

Fiscal policy could in principle be used to increase aggregate demand and reduce unemployment. This however would come at the cost of an even larger current account deficit, and, by decreasing unemployment and the downward pressure on wages, would slow down or even stop the improvement in competitiveness. It

31 Martin Feldstein is George F. Baker Professor of Economics at Harvard University and the President Emeritus of the US National Bureau of Economic Research (NBER).
would thus imply larger and longer lasting current account deficits. Thus, even leaving aside the facts that the ratio of public debt to GDP is already high and would be getting higher, this would only postpone the macroeconomic adjustment, not solve it. (Blanchard, 2007, p. 9)

Thus, the use of expansionary fiscal policy measures to increase aggregate demand would defeat the purpose, that is, to discipline labour and lower wages through the pressure exerted by the unemployed. However, during the years of crisis management, European policymakers have not relied on market discipline alone but have put forward a massive reform programme for competitiveness adjustment to implement downward wage-flexibility, which I will discuss in detail in Chapter 3.

However, the reduction of labour costs is only one side of the coin. The other is to increase the productivity of labour. Even though this is a longer-term process, the strategy for competitiveness adjustment during the crisis emphasises both, as shown in Chapter 3. The question is, however, how can member states facilitate the increase of labour productivity? Regarding the labour market, the level of education and training of the labour force is crucial. The latter is also key ingredient to foster non-price competitiveness as argued by Draghi above. The ECB (2017) emphasises here the “increasing importance of so-called “tacit” learning-by-doing knowledge” (p. 60) and the “lower prevalence of ICT relevant skills in the euro area” (p. 63). Promoting such know-how is, thus, a significant part of the strategy of competitiveness adjustment. I will return to this issue in the following section and in more detail in Chapter 3. Even more significant, however, is the argument that productivity is fostered through labour market flexibility, so that the promotion of labour productivity goes hand in hand with downward wage-flexibility. The logic here is that if workers can be hired and fired easily, if workers can be relocated easily within and between firms and industries, firms can reorganise faster and internalise, for example, new techniques of production or produce new goods, as the ECB (2017) writes in technical terms:

A significant determinant of labour productivity growth is the degree of efficiency with which such production inputs are allocated across firms, even within narrowly defined sectors (“allocative efficiency”). Given the heterogeneity in the performance of firms, significant aggregate labour productivity gains can stem from the reallocation of resources (including labour and capital) from low- to high-productivity firms; research suggests that this may explain up to half of the aggregate labour productivity growth in a mature economy. (…) However, the
presence of frictions in labour, product and credit markets may hinder reallocation and can thus significantly dampen labour productivity dynamics. (p. 62)

It is thus concluded further on that: “Highly regulated product and labour markets and “business unfriendly” framework conditions constitute a significant impediment to TFP growth.” (p. 64, original emphasis). Again, also competitiveness adjustment through increased labour productivity entails an attack on working conditions. Thus, the EMU functions as an anchor\textsuperscript{32} for Member States to facilitate through structural reforms employers’ confrontation of workers in order to enhance the productivity of labour.

According to the “Bocconi Boys” (Helgadóttir, 2016)\textsuperscript{33}, Alesina, Ardagna & Galasso (2011), the objective to induce such labour market liberalisation was part of the rationale for the creation of the Euro-Area in the first place:

One of the arguments in favor of the introduction of the common currency area in Europe was that it would have pressured member countries to improve their macroeconomic policy and pursue “structural reforms”, the latter being defined as labor and product markets’ liberalization and deregulation. (p. 2)

In summary, the analysis of the system of subsidiarity, and its selectivity towards competitiveness adjustment, reveal the class character of the institutional design of the EMU. The point is that the EMU commits national governments to facilitate through labour market reforms capital’s confrontation of the working class in order to compress labour costs and to increase the exploitation of workers’ productive capacities. In Chapter 3, I will concretise further the understanding of the politics of class underlying the EMU for the specific historical context of the process of integration during the crisis. I argue that independent of whether these objectives are actually achieved or not, the policy strategy for labour market reforms during that time shows a class strategy to empower capital over labour.

\textsuperscript{32}In the thesis, I will sometimes use the notion of the EMU as an ‘anchor’. This refers to the idea that the EMU is a governance framework through which Member States commit themselves to facilitate capital’s confrontation of the labour force.

\textsuperscript{33}“Bocconi Boys” refers to a network of economists related to the University of Bocconi in Italy. According to Helgadottir (2016), there economic thought – above all the notion of “expansionary austerity” (p. 393) – has been very influential in European policymaking circles, especially during the crisis. Alberto Alesina is regarded as the “full heir” (p. 393) of this tradition of thought.
2.3.2. Labour market policy within the system of subsidiarity

While in the EMU’s system of subsidiarity economic policymaking is in many respects a matter of supranational bodies and rules, “Member States [need] to translate European policy decisions into effective national politics, from fiscal retrenchment to the removal of protectionist measures, and from the achievement of higher labour productivity to the abandonment of state aid.” (Werner Bonefeld, 2017, p. 12). Thus, the EMU depends upon Member States’ commitment to actually deliver the policy objectives for which they are responsible in the system of subsidiarity, above all, fiscal discipline and competitiveness (ibid. p. 144). Moreover, within the implementation of European policy decisions Member States’ governments do enjoy a certain degree of discretion depending on the vagueness of the formulation, the type of legal instrument (e.g. directive, recommendation, etc.), the type of policy and the corresponding extent of rules and surveillance. It is only monetary (and exchange rate) policy that is ruled out completely of national policymaking discretion. Hence, policymaking in the EMU is not simply the dictate of the community over Member States, nor is it simply an instrumentalisation of the EU-level by national governments for their own purposes. The intricate processes of decision-making in the EMU do not allow for such a black-and-white statement. Rather, national governments have responsibility for the governance framework they have agreed to, and for the implementation of its policy objectives, while the framework of the EMU serves to maintain the commitment of national governments to these objectives, as put by the Commission (2016b) in rather technical terms:

**Supra-national surveillance supports effective policy making at national level in several respects**, including by anchoring priorities and helping national authorities to commit to their long-term reform agenda, and by offering a framework for mutual exchange and the establishment of best practices. (p. 18, original emphasis)

As a consequence, the question of whether the governance framework of the EMU is ‘strong’ enough to ensure the commitment of Member States to the main policy objectives becomes a key issue to the development of the New Economic Governance during the crisis (see Chapter 3).

Correspondingly, the institutional logic of the EMU brings about the question of whether Member States have complied with the governance framework adequately. This is especially the case for labour market policy, which was mainly the competence of
Member States within the system of subsidiarity. While Article 153 TFEU (2007) establishes a supportive role for the Union regarding social policy issues such as “working conditions”, “social protection” and gender inequality, paragraph 5 explicitly rules out the involvement of the EU in wage policy as well as in “the right of association, the right to strike or the right to impose lock-outs”. Hence, the implementation of wage-price flexibility, as the key tool of (rapid) economic adjustment, is legally the vital task of Member States. Consequently, as Bonefeld (2017) states, “any ‘economic failure’ under EMU expresses a failure of government to secure the demands of supranational money internally through the achievement of competitive labour relations on a world scale” (pp. 139–140, p. 153).

Despite the exclusion of EU-competence, EU institutions have, therefore, continuously promoted the implementation of structural reforms by Member States to increase flexibility in the Euro Area, without, however, the legal means to actually commit national governments to such reforms (Schulten & Mueller, 2015, pp. 332–333). However, this condition changes significantly with the New Economic Governance reforms, as presented in the following chapters. It is one of the main contributions of this thesis to show how the system of subsidiarity has further developed with the New European Economic Governance, turning labour market policy into a shared national-community competence, through the establishment of new governance instruments at community level, which serve to commit national governments to reforms of competitiveness adjustment. Overall, it is my argument that the agenda for competitiveness adjustment has been, therefore, a significant driver for the process of integration during the Euro-Area crisis.
3. Contribution to historical materialist literature

The analytical framework developed in this chapter has the advantage that it does not break apart the integrity of the policy mix of the EMU - neglecting the key role of labour market policy - nor does it eschew the political dimension of labour relations. This distinguishes my research not only from the European integration orthodoxy but also from the recent Historical Materialist literature on the topic that mirrors some of the shortcomings of the dominant integration literature. First, in contrast to Gill’s (1998) prominent conception of “New Constitutionalism”, which has received much attention recently (Bieling, 2015; S. Gill, 2016; Oberndorfer, 2014), the framework of the system of subsidiarity recognises the key role of labour markets within the EMU. Second, the EMU is not conceptualised as designed in a deficient or irrational manner, which fails to recognise the class content of the institutional arrangement, as put forward by the ‘Regulationist School’. From this perspective it is argued that “the mode of European economic governance was ill-designed from its beginnings” (Bieling et al., 2016, p. 64). Instead, I argue that the rationality of the EMU lies in its politics of class.

However, the development of this analytical framework is only the starting point for the analysis of the politics of class underlying the recent process of European integration. The investigation remains limited in this chapter to a discussion of the class character manifest in the initial institutional design of the EMU. I did not yet reflect upon the institutional changes introduced through the NEEG (see Chapter 2). Neither did I concretise the class strategy for the historically specific context of the recent crisis (see Chapter 3), nor did I discuss the varied and uneven manner of this strategy’s implementation in specific Member States between 2009 and 2015 (see Chapter 4 and 5). This will be covered in the subsequent chapters, using the Thematic Analysis of policy documents, creating eventually an empirically-focused and historically specific analysis of the politics of class underlying the recent development of the NEEG. Thus, while in this chapter I draw inspiration from Open Marxist research, my work differs substantially from the latter as it does not “succumb to an overly theoretical and abstract style”, nor does it “obscure how class struggle is mediated through specific material social practices.” (Andreas Bieler & Morton, 2003, p. 469). On the contrary, my research reveals how
specific material practices – in this case, the promotion of certain labour market reforms by EU policymakers through specific governance instruments – facilitate class struggle (see Chapters 3, 4 and 5).

In this manner, my research contributes to the recent Historical Materialist literature on the EU in general. I provide an empirically-grounded understanding of the politics of class reflected in the reorganisation of the economic governance framework of the EMU and its operation in the years between 2009 and 2015. This understanding of the politics of class reveals different layers including a quantitative dimension of the class conflict – compression of unit labour costs – and a qualitative one – the intervention with the balance of power between capital and labour. In addition, I identify two different sub-strategies through which this politics of class operates in practice - one focused on labour costs and the other on labour productivity - that prevail in different moments. These sub-strategies also account for nuanced changes in the governance framework over time. This multi-layered view is based on the analytical distinction between direct and indirect state interventions with the capital-labour relation through which I expand the conception of class antagonism beyond the immediate relations of production to include broader relations of reproduction. Thus, in contrast to the HM literature on the EU, my class-based approach addresses, within limitations, criticisms made by Social Reproduction scholars on the rather narrow conception of class relations found in more conventional Marxist research (see Chapter 3). In short, my approach contributes with a distinct, multi-layered and historically-concrete perspective on the class struggle underlying the emergence of the NEEG.

My research expands, therefore, our understanding of the drivers behind the authoritarian tendencies of the New European Economic Governance that has been the prime contribution of HM scholars (Ian Bruff, 2014; Durand & Keucheyan, 2015; S. Gill, 2016; Habermas, 2012b; Radice, 2014; Streeck, 2015). This is, however, done without reducing the crisis management to the interests of private finance ostensibly manifest in the privatisations of public goods (Durand & Keucheyan, 2015; Radice, 2014; Magnus Ryner, 2015). Such arguments neglect the extent to which the process of adjustment has intervened in the social relations of production and reproduction in general and, therefore, also in ways not immediately related to private finance. In term of the
approach the difference is that such arguments focus on the conflict between particular capitals, over the distribution of revenues. Instead, I focus on the conflict between capital and the working class as all exploitative revenue derives eventually from surplus labour (cf. Clarke, 1978). For the same reason, my research is distinguishable from agent-based HM approaches to European integration. I limit myself showing the institutional manifestation of the conflict between capital and labour, which implicates state managers, without however identifying the social forces, or fractions of capital, that carry and struggle over particular strategies. While the latter is indeed relevant to the process of integration, sufficient research has been conducted recently on this topic (cf. Bieling et al., 2016; Buckel, Georgi, Kannankulam, & Wissel, 2012; S. Gill, 2016; Magnus Ryner, 2015; van Apeldoorn, 2014).
Conclusion

In this chapter, I presented the class-analytical framework applied in the thesis based on the Marxist conception of the class relation between capital and labour. The two key analytical concepts, in this respect, are the ‘system of subsidiarity’, and its institutional selectivity towards ‘competitiveness adjustment’. In the ‘system of subsidiarity’, (1) the monetary policy objective of price stability for the currency area is conducted by an autonomous central bank at supranational level excluding the possibility for unilateral exchange-rate policy; (2) the fiscal policy objective of fiscal discipline is a shared national-community competence that restricts national fiscal policy discretion through supranational rules without restoring it fully at supranational level by means of a common fiscal capacity or fiscal transfers; and (3) the labour market policy objective of competitive labour markets and unit labour costs remained before the NEEG a national prerogative and the only adjustment mechanism for Member States in the EMU. Hence, the EMU embodies an institutional selectivity towards competitiveness adjustment. The latter, moreover, reveals the politics of class of the EMU. The EMU appears as an anchor for Member States to facilitate through labour market reforms the confrontation between capital and labour in order to increase the exploitation of workers’ productive capacities and/or reduce labour costs. However, independent of the actual policy results, I argue in the subsequent chapters that the implementation of competitiveness adjustment between 2009 and 2015 served to empower capital over labour.

The first analytical concept – the ‘system of subsidiarity’ – is applied in the subsequent chapters to explain the institutional changes happening with the development of the New Economic Governance, the latter – ‘competitiveness adjustment’ - to explain the content and purpose of these changes, revealing the underlying class strategy. In the next Chapter, I will discuss the institutional changes made to the governance framework of the EMU with the establishment of the New European Economic Governance. My argument is that the NEEG strengthens the institutional selectivity of the EMU with the consequence that labour market policy cannot be regarded a national prerogative any more. Chapter 3 discusses then in detail the reform programme for competitiveness adjustment articulated with the development of the NEEG showing the underlying class strategy to
empower capital over labour. Chapters 4 and 5 subsequently bring both arguments together for the discussion of the effects of these EU-level developments on the national-level. I elaborate here on how the promotion of competitiveness adjustment has worked in practice through the new governance instruments of the NEEG for the cases of several member states.
CHAPTER 2
The EMU in Crisis: The Strengthening of the System of Subsidiarity through the New European Economic Governance

Introduction

In the previous chapter, I presented the class-analytical framework applied in the thesis based on the Marxist socio-historical conception of class relations. The two key analytical concepts are the ‘system of subsidiarity’, and its institutional selectivity towards ‘competitiveness adjustment’. In the ‘system of subsidiarity’, (1) the monetary policy objective of ‘price stability’ for the currency area is conducted by an autonomous central bank at supranational level excluding the possibility for unilateral monetary and exchange-rate policy, (2) the fiscal policy objective of ‘fiscal discipline’ is a shared national-community competence that restricts national fiscal policy discretion through supranational rules without restoring it fully at supranational level by means of a common fiscal capacity, and (3) the labour market policy objective of ‘competitive labour markets and unit labour costs’ remained before the NEEG a national prerogative and the only adjustment mechanism for Member States in the EMU. Hence, the EMU embodies an institutional selectivity towards ‘competitiveness adjustment’.

This refers, plainly, to the process by which the capacity of domestic firms to compete in the world market is enhanced, above all, through reductions in unit labour costs. In this manner, ‘macroeconomic imbalances’ – as, for example, current account deficits, high levels of debts or declining economic growth – are supposed to be counteracted by the improving export performance of the domestic economy. However, as a class strategy, competitiveness adjustment means that national governments facilitate, through labour market reforms, employers’ confrontation of workers in order to compress wages and to enhance the exploitation of workers’ productive capacities.

The present chapter turns now to the overhaul of this governance framework through the creation of the New European Economic Governance (NEEG) over the years from 2010 to 2013. In the Introductory Chapter of the thesis, I discussed the failure of the dominant literature on European integration to reflect upon the development of the NEEG on the
grounds of the logic of the policy mix between monetary, fiscal and labour market policy - that I capture with the concepts of the ‘system of subsidiarity’ and its institutional selectivity towards ‘competitiveness adjustment’. The dominant literature externalises labour market policy from the policy mix and its coherency is therefore lost. In contrast, in this chapter I reflect upon the recent process of integration under consideration of the policy mix overall, including labour market policy, by applying the two analytical conceptions mentioned above. The chapter sheds therefore new light on the emergence of the NEEG.

While the general tenor of the European Integration Orthodoxy is simply that the establishment of the NEEG has meant further integration in the fiscal policy framework, I argue that it has meant further integration in respect of the policymaking logic of the system of subsidiarity. The NEEG reinforced the institutional selectivity of the governance framework towards competitiveness adjustment. The most notable change from this perspective is not found in the fiscal policy framework but rather in the establishment of a framework for the surveillance and enforcement of competitiveness through which competences in the area of labour market policy have been transferred to EU institutions. The latter can no longer be regarded a national prerogative. Thus, the ‘new’ European economic governance has created a ‘new’ system of subsidiarity in which national labour market policy is made through EU-level rules and surveillance to foster Member States’ commitment to competitiveness adjustment.

The chapter introduces, therefore, the Key Argument for the Research Themes (RTs) 1 and 2 (see Introductory Chapter):

- The pattern of institutional change since the crisis reinforces the ‘institutional selectivity’ of the EMU towards competitiveness adjustment. A stricter framework for fiscal discipline is part and parcel of this process. However, the key development is the creation of a new framework for EU-level surveillance and enforcement of competitiveness through which EU-level institutions have gained new competences to intervene with labour market policy. The latter cannot be

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34 ‘Institutional changes of the European governance framework’
35 ‘The promotion of labour market reforms through the European governance framework’
regarded as a national prerogative any more. The process of integration was, therefore, significantly driven by the objective to commit Member States to implement competitiveness adjustment.

The argumentation developed in this chapter reflects patterns ‘lifted out’ through the Thematic Analysis from the policy and legal documents, grouped in NVivo Project1, on grounds of these research questions for RT1 and RT2:

- **RT1**: How has the governance framework of the EMU changed with the development of the ‘new European economic governance’? What is the rationale for this change?
- **RT2**: How does the promotion of labour market reforms (or ‘structural reforms’) through the governance framework of the EMU contribute to our understanding of the process of integration?

The selection of documents for the analysis followed a snowballing procedure based on a set of initial documents in which references made in one document pointed to the significance of another. The key initial documents for this chapter were the 4 and 5 Presidents’ Reports from 2012 and 2015 that are highlighted by the Commission as key policy documents in the evolution of the economic governance and are commonplace in the academic literature to address the recent process of integration (e.g. Ioannou et al., 2015; Scharpf, 2016). Other initial documents were the legal regulations and treaties that set up the new governance instruments of the NEEG. (The appendix includes a list of documents according to NVivo Projects). In summary, the Thematic Analysis made visible in particular three patterns of institutional change: (1) the empowerment of the enforcement capacity of EU-level institutions; (2) a stricter framework for fiscal policy; and (3) the creation of a European framework for surveillance and enforcement of

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36 NVivo Project 1 grouped up documents that captured the larger picture of the institutional change of the NEEG and the reform programme of labour markets articulated during the crisis at EU-level in general terms. While the present chapter presents, therefore, the results of the Thematic Analysis regarding the institutional changes in the governance framework, the next Chapter will discuss the articulation of the programme for labour market reforms.

competitiveness establishing new competences in the field of labour market policy at the EU-level.

In the following, I illustrate, first, the crisis narrative of key policymakers that Member States had failed to fulfil their responsibility to foster competitiveness through labour market reforms leading to a competitiveness crisis in the Euro-Area, which reinvigorated the initiative to develop a stronger governance framework to ensure compliance and implement competitiveness adjustment. In a second step, I introduce the argument that the institutional selectivity (or policymaking logic) has been strengthened through the NEEG in the context of the previous – ‘weak’ – form of economic policy co-ordination. The last section discusses the overhaul of the system of subsidiarity into the strengthened ‘new’ system based on a stricter framework for fiscal policymaking and a new EU-level framework for surveillance and enforcement of competitiveness. The key new legal instruments in this respect are the Euro Plus Pact, the Macroeconomic Imbalance Procedure (MIP) and the Financial Stability Facilities (‘Troika’). I emphasise that the latter two instruments empower the enforcement capacity of EU-level executives, through a new sanctions regime that potentially burdens Member States’ public finances, and that they establish new competences for EU-level executive institutions to intervene with labour market policy. In short, the EA has integrated further by strengthening the institutional selectivity of the EMU.
1. Crisis narrative: the ‘weaknesses’ of the EMU

The EMU’s system of subsidiarity provided the framework of reference for the interpretation of the crisis and of the political response. The narrative is that several Member States had failed to comply with the policy objectives of fiscal discipline and competitiveness, and that the governance framework of the EMU lacked the necessary instruments to ensure their commitment (cf. European Commission, 2012d, pp. 1–2; European Council, 2015, pp. 1–5). The EMU was therefore too ‘weak’, too ‘vulnerable’, so when the financial crisis hit, it turned into a crisis of sovereign debt, which then revealed an underlying and protracted crisis of competitiveness and current account imbalances – the Euro-Area crisis. The response to the crisis was consequently to establish new rules and governance instruments at EU-level to ensure Member States commitment to fiscal discipline and competitiveness adjustment during the crisis and beyond. In short, these institutional innovations strengthened the institutional selectivity of the EMU towards competitiveness adjustment overall.

The interpretation of the crisis is put in a nutshell by the analytical note of the 4 Presidents of the EMU (European Council, 2015) published in 2015. The so-called 4 Presidents’ reports are strategic papers written by the President of the European Council in close co-operation with the Presidents of the European Commission, Eurogroup and European Central Bank38 – referred to as the “Informal European Council”. First, the strategic document lays out the system of subsidiarity and the policy commitments it requires from Member States. They clarify that these requirements determined the recent process of integration (see also European Commission, 2012d, pp. 1–2):

The euro area has a unique institutional setup. While monetary policy is decided jointly at European level, economic and fiscal policies remain, to a large extent, in the Member States’ remit. (...)

The crisis has shown that if there are weaknesses in the framework or if it is not sufficiently implemented, the integrity of the euro area as a whole is at stake and the objectives stipulated by the Treaties cannot be attained. It is for this reason that making sure the EMU framework is fully compatible with the requirements of sharing a common currency was the key challenge faced in recent years and

38 The so-called 5 President report of 2015 include the cooperation of the President of the European Parliament, in addition.
remains a hurdle that has not yet been fully overcome. (European Council, 2012, pp. 1-2)

While the 4 Presidents recognize that the crisis was first of all a financial crisis, it is argued that it became a crisis of sovereign-debt and competitiveness in the Euro-Area as Member States had failed to comply with the EMU’s objectives of fiscal discipline and competitiveness. Regarding the former it is stated:

The crisis then turned into a sovereign debt crisis. The first decade of the euro had not led to a sustainable reduction of public debts and deficits below the reference values of 3% and 60% of GDP required by the Maastricht Treaty. (…) The common policy objective of national budgets which are in balance or in surplus – meant to reduce public debt levels – could not be reached. The fiscal rules meant to contain excessive public deficits (the so-called "Stability and Growth Pact") were often not respected and not implemented. (European Council, 2012, p. 3)

However, according to the crisis narrative, not only fiscal discipline was neglected, but governments failed also in the pursuit for competitiveness (cf. Scharpf, 2016, pp. 3–4). In the context of declining productivity growth, several Member States failed to establish competitive labour markets to intensify the productivity of labour and to mobilise the necessary supply of labour-power (in particular, for the tradable sector). In addition, they failed to keep labour costs down as required for international price competitiveness. As a result, so it is argued, wages did not align with the productivity developments, leading to deterioration in export performance:

The crisis in the euro area, triggered by the global financial turmoil, can also be said to have been a competitiveness crisis, with several weaknesses predating the crisis. While there had been some catching up with the U.S. in terms of productivity until the 1990s, this process has stopped over time. Several euro area countries did not use the boom period to tackle existing rigidities in product and labour markets.

By contrast, deep-rooted vulnerabilities did not allow the supply side to catch-up with demand. At the same time, significant nominal and real rigidities prevented an efficient allocation of resources, including between the tradable and non-tradable sectors, and thereby hampered the functioning of the competitiveness channel (…).

Against this background, during the first decade of the euro, the cost of labour (measured in unit labour costs) grew significantly in a number of euro area countries, making their products more expensive, thereby reducing their competitiveness and leading to a negative balance of payments vis-à-vis other
...euro area countries which had kept labour unit cost stable or even lowered them. (pp. 3-4, my italics)

In summary, several Member States failed in their commitment to achieve ‘competitive labour markets and unit labour costs’ as prescribed by the EMU’s system of subsidiarity. In other words, they failed to facilitate through labour market reforms the confrontation between capital and labour to reduce labour costs and enhance the exploitation of workers’ productive capacities and, therefore, to support the international competitiveness of European capital.

Following this line of argument, the 4 Presidents go on to state that, when the financial crisis hit, the consequence was a sudden stop and reversal of capital movements as a response to the lack of competitiveness, which exacerbated the economic situation dramatically:

When the crisis hit the euro area and markets reappraised the risk and growth potential of individual countries, the loss of competitiveness became visible and led to outflows of sources of finance strongly needed for investment, thereby further intensifying the impact of the crisis in these countries. While several stakeholders at the European level had warned about such developments, the governance framework at the time did not provide for a systematic detection and correction of imbalances and hence it could not prevent their build-up. (p. 4)

Thus, the Euro-Area crisis was interpreted as a political failure, a failure of Member States to comply with the governance framework, and a failure of the framework to ensure the Member States’ commitment to its policy objectives (see also European Commission, 2012d, pp. 1–2). As concluded by the 4 Presidents (2015): “All of these developments showed that there was a significant gap between the objectives and the actual performance of the pre-crisis governance framework of EMU, as well as a persistent failure to comply with and implement commonly agreed policies.” (p. 5). The response to the crisis, and therefore the central threat for the development of the New European Economic Governance between 2010 and 2013, was consequently to establish new governance instruments designed to ensure Member States commitment to fiscal discipline and competitiveness. In other words, the response was a strengthening of the institutional selectivity of the EMU towards competitiveness adjustment overall.
Given the reductionist focus of the dominant European integration literature on the development of the fiscal policy framework during the crisis, it is important to emphasise here the initiative to develop further the framework for macroeconomic surveillance beyond fiscal policy to commit Member States to competitiveness adjustment (see European Commission, 2009a, pp. 6–7, 2009b, pp. 3–4, 2010d, pp. 1–4). The European Commission had been pushing for such reformation of the governance framework already before the eruption of the global financial crisis in late-2008. In its key strategic paper, EMU@10, the Commission had already argued that the political failure to implement competitive labour cost through structural reforms across the Euro-Area had led to competitiveness losses and economic imbalances:

Moreover, there have been substantial and lasting differences across countries in terms of inflation and unit labour costs. The tendency for persistent divergences between euro-area Member States has been due in part to a lack of responsiveness of prices and wages, which have not adjusted smoothly across products, sectors and regions. This has led to accumulated competitiveness losses and large external imbalances, which in EMU require long periods of adjustment. Essentially, this protracted adjustment reflects the fact that structural reforms have been less ambitious than in the run-up to the euro. (European Commission, 2008b, p. 6 my italics)

Consequently, the Commission (2008b) called to “broaden macroeconomic surveillance in EMU beyond fiscal policy and to better integrate structural reform in overall policy co-ordination within EMU” (p.8). A year later with the beginnings of the Euro-Area crisis in 2009, the European Commission used the eruption of the crisis as an opportunity to put forward this agenda of EMU@10 (see also European Commission, 2009b, p. 4):

The crisis has clearly demonstrated the urgency for euro area Member States to make rapid progress on the EMU@10 reform agenda: broadening and deepening macroeconomic surveillance. A well-functioning EMU is a major asset for the EU as a whole. (...) The domestic agenda called for macroeconomic surveillance in EMU to be broadened beyond fiscal policy to include macro-financial stability aspects and competitiveness trends, (...) and to ensure better integration of structural reform in overall policy co-ordination within EMU. (...) The crisis highlighted the need to forcefully implement this reform agenda. (European Commission, 2009a, p. 6 original emphasis)

39 As put by the Commission (2016b) in later reflections: “Awareness of the need of increased surveillance of macroeconomic imbalances predates the financial crisis” (p. 16) referring to the strategic paper EMU@10 published in early 2008.
The Commission is clear that this broader macroeconomic surveillance is supposed to promote governmental action to facilitate competitiveness adjustment and highlights the support of the Eurogroup of Finance Ministers for this agenda (see also European Commission, 2009b, pp. 3–4, 2010d, pp. 1–4):

**Broader macroeconomic surveillance is urgently needed to spur a co-ordinated policy response to the competitiveness challenge.** Resolute and urgent policy actions need to be taken (...). Despite repeated warnings, imbalances within the euro area were not treated at a time when economic conditions were favourable. Now, the crisis is forcing an adjustment of current account balances the hard way, through a collapse in domestic demand and sharply rising unemployment. (...) In an effort to broaden macroeconomic surveillance, the Eurogroup agreed in 2008 to regularly review intra-euro-area competitiveness trends and to encourage Member States to take action to adjust. Addressing the underlying causes of harmful competitiveness developments in the euro area is a matter of common concern and must be an integral part of the area's exit strategy. (European Commission, 2009a, p. 7 original emphasis)

Finally, in the *Europe2020 Strategy*, which was adopted by the conclusion of the European Council on the 17 June 2010 (European Council, 2010, p. 1), the broadening of macroeconomic surveillance was announced to bring forward “a policy driven adjustment”:

The crisis has thus amplified some of the challenges faced by the euro area, e.g. the sustainability of public finances and potential growth, but also the destabilising role of imbalances and competitiveness divergences. (...) Addressing these challenges requires strengthened and closer policy co-ordination including:

A framework for deeper and broader surveillance for euro area countries: in addition to strengthening fiscal discipline, macro-economic imbalances and competitiveness developments should be an integral part of economic surveillance, in particular with a view to facilitating a policy driven adjustment. (European Commission, 2010c, pp. 26–27)

In summary, the Euro-Area crisis was interpreted through the system of subsidiarity, *inter alia*, as a “competitiveness crisis” caused by Member States’ failure to foster competitiveness through labour market reform, which in turn justified, or led to the conclusion, that the system of subsidiarity had to be strengthened not only through stricter fiscal discipline but also through new instruments for macroeconomic surveillance and enforcement to commit Member States to competitiveness adjustment (see also
European Commission, 2009b, pp. 3–4, 2010d, pp. 1–4). In the subsequent section, I will discuss the establishment of these new instruments as part of the NEEG in more detail and how they change the structure of the system of subsidiarity.

2. From the ‘weaknesses’ to the ‘strengthening’ of the EMU

My argument is that the establishment of the New European Economic Governance (NEEG) serves to strengthen the institutional selectivity of the EMU towards competitiveness adjustment. It does so, on one side, by establishing stricter fiscal discipline and, on the other side, by creating a framework for the surveillance and enforcement of competitiveness adjustment in Member States. The argument focuses on the latter development, which indicates an overhaul of the system of subsidiarity by creating competences at EU-level for the intervention with labour markets.

The key development here is the establishment of legal instruments through which Member States are held accountable by EU-level executive institutions (European Commission, Council or ECB) in respect of their commitment to foster competitiveness. Bonefeld (2017) has recently pointed towards such developments concerned with the anti-democratic character of this:

In this context it is not the national parliaments that hold member states to account. Rather within the framework of monetary union, it is the European institutions, from the European Court of Justice to the ECB, and from the Commission to the European Council as the primary body of European decision-making. In monetary union, formally independent but in effect federated states of the supranational media of market, money and law are judged on their commitments towards enhanced competitiveness and fiscal discipline by the institutions of European governance adjudication. Their judgments are overseen by a conclave of the executive manager of the European order, principally the heads of government of the euro member states. (p. 151)

Indeed, my view is that the NEEG introduces new governance instruments through which EU-level executive institutions can hold Member States accountable in respect of their commitment to foster competitiveness in a more systematic and binding fashion than
before. Particularly significant in this regard is the empowerment of the enforcement capacity of the EU-level executive institutions, through a new sanctions regime, to ensure Member States’ commitment to competitiveness adjustment in the case that it appears that a Member State is failing or have failed to deliver the policy objectives of the EMU (see also Ian Bruff, 2017). To substantiate these points, I will discuss first the pre-crisis form of economic policy co-ordination to illustrate how the NEEG changed the governance framework.

2.1. The ‘weaknesses’ of economic policy co-ordination prior to the NEEG

Before the establishment of the NEEG, there was no EU-level framework for economic surveillance and enforcement concerned with competitiveness in the same explicit, systematic and binding manner as set up for fiscal discipline. The fostering of competitiveness through labour market policy was primarily a national responsibility potentially subject to the limited tools for general EU-level economic policy co-ordination established through the Maastricht Treaty in 1992. Article 121 proclaimed that: “Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council…”

The article conferred the right to the Council of Ministers to provide guidelines for economic policy, on the recommendation of the European Commission, that are subject to the adoption by the European Council. Moreover, the Council of Ministers is entrusted with the surveillance of the economic performance of the Member States based on reports elaborated by the European Commission. These guidelines, however, are in legal terms non-binding recommendations. Article 121 had consequently provided for limited ‘soft law’ instrument to promote compliance with the guidelines and the policy requirements of the monetary union in paragraph 4:

Where it is established, under the procedure referred to in paragraph 3, that the economic policies of a Member State are not consistent with the broad guidelines referred to in paragraph 2 or that they risk jeopardising the proper functioning of economic and monetary union, the Commission may address a warning to the Member State concerned. The Council, on a recommendation from the
Commission, may address the necessary recommendations to the Member State concerned. The Council may, on a proposal from the Commission, decide to make its recommendations public.

Thus, while a first step was made in direction of the creation of an enforcement mechanism, the legislation did not go beyond restricted possibilities for ‘peer pressure’ and ‘naming and shaming’. The ‘naming and shaming’ required, moreover, a qualified majority vote in the Council of Ministers, if it was to be made public at all. To summarise, the Maastricht treaty had created very limited legal instruments to hold Member States accountable in respect of their commitment to the economic policy objectives of the EMU.

Article 121 (TFEU, 2007) gave rise to the Broad Economic Policy Guidelines (BEPG), which have been issued every year since 1993 and every three years since 2003 for the Member States and the Union. Since the effort of the Commission to “streamline” the economic policy co-ordination in 2005, the BEPGs were brought together with the guidelines made under the European Employment Strategy, launched in Amsterdam in 1997, and the Cardiff process from 1998, into the Integrated Guidelines (IG) (cf. Degryse, 2012, pp. 16-18). In addition, the Lisbon Strategy brought about the Open Method of Coordination (OMC), as another tool for economic policy co-ordination concerned with social policy, reflecting Article 121 (Degryse, 2012, pp. 14–18). A particularity of the OMC is that it gives prominence to the achievement of ‘best practices’ monitored by the European Commission.

However, Article 121 shows several shortcomings regarding the EMU’s policy objective of ‘competitive labour markets and unit labour costs’. First of all, Article 121 sets out legal provisions for the co-ordination of economic policies without, however, determining international (price) competitiveness explicitly as the policy objective. Consequently, Article 121 does not establish a systematic framework for the surveillance of competitiveness developments in Member States (and associated macroeconomic imbalances), nor does it provide for corresponding procedures of policymaking and enforcement to ensure competitiveness adjustment. The latter, as explained by the Commission (2012d), was seen as a “major weakness” of the governance framework:

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40 For the OMC see: https://eur-lex.europa.eu/summary/glossary/open_method_coordination.html

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A major weakness of the pre-crisis surveillance arrangements was the lack of systematic surveillance of macroeconomic imbalances and competitiveness developments. While such developments were analysed in the context of the Commission’s reports on Member States, including the opinions on the Stability and Convergence Programmes, and in the euro area’s informal competitiveness reviews every two years, there was no formal instrument for their systematic analysis and follow-up through concrete policy recommendations. (p. 6)

Prior to the NEEG, the attainment of competitive labour markets remained, thus, the responsibility of Member States acting within the restrictions of the institutional selectivity of the EMU. Moreover, Article 121 did only provide for soft legal instruments as enforcement mechanisms that, according to the Commission (2012d), were too weak to ensure Member States’ commitment to foster competitiveness as it is required by the currency union:

The coordination of national economic policies beyond the budgetary area relied on soft instruments – peer pressure and recommendations – and had a limited impact on the action of individual euro area Member States. The instrument was therefore too weak to counter the progressive opening of competitiveness gaps and growth divergences between Member States. (p. 2).

In addition, it needs to be kept in mind that Article 153.5 (TFEU, 2007) had excluded national wage policy and the workers’ rights for association from intervention through the Union, which are however key aspects of competitiveness adjustment. Hence, no EU-level framework existed for the economic surveillance and enforcement of competitiveness through labour market policy, akin to the framework that was created for fiscal discipline.

Regarding the latter, Article 126 TFEU (2007) had set out explicitly the objective to “avoid excessive government deficits” empowering the Commission as the guardian of the EMU’s governance framework, and not primarily the Council of Ministers, to monitor compliance with the objective. Supplemented with the Stability and Growth Pact (SGP) – which consists of a resolution from 1997 and two regulations (Regulations (EU) 1466/97 & 1467/97), which are in legal terms binding and directly applicable to the Member States – Article 126 provides for a preventive and a corrective arm to ensure compliance. Monitoring was based on clear numerical thresholds for public debts and deficits (60% debt to GDP ratio and 3% deficit to GDP ratio) and a preventive arm was set up requiring the regular issuing of Stability Programs (or Convergence Programs) by Member States
subject to the scrutiny of the Commission and Council setting out, *inter alia*, “the medium-term budgetary objective and the adjustment path towards that objective” as well as the expected fiscal developments (Regulation (EU) 1466/97, Article 3.2).

Moreover, a corrective arm was established, the Excessive Deficit Procedure (EDP), in which the Council could not only issue recommendations to Member States that could be made public in case the respective Member State – that was found to have excessive deficit based upon a proposal of the Commission – did not respond appropriately but could also impose financial sanctions (Article 126.5 – 126.14, TFEU, 2007). Thus, the implementation of fiscal discipline was provided with a harder enforcement mechanism, in which a Member State could in principle face financial consequences, for example the sanction to “publish additional information, to be specified by the Council, before issuing bonds and securities”, “invite the European Investment Bank to reconsider its lending policy towards the Member State concerned” or “to impose fines of an appropriate size” (Article 126.11, TFEU, 2007). Thus, while a governance framework was established for fiscal surveillance to hold Member States accountable in respect of their achievement of fiscal discipline, no similar framework existed for economic surveillance concerned with issues of competitiveness intervening with national labour market policy.

However, the view that Member States had failed to foster competitiveness (the “competitiveness crisis”) during the Euro-Area crisis justified a move forward with the Commission’s agenda that “called for macroeconomic surveillance in EMU to be broadened beyond fiscal policy to include macro-financial stability aspects and competitiveness trends” (European Commission, 2009a, p. 6). Thus, the crisis was to become an opportunity to revise the ‘weaknesses’ of the old framework for economic policy co-ordination and to implement a framework for the surveillance and enforcement of competitiveness that strengthened the institutional selectivity of the EMU towards competitiveness adjustment.
2.2. The ‘strengthening’ of the EMU through New European Economic Governance

The reformation of the European economic governance was elaborated in its principles by a Task Force, which was set up by the European Council on 26 March 2010 and chaired by the President of the Council of that time, Herman Van Rompuy (cf. European Commission, 2016b, p. 16). The Van Rompuy Task Force was composed of the European Commissioner for Economic and Monetary Affairs (Olli Rehn), the Presidents of the ECB (Jean-Claude Trichet) and Eurogroup (Jean-Claude Juncker) as well as the national ministers of finance (for example, Wolfgang Schäuble and Christine Lagarde). (A list of task force members is attached in the appendix). The reform proposal presented in October 2010 largely followed the propositions put forward by the European Commission in May 2010 and was endorsed by the European Council and Parliament on 16 November 2011 (cf. European Commission, 2016b, p. 16). The NEEG was, therefore, established on the basis of these five pillars with the aim of “Strengthening Economic Governance in the EU” (Task Force of the European Council, 2010):

(i) fiscal discipline, notably through a stronger Stability and Growth Pact
(ii) broadening economic surveillance to encompass macro imbalances and competitiveness
(iii) deeper and broader coordination
(iv) a robust framework for crisis management
(v) stronger institutions and more effective and rules-based decision making (p. 3)

These five pillars led to the adoption of the Six-Pack, Two-Pack, Treaty on Stability Coordination and Governance (TSCG, or Fiscal Compact) and Treaty on the European Stability Mechanism (TESM), as a permanent Financial Assistant Facility, between the years of 2011 and 2013 (see diagram below). In the following, I will discuss how these legal innovations have overhauled the system of subsidiarity of the EMU, strengthening its institutional selectivity towards competitiveness adjustment. My argument is that it does so, not only through the consolidation of a stricter framework for fiscal discipline, but especially through the creation of an EU-level framework for the surveillance and enforcement of competitiveness through which EU-level executive institutions gained new competences in the field of labour market policy.

As argued above, the rationale for this development was the view in European policymaking circles that Member States had failed to deliver the policy objectives of
fiscal discipline and ‘competitive labour markets and unit labour costs’ in the previous decade. The central thread running throughout the institutional changes of the NEEG is, therefore, the initiative to empower the enforcement capacity of EU-level economic surveillance, and correspondingly of EU-level executive institutions, to ensure compliance with the policy objectives of the EMU (Task Force, 2010, pp. 4-7, pp. 9-11). As well put by the Commission’s communication of June 2010 “Tools for stronger EU economic governance”:

Set out effective enforcement mechanisms to ensure that Member States will act in compliance with the EU framework they have agreed. Where developments in Member State economies pose a risk to the overall development of the Union, a series of preventive and corrective measures are proposed, including a range of sanctions that could be applied where breaches occur. (European Commission, 2010a, p. 2)

A key development for the strengthening of the EMU’s governance framework is, therefore, the establishment of a “new sanctions regime” (Task Force, 2010, p. 10) that potentially burdens Member States’ public finances in case of the prospective or actual failure to comply with the “framework they have agreed”. While this was not entirely new to the framework for fiscal policy surveillance, it marked a turning point towards the “hardening of EU law” (Ian Bruff, 2017) in the economic policy surveillance encompassing competitiveness.

To summarise, my contribution here is to reflect upon the process of integration through the logic of the EMU’s policy mix overall (referred to as the system of subsidiarity) and shed light on how this logic has been further reinforced – in particular, by establishing new competences at EU-level for the intervention with national labour markets in the context of a new sanctions regime. In short, I argue that the process of integration has created a ‘new’ system of subsidiarity.
Figure 2: New European Economic Governance - Time line

Source: This time line was made by myself based on the research of policy documents.
3. The ‘new’ system of subsidiarity

3.1. The stricter framework for fiscal discipline

First, I will outline the legal innovations introduced through NEEG that created a stricter framework to commit Member States to fiscal discipline. These followed from the recommendation of the Van Rompuy Task Force (2010) “to strengthen budgetary surveillance and reinforce compliance with EU budgetary rules.” (p. 3). In a second step, I discuss the meaning of these innovations for the system of subsidiarity.

The framework for fiscal discipline was strengthened in numerous ways. First, a package of five Regulations and one Directive, referred to as the Six-Pack, were enacted in 2011. Three of the five Regulations created a tighter framework for budgetary surveillance through a revision of the “preventive” and “corrective arms” of the SGP and the one Directive prescribed “minimum standards for Member States’ national budgetary frameworks” (European Commission, 2012d, p. 5). The preventive procedures of the SGP were made stricter, inter alia, through the implementation of an “expenditure rule anchoring expenditure growth to the medium-term growth rate of potential GDP” and “the possibility of sanctions early in the process” (European Commission, 2012d, p. 5). The corrective procedures were reinforced, among other aspects, by increasing the possibility to start an Excessive Deficit Procedure (EDP), which could be activated thenceforth either on the basis of public debt developments or high deficits. Especially important was the establishment of the “reverse qualified majority rule”, which “significantly strengthens the Commission’s hand in decisions relating to sanctions on euro area Member States. Whereas in the past, such decisions required the support of a qualified majority in the Council, in future, a qualified majority would be required to halt the sanction proposed by the Commission” (European Commission, 2012d, p. 5).

In a second step, the intergovernmental Treaty on Stability, Coordination and Governance (TSCG) in the Economic and Monetary Union – also called the Fiscal Compact – was signed in 2012. Through this Treaty, the “Euro area signatory Member States have committed to integrating the core principles of the SGP straight into their national legal framework through provisions of binding force and permanent character” (European Commission, 2012d, p. 5), which includes the adoption of a rule that requires national budgets to be
balanced or in surplus. Finally, two more Regulations referred to as the Two-Pack were enacted in 2013. These Regulations “further reinforce both budgetary coordination and budgetary surveillance” by, for example, requiring Member States to submit their budgetary plans to the Commission for assessment before they have been presented to Parliament (European Commission, 2012d, p. 5). The second Regulation, in particular, is concerned with enhancing the surveillance of “Member States experiencing severe difficulties with regard to their financial stability or for those in receipt of financial assistance” (European Commission, 2012d, p. 5). I return to this regulation briefly in the subsequent section in the discussion of the Financial Assistance Facilities.

In respect of the EMU’s system of subsidiarity, it is crucial to emphasise that in the area of fiscal policy the NEEG does nothing else but to reinforce the pre-existing constraints on national level fiscal policymaking. The NEEG does not introduce a new fiscal capacity at EU-level as, for example, a supranational fiscal authority, that could tax and spend for the EA as a whole, or at least a ‘transfer union’ that would allow to share the burden of debt (to a certain extent) and facilitate fiscal transfers between Member States, as it has been proposed by Keynesian-inclined commentators (De Grauwe, 2013a; cf. Scharpf, 2016, pp. 30–32; Verdun, 2015). The creation of such an EU-level fiscal capacity would mean a radical change to the logic of the system of subsidiarity of the EMU as it would have re-introduced at EU-level the possibility of managing economic adjustments in the EA through effective demand management and, therefore, potentially through anti-cyclical deficit spending in times of crisis. In other words, such EU-level fiscal capacity could have undermined, or at least weakened, the institutional selectivity of the EMU towards competitiveness adjustment. “Whatever form such proposals may take”, as Scharpf (2016) puts it, “they all would increase aggregate domestic demand and reduce the pressures of structural adjustment” (p. 32) (see also Blanchard, 2007, p. 9).

However, fiscal policy remains in the NEEG a matter of national decision-making operating through an even stricter set of EU-level rules, procedures and surveillance through which Member States are held accountable, and potentially sanctioned more rapidly, by EU-level institutions to prevent expansionary fiscal policy (cf. Buti & Carnot, 2012). “[Budgetary decisions] remain in the general setting of a mix of fiscal subsidiarity and fiscal control, with national sovereignty essentially preserved, if more tightly
constrained, by agreed principles”, as explained by Buti and Carnot (2012, p. 908) from the DG ECFIN. Thus, in terms of fiscal policy, the NEEG effectively maintains the logic of the established system of subsidiarity. The possibility for Member States to manage economic adjustment (unilaterally) through expansionary and anti-cyclical fiscal policy is constrained and no fiscal capacity at EU-level is created to make up for this loss of policy discretion (cf. Werner Bonefeld, 2015, p. 13, 2017, pp. 140–141). In short, the statement remains to be accurate that “the fiscal rules of EMU remove anti-cyclical fiscal policy responses to economic downturn as a means of economic adjustment” (Werner Bonefeld, 2015, p. 13).

From a class-based perspective, the lack of a fiscal or transfer union is not a deficiency of the EMU but crucial to its politics of class. The institutional arrangement restricts popular-democratic pressures on fiscal policy and leaves them without medium of expression at supranational level. Further, it channels policymaking towards competitiveness adjustment as other options are foreclosed. In other words, Member States have to adjust economically by facilitating capitals’ confrontation of the labour force to compress unit labour costs. The new rules and procedures for fiscal discipline have not weakened but strengthened this policymaking logic of the EMU. In summary, in terms of fiscal policy, the NEEG has reinforced the institutional selectivity of the EMU towards competitiveness adjustment and, consequently, the politics of class that follows from it (which I discuss in detail in the subsequent chapters).

3.2. The European framework for surveillance and enforcement of competitiveness

The development of a European framework for the surveillance and enforcement of competitiveness encompasses three new legal instruments of which the last two create additional competences for EU-level executive institutions in the field of labour market policy:

- The Euro Plus Pact
- The Macroeconomic Imbalance Procedure (MIP)

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41 The DG ECFIN is the Directorate-General for Financial and Economic Affairs of the European Commission. Mario Buti is the Director General himself.
The Financial Assistance Facilities—now European Stability Mechanism (ESM) (informally, ‘the Troika’)

The first is an initiative of the Heads of State and Government (European Council, 2011), while the other two stand in line with the recommendations of the Van Rompuy Task Force (2010). In the latter it was stated, for instance, that:

Persistent and large macroeconomic imbalances and divergences in competitiveness, particularly among euro-area Member States, aggravate the vulnerability of the EU economy and are a threat to the smooth functioning of the monetary union. The global crisis has demonstrated that compliance with the SGP is not enough. (…)

As regards the euro area, action to address macroeconomic imbalances and divergences in competitiveness is required in all Member States, (…). The Task Force recommends deeper macro-economic surveillance with the introduction of a new mechanism underpinned by a new legal framework based on Article 121 TFEU alongside the SGP applying to all EU Member States, taking into account the specificity of the euro area. (Report of Task Force, 2010, p. 8)

The new legal instruments introduced through these policy initiatives establish a fixed set of procedures and numerical indicators through which Member States are held accountable by European institutions for their commitment to foster competitiveness in an explicit, systematic and more binding manner than before. The logic behind these procedures is well put by the 5 Presidents (European Commission, 2015a): “Hold Member States accountable for the delivery of their commitments. Periodic reporting on implementation, regular peer reviews or a ‘comply-or-explain’ approach should be used more systematically” (p. 9).

The framework is more binding as Member States are held liable for the failure to foster competitiveness in a more severely punitive form – through the new sanctions regime – than was possible before the NEEG by means of the soft law instruments of the general economic policy co-ordination implemented through the BEPGs. The recommendations of European institutions lose their voluntary – non-binding – character to a large extent if a failure to comply may not only have the consequence of being pointed out and made public (after cumbersome voting procedures) but of burdening Member States’ public finances – entailing in the case of the Financial Assistant Facilities even the possibility of insolvency. In this sense, the NEEG establishes “effective enforcement mechanisms”
(European Commission, 2010a, p. 2). However, this “hardening of EU law” (Ian Bruff, 2017) cannot be understood simply as a separable addition of a regime of financial sanctions to the existing framework of soft law instruments – another means among others. Rather, these enforcement mechanisms have to be thought of in terms of synergetic effects. The use of these harder instruments makes the soft law pressures more effective as well – that is, it serves to strengthen the ‘peer pressure’ and ‘naming and shaming’ by functioning as a deterrent, as put by the Commission (2010a): “The deterrent effect of financial sanctions should constitute a real incentive for compliance with the rules.” (p. 9) (see Chapter 5).

In the following I will introduce the three new legal instruments relevant for the creation of the EU-level framework of surveillance and enforcement of competitiveness and reflect upon their meaning for the EMU’s system of subsidiarity. However, a thorough discussion of the underlying politics of class is left for the next chapters.

3.2.1. The Euro Plus Pact

The Euro Plus Pact is one of the new legal instruments of the NEEG by which the Heads of State sought to anchor explicitly through an intergovernmental agreement the commitment of Member States to the policy objective of fostering competitiveness beyond the national level. As the Heads of State announced:

This Pact has been agreed by the euro area Heads of State or government (...) to strengthen the economic pillar of the monetary union, achieve a new quality of economic policy coordination, improve competitiveness, thereby leading to a higher degree of convergence. This Pact focuses primarily on areas that fall under national competence and are key for increasing competitiveness and avoiding harmful imbalances. (European Council, 2011, p. 13)

For this purpose, the Euro Plus Pact contained a list of reform commitments – including comprehensive labour market reforms – that were supposed to be integrated into the existing policymaking procedures of European economic governance and monitored by EU-level executive institutions (including Commission, Council and Eurogroup) (European Council, 2011, pp. 14–15).
Further on, regarding the commitment to “Foster Competitiveness” (European Council, 2011, p. 16), the Pact defined progress in terms of competitive wage and productivity developments, which were to be measured in terms of comparisons of unit labour costs and other measures of external performance as current accounts and export market shares:

Progress will be assessed on the basis of *wage and productivity developments and competitiveness adjustment needs*. To assess whether wages are evolving in line with productivity, unit labour costs (ULC) will be monitored over a period of time, by comparing with developments in other Euro area countries and in the main comparable trading partners. For each country, ULCs will be assessed for the economy as a whole and for each major sector (manufacturing; services; as well as tradable and non-tradable sectors). Large and sustained increases may lead to the erosion of competitiveness, especially if combined with a widening current account deficit and declining market shares for exports. Action to raise competitiveness is required in both all countries, but particular attention will be paid to those facing major challenges in this respect. (European Council, 2011, p. 16 original emphasis)

Thus, the significance of the Euro Plus Pact is that it explicitly set out in the form of an intergovernmental agreement the objective to foster international competitiveness through the achievement of ‘competitive unit labour costs’. For this purpose, it provided for a clear list of reform commitments and numerical measures against which the Member States were supposed to be held accountable.

However, the Euro Plus Pact operated essentially in terms of the OMC and did consequently not contain stronger enforcement mechanisms than “peer pressure” (European Political Strategy Centre, 2015, p. 3). It was, therefore, not a stronger tool in terms of its enforcement capacity than previous forms of economic policy co-ordination. As a result, reform efforts made immediately in the name of the Euro Plus Pact were not continued after its implementation: “After integration in the euro area governance framework – and guided by the largely *ineffective Open Method of Coordination* – it has since lost traction with Member States and suffers from a lack of political ownership.”, as stated by the Commission’s European Political Strategy Centre42 (2015, p. 1, my italics).

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42 The European Political Strategy Centre (EPSC) is the European Commission’s in-house think tank, see: https://ec.europa.eu/epsc/home_en
Nevertheless, the Euro Plus Pact was of key significance to the politics of competitiveness adjustment during the crisis as it provided for a general reform agenda agreed upon by the Heads of State. This agenda is reflected in the reform programmes implemented through the other new governance instruments – the MIP and the financial assistance (or Troika) – that contain stronger enforcement mechanisms. In other words, the Pact shows the course of travel of the politics of the EMU during that time. I will return, therefore, to the Euro Plus Pact in the following chapter, which lays out the reform programme for competitiveness adjustment.

The main new EU governance instruments concerned with the objective of competitiveness, which broaden EU-level competences regarding labour market policy, are the MIP and the financial assistance facilities (‘Troika’) – now the ESM. The MIP is the ordinary procedure for, especially ex-ante, surveillance of competitiveness developments and enforcement of competitiveness adjustment, while the financial assistant facilities take over surveillance and enforcement in times of acute crisis. I will provide the details for these new governance instruments in Chapters 4 and 5 respectively. For now, I will give only a brief overview in line with the argument.

3.2.2. The Macroeconomic Imbalance Procedure (MIP)

The MIP was established through Regulations (EU) 1176/2011 and 1174/2011. Its basic features, according to the Commission (2012d), are as follows:

The six-pack introduced a new Macroeconomic Imbalances Procedure (MIP) (...) : a new surveillance mechanism aiming to prevent macroeconomic imbalances and to identify and allow the timely correction of any emerging competitiveness divergences. It is based on an alert system that uses a scoreboard of indicators and in-depth country studies to identify imbalances and launch a new Excessive Imbalance Procedure (EIP) where necessary. The new procedure is backed up by enforcement provisions in the form of financial sanctions for euro area Member States which do not comply with the EIP. (p. 6)

For now, three aspects of the MIP need to be highlighted: (1) the explicit focus on competitiveness; (2) the introduction of a preventive and corrective arm creating a
systematic and more binding surveillance framework; and (3) the explicit inclusion of labour market policy, also regarding wages, for purposes of economic adjustment.

(1) The MIP is explicitly concerned with the monitoring of competitiveness developments and the implementation of competitiveness adjustment (as evident in the previous quote). This focus is also inscribed into Regulation (EU) 1176/2011, which is in legal terms binding and directly applicable to Member States. In Paragraph 17 it is stated for instance that:

Actions to address macroeconomic imbalances and divergences in competitiveness are required in all Member States, particularly in the euro area. However, the nature, importance and urgency of the policy challenges may differ significantly depending on the Member States concerned. Given vulnerabilities and the magnitude of the adjustment required, the need for policy action is particularly pressing in Member States showing persistently large current-account deficits and competitiveness losses. (Paragraph 17)

(2) The MIP establishes a ‘pre-emptive arm’ by which Member States have to submit their National Reform Plans to the Commission and Council for assessment and policy recommendations on an annual basis (as part of the European Semester). In this context, the national macroeconomic developments are monitored by the Commission on the basis of a scoreboard with clear numerical indicators. The crux of these indicators is that they serve to warn Member States and to promote competitiveness (cf. Scharpf, 2016, p. 16). According to Article 4.4 of Regulation 1176/2011, “The scoreboard shall also include indicative thresholds for the indicators, to serve as alert levels. The choice of indicators and thresholds shall be conducive towards promoting competitiveness in the Union” (my italics). In this manner, Member States are held accountable by European institutions in the drafting and implementation of their National Reform Programmes for the competitiveness developments in their national economy on an annual basis. However, it is not simply the actual failure, but rather the potential failure (ex-ante) to achieve competitiveness that is denounced through this surveillance instrument in clear and replicable form – supported by numerical, or even scientific or expert, ‘evidence’. Thus, a systematic EU-level procedure of surveillance is established, which seeks to ensure Member States’ commitment to foster competitiveness through a systematic application
of soft enforcement instruments – ‘peer pressure’ and ‘naming and shaming’. However, the MIP goes further.

Additionally, the MIP contains a ‘corrective arm’ – the Excessive Imbalance Procedure (EIP) – which mirrors the harder enforcement mechanisms of fiscal policy surveillance. In fact, the EIP includes the possibility of fiscal sanctions in case Member States fail to deliver competitiveness adjustment in certain circumstances. “As a consequence”, as concluded by Schulten & Mueller (2015), “the European policy recommendations for member states lose their purely voluntary character and reach a much higher degree of liability” (p. 334). Moreover, the punitive instruments of the ‘corrective arm’ can function as a deterrent to incentivise compliance with the ‘pre-emptive arm’ (European Commission, 2010a, p. 9). Thus, through the combination of the ‘preventive’ and ‘corrective arm’, legal instruments are created to more effectively commit Member States to reforms of competitiveness adjustment. As stated in the 5 Presidents’ report, the purpose of the MIP is not only surveillance but the encouragement and enforcement of competitiveness reforms:

> It should be used not just to detect imbalances but also to encourage structural reforms through the European Semester. Its corrective arm should be used forcefully. It should be triggered as soon as excessive imbalances are identified and be used to monitor reform implementation. (European Commission, 2015a, p. 8)

In short, the MIP is a framework through which the European executive institutions, in other words, the European Commission and Council of Ministers, hold the individual Member States accountable in respect of their commitment to foster competitiveness in an explicit, systematic and more binding fashion.

(3) Regulation (EU) 1176/2011 determines a process of EU-level “guidance” and national “policy responses” through which the EU-level executive institutions gain competences in the field of labour market policy, including wages. It is stated that:

> If macroeconomic imbalances are identified, recommendations, where appropriate involving the relevant committees, should be addressed to the Member State concerned to provide guidance on appropriate policy responses. (...) The policy response should be tailored to the specific environment and circumstances of the Member State concerned and should cover the main economic policy areas, potentially including fiscal and wage policies, labour
*markets*, product and services markets and financial sector regulation. (Paragraph 20, my italics)

Thus, through the MIP, the EMU’s policy objective of ‘competitive labour markets and unit labour costs’ enters into the field of competences of the Union. The Commission and the Council of Ministers hold Member States accountable in respect of their commitment to enhance competitiveness and issue policy recommendations that include labour markets and wages. Whereas the Member States maintain the responsibility for the implementation of reform plans in line with community policy, which in case of failure may lead to financial sanctions. Overall, the MIP strengthens the institutional selectivity of the EMU towards competitiveness adjustment.

### 3.2.3. The Financial Assistance Facilities

The strongest new governance instruments for the enforcement of competitiveness adjustment, however, are the Financial Assistance Facilities (or “framework for crisis management” (Report of Task Force, 2010, p. 3)) – the so called ‘Troika’. The purpose of these facilities is to grant financial assistance to Member States that have difficulties in financing themselves through financial markets, which may in turn affect the Euro-Area overall. The crux of these facilities, however, is that financial assistance is only granted against strict conditionality, which entails the implementation of the so-called Macroeconomic Adjustment Programme (MAP) specified in a Memorandum of Understanding (MoU). Through these programmes, the granting of financial assistance is turned into the strongest instrument for the surveillance and enforcement of competitiveness adjustment.

I will discuss the details of the only permanent facility, which is the ESM, in Chapter 5. For now, it is important to note that the ESM, and the implementation of Macroeconomic Adjustment Programmes, have been established in consistency with the whole governance framework of the EMU focusing consequently also on fiscal consolidation and competitiveness adjustment. As stated by the Commission:

*Policy conditionality must aim first at tackling the underlying imbalances in the affected Member State to ensure a smooth functioning of EMU. Conditionality*
would typically involve an appropriate mix of fiscal consolidation and the strengthening of fiscal governance (...). Beyond the budgetary dimension priority should be given to addressing macroeconomic imbalances, including competitiveness developments and underlying structural challenges. This will imply closer surveillance, more demanding policy co-ordination and stronger follow-up to ensure that necessary structural reforms are implemented swiftly. (European Commission, 2010b, p. 10)

The Macroeconomic Adjustment Programmes are therefore established as forceful extensions of the regular process of EU-level fiscal and economic surveillance. In Regulation (EU) 472/2013 (‘Two-Pack’) it is established that the ordinary instruments for economic and fiscal surveillance are replaced with a “strongly reinforced” process of surveillance for Member States that are under a MAP, which nevertheless takes into account the recommendations of the former instruments:

Economic and budgetary surveillance should be strongly reinforced for Member States subject to a macroeconomic adjustment programme. Because of the comprehensive nature of the latter, the other processes of economic and budgetary surveillance should be suspended or, where appropriate, streamlined for the duration of the macroeconomic adjustment programme (...). However, when preparing the macroeconomic adjustment programme, all recommendations addressed to the Member State in the course of an excessive deficit procedure or an excessive macroeconomic imbalance procedure should be taken into account (Paragraph 1.7).

Thus, recommendations made under the regular economic surveillance, which as shown above are explicitly concerned with competitiveness including labour market policy, are to be enforced through the MAPs. This, however, is to be done in a more rigorous way as further stated in Article 7.1:

The draft macroeconomic adjustment programme (...) shall take due account of any recommendation addressed to that Member State under Articles 121, 126, 136 or 148 TFEU and of its actions to comply with any such recommendation, while aiming at broadening, strengthening and deepening the required policy measures.

Moreover, regarding the MIP specifically, the MAPs replace the procedures of the former, while the economic indicators of the scoreboard are further applied including its focus on promoting competitiveness:
Where a Member State is subject to a macroeconomic adjustment programme, Regulation (EU) No 1176/2011 shall not apply to that Member State for the duration of that programme, save that the indicators in the scoreboard established in Regulation (EU) No 1176/2011 shall be integrated into the monitoring of that programme.” (Regulation (EU) 472/2013, Article 11).

In other words, financial assistance is turned into a stronger version of economic surveillance and enforcement of competitiveness adjustment. The possible intervention with wage policy for this purpose is also clearly set out in Article 7.1 of the Regulation 472/2013:

The draft macroeconomic adjustment programme shall take into account the practice and institutions for wage formation and the national reform programme of the Member State concerned in the context of the Union’s strategy for growth and jobs. (Regulation 472/2013, Article 7.1, my italics)

In short, the Macroeconomic Adjustment Programmes contain the same focus on competitiveness adjustment as the MIP. They do so, however, in stricter and broader terms and with a stronger enforcement capacity. The latter operates beyond soft law mechanism including most obviously the threat to cut the financial assistance in case of non-compliance with the policy conditionality – and consequently the threat of state insolvency. However, Regulation 472/2013 entrusts the European Commission to propose any measures they deem appropriate:

Where a decision is taken under this Regulation that a Member State does not comply with the requirements contained in its macroeconomic adjustment programme, and events and analyses clearly show that a mechanism is needed to ensure respect for the obligations towards its creditors and the stabilisation of its economic and financial situation, the Commission is invited to make proposals for such mechanism (Paragraph I.17).

However, a key player in the enforcement of the MAP has become the ECB that – not without reason – has been referred to by Streeck (2015, p. 370) as “the ideal dictator”. The ECB has linked the implementation of Macroeconomic Adjustment Programmes, as a policy conditionality, to its commitment to buy governmental bonds at secondary markets (Outright Monetary Transactions (OMT) programme), which was crucial to ease the financial market pressure on indebted governments during the crisis:
The ECB has adopted a decision as a basis to undertake Outright Monetary Transactions (OMT) in the secondary sovereign bond markets subject to strict and effective conditionality. (...) A necessary condition for Outright Monetary Transactions is strict and effective conditionality attached to an appropriate European Financial Stability Facility/European Stability Mechanism (EFSF/ESM) programme. As long as programme conditionality is fully respected, the ECB Governing Council will consider Outright Monetary Transactions to the extent that they are warranted from a monetary policy perspective. They will be terminated once their objectives are achieved or when there is noncompliance with the macroeconomic adjustment or precautionary programme. (...) The announcement of the OMT programme, which replaces the more limited Securities Market Programme, has again had a powerful impact on investor sentiment, resulting in a significant decline in sovereign yields in the vulnerable Member States. (European Commission, 2012d, pp. 8–9)

In summary, the financial assistance increases the strength of the surveillance and enforcement of competitiveness adjustment dramatically. In this form it functions also as a deterrent for Member States’ regular conduct. It shows, therefore, the strengthening of the institutional selectivity of the EMU towards competitiveness adjustment by creating competences at EU-level to intervene with national labour market arrangements. In concert with the MIP, the Financial Assistance Facilities create a permanent EU-level framework for the surveillance and enforcement of competitiveness.

3.3. The position of labour market policy in the ‘new’ system of subsidiarity

In this context, the question arises how the MIP and the ESM could have been set up to intervene with national labour markets, especially wage-setting arrangements, since the original treaty had conferred upon the Union only very limited competences in this respect – ruling out the intervention with wages and workers’ rights for association completely (see Chapter 1). The European Commission (2011a), nevertheless, declared bluntly the intervention in this area after the onset of the EA crisis:

In the current post-crisis economic environment, a number of EU countries need to adjust to country-specific shocks and at the same time correct significant external imbalances. As labour cost developments matter for both internal and external imbalances, Country-Specific Recommendations in the framework of the BEPGs and Employment Guidelines touch upon wages and labour costs. Reforms
in wage setting institutions are also part of reform packages agreed by countries under financial assistance programmes. A proper understanding of the interaction between wage developments and macroeconomic imbalances and the implications of reforms in wage setting framework will also be key for a successful implementation of the Excessive Imbalance Procedure (EIP). (p. 1)

The legality of these policy actions stands, therefore, in question (cf. Oberndorfer, 2014). However, the intervention in labour markets, including wages and collective bargaining, is justified by European policymakers by the institutional logic of the monetary union, which requires competitiveness adjustment to manage macroeconomic imbalances. Thus, the transfer of competences to EU-level institutions to engage in labour market policy is justified by invoking its necessity for the “smooth” functioning of the monetary union, or the “requirements of sharing a common currency” (European Council, 2015, p. 2). This is well explained by an interviewee from the DG ECFIN (interview 7):

I mean the problem of course is that whereas fiscal surveillance is, to some extent, well enshrined into the treaties – because of the SGP pact and there is the whole procedure then, which gives not the Commission but finally the Council relatively strong power in addressing fiscal recommendation(s) to Member States. When we enter the Macroeconomic it becomes a bit more clouded as a picture and, of course, the idea is that, especially then, together with the European Semester, that the In-Depth Review would allow the Commission to formulate some recommendations to be adopted by the Council in areas that are traditionally outside of the more narrowly defined scope of surveillance of the Commission, including the labour market. So indeed, yes, the labour market enters through the back door, in a way. I mean the treaty does not allow, of course, the Union to have a very key role in the definition of labour market policies. It is essentially a competence of Member States but because it is argued then that a well-functioning labour market is a key element of the overall smooth running of monetary unions, it allows, in a way, that the Commission and the Council, well and the Parliament actually, spill over also into the labour market.

In other words, driven by institutional selectivity of the EMU towards competitiveness adjustment, labour market policy, including wages, enters through the “back door” into the field of competences of EU-level institutions. Thus, labour market policy can no longer be regarded a national prerogative in the EMU. Rather, a ‘new’ system of subsidiarity has been created in which labour market policy is turned into a national competence that is shared with the EU-institutions. The purpose is to commit Member States to
competitiveness adjustment, which means for the Member States to facilitate capital’s confrontation of the labour force in order to lower unit labour costs. I will discuss the underlying politics of class in more detail in the next section.

However, such transfer of competences in the area of labour market policy to the EU-level could have done the opposite and potentially eroded the EMU’s institutional selectivity towards competitiveness adjustment. Some scholars (Flassbeck & Lapavitsas, 2015; cf. Scharpf, 2016, pp. 35–36; Stockhammer & Onaran, 2012) proposed to re-design the EMU’s governance framework by creating a system for the international co-ordination of wages, which would have made symmetrical adjustment in the EA possible (including a change in the ECB’s inflation target). Such a system could have served to ease the pressure to reduce unit labour costs and enhance competitiveness in some Member States by raising unit labour costs and reducing competitiveness in others. However, the focus during the crisis was to foster competitiveness in Member States, especially the ones perceived to be lagging behind, instead of reducing competitiveness in current account surplus countries, as agreed upon by the Heads of State in the Euro Plus Pact (see above). The point was well put in the surveillance report of the Commission’s DG ECFIN for the Eurogroup:

The policy response to intra-euro-area macroeconomic imbalances should obviously not include a call for reduced competitiveness in surplus countries as this could only lead to higher unemployment in these countries. Moreover, strong competitiveness of all euro-area Member States, including surplus countries, is in the interest of the euro area as a whole. (European Commission, 2010d, p. 40)

Hence, the institutional innovations to broaden economic surveillance beyond fiscal policy are not a step away from the promotion of competitiveness adjustment. On the contrary, they reinforce it.
Conclusion

In this chapter, I have argued that the Euro-Area has integrated further during the crisis through the strengthening of the institutional selectivity of the EMU towards competitiveness adjustment. The NEEG does not only create a stricter framework for fiscal discipline but establishes an EU-level framework for the surveillance and enforcement of competitiveness through which EU-level institutions have gained competences to intervene with national labour market policy. Through the creation of the MIP and the Financial Assistance Facilities, Member States are held accountable by EU-level executive institutions in an explicit, systematic and more binding manner in respect of their commitment to foster competitiveness through labour market reforms. It is more binding as the enforcement capacity of EU policy objectives has been reinforced by means of a new sanctions regime that potentially burdens Member States’ public finances. Hence, the New European Economic Governance has created a ‘new’ system of subsidiarity to ensure Member States’ commitment to competitiveness adjustment.

The development of the NEEG followed from the prevailing crisis narrative that Member States had failed to comply with the governance framework of the EMU and, therefore, to implement ‘competitive labour markets and unit labour costs’ prior to the crisis. The process of integration during the crisis was, consequently, significantly driven by the aim to promote competitiveness adjustment through the creation of the new legal instruments of the NEEG. From the class-based perspective of the research project, this shows that the process of integration was significantly driven by the initiative to facilitate capital’s confrontation of labour. In the next chapter, I will substantiate this argument further by elaborating on the reform programme for competitiveness adjustment that was articulated during the emergence of the NEEG. The main point is to show the class strategy that underlies the reform programme and, thus, the politics of class of the NEEG.

Lastly, the chapter goes beyond the limitation of the dominant literature on the recent process of European integration that reduces the policy mix of the EMU to monetary and fiscal policy. Instead, labour market policy is brought back in, showing the new competences gained here at EU-level, and reflecting upon the process of integration through the logic of the policy mix overall.
CHAPTER 3
The EMU in Crisis: The Reform Program for Competitiveness Adjustment and its Class Strategy

Introduction

In the previous chapter I have argued that the Euro-Area has integrated further during the crisis through a strengthening of the institutional selectivity of the EMU’s system of subsidiarity towards competitiveness adjustment. The result was the establishment of the New European Economic Governance (NEEG) through which EU institutions gained new competences in the area of labour market policy. The process of integration was, thus, significantly driven by the objective to implement ‘competitive labour markets and unit labour costs’. According to key European policymakers, this objective had not been sufficiently attained before, so that stronger EU-level economic surveillance and enforcement was ostensibly needed.

In continuation, in this chapter I will elaborate on the concrete reform programme for labour markets, as articulated with the emergence the Euro-Area crisis between 2009-2011, through which Member States’ were - and are - supposed to facilitate competitiveness adjustment in their national economies. The purpose is to show the class content of this reform programme and, therefore, to show the significance of a class-based approach to European integration – that, in contrast to the “European integration orthodoxy” (M. Ryner, 2012), does not avoid the ‘political’ when it comes to labour relations. What appears as an export-led growth strategy, I argue, is essentially a class strategy. Thus, the present chapter develops further the key contribution of the thesis to provide for a distinct class-based understanding of the development of the NEEG during the crisis. A particular originality of such a perspective is that it allows for a critique of European governance by showing the class strategy that underlies the apparently ‘benign’ policymaking of European governance (see Introductory Chapter).

In the first chapter, I introduced the socio-historical conception of class, based on Marx’s Labour Theory of Value, which reveals the exploitative character of the wage-labour relation as the form through which social wealth is appropriated by capital from the
immediate producers. The source of the exploitative revenues – profit, interest, rent – is the peculiar capacity of the commodity labour-power, which is embodied in the worker, to produce more social wealth than socially necessary for its own reproduction. My argument about the EMU, in this context, was that Member States commit themselves through this supranational governance framework to facilitate capital’s confrontation of the labour force in order to reduce workers’ distributional share and enhance the exploitation of their productive capacities (in other words, increasing labour productivity).

However, Chapter 1 provided only a starting point for the analysis of the class strategy underlying the recent process of integration (or the social purpose). The discussion remained limited to a general definition of the aims of the class strategy – containing labour costs and increasing labour productivity – as they follow logically from the institutional design of the EMU. I did not concretise the class strategy for the historically specific context of the recent crisis, nor did I discuss sufficiently the means of its implementation. In this present chapter, I will do so and develop further, therefore, the understanding of the politics of class underlying the recent process of integration.

The conceptualisation of the class strategy is operationalised through the Thematic Analysis of policy documents that captures the general pattern of labour market reforms - referred to here as ‘the reform programme for competitiveness adjustment’ - promoted in the EA since the onset of the crisis. The analysis reveals the ways through which EMU Member States have facilitated capital’s confrontation of the working class in practice. I distinguish here between the direct and indirect intervention with capital-labour relations by Member States. The former refers to reforms of wage-setting institutions and employment protection legislation (EPL) that intervene directly with the relation between employers and workers in the private sector. The latter refers to reforms of social security systems, education and public sector employment that intervene indirectly with the relation between employers and workers in the private sector – by reorganising public institutions through which the labour force is reproduced.

My research acknowledges, therefore, the criticism of Social Reproduction scholars on more conventional Marxist analyses that the class antagonism has to be conceptualised beyond the immediate social relations of production including the broader social relations
of reproduction. The Thematic Analysis of policy documents makes it, therefore, possible to introduce an extension to the conception of the class strategy underlying the process of integration by elaborating on indirect forms of intervention that impact, more broadly, on the social reproduction of the labour force.

The reform programme for labour markets, elaborated on grounds of the Thematic Analysis, shows that EU-economic surveillance does aim to commit Member States to facilitate the moderation of wages and to boost labour productivity. From the perspective of Marx’s Labour Theory of Value (see Chapter 1), I suggest further that this can be understood as a class strategy to increase the appropriation of relative surplus value. However, the elaboration on the reform-pattern of indirect interventions reveals another aim: to commit Member States to mobilise labour-reserves in numbers and skills. In other words, competitiveness adjustment is not only about the reduction of unit labour costs but also about engineering the supply of labour-power. The latter has a two-fold character: on one side, mobilising labour-reserves is instrumental to achieve wage moderation and to develop the productivity of labour; on the other side, it is an own independent aspect of the class strategy for the purpose of increasing the output produced overall (through more economic activity). From the perspective of Marx’s Labour Theory of Value, I suggest, therefore, that it is also a class strategy to increase the appropriation of absolute surplus labour.

Moreover, two sub-strategies can be identified through the Thematic Analysis according to the two objectives of reducing labour costs or increasing productivity by making cross-connections in the pattern of direct and indirect interventions. I refer to these as the ‘labour-cost-oriented strategy’ and the ‘productivity-oriented strategy’. The distinction is significant to the discussion of the class politics of the NEEG in the following two chapters. However, independent of whether these aims are achieved or not, the key point of my argument is that the reform programme for competitiveness adjustment reveals overall a class strategy to empower capital over labour through direct and indirect state intervention. From a class-based view, the recent process of integration cannot be simply reduced to the purpose of increasing labour productivity but is driven by a class strategy to assert employers’ control over workers in the private sector and to assert the subordination of wage-dependent households to the demands of international capitalist
competition. Thus, my research develops further the understanding of the social purpose underlying European integration by showing the intervention with the balance of power between capital and labour facilitated through the governance framework of the EMU.

Hence, the present chapter brings forward the Key Argument for Research Theme 3 (RT3) (see Introductory Chapter):

- RT3: From a class-based perspective, the institutional selectivity of the EMU towards competitiveness adjustment shows that the EMU is a governance framework through which Member States commit themselves to facilitate capital’s confrontation of the labour force in order to reduce unit labour costs. That is to say, to compress wages and increase the exploitation of workers’ productive capacities. The establishment of the NEEG reinforced this governance framework fostering Member States’ commitment to this politics of class. However, independent of whether more competitive unit labour costs are achieved or not, I argue that, overall, the promotion of competitiveness adjustment through the NEEG reveals a multi-layered class strategy to empower capital over labour. Thus, a class-based perspective can contribute to the understanding of the recent process of integration by going beyond the view of ‘benign but mistaken European governance’ by looking into the underlying dynamics of the power-laden conflict between capital and labour.

Chapters 4 and 5 will substantiate further the argumentation by illustrating how the promotion of the reform programme for competitiveness adjustment through the new instruments of the NEEG has played out in practice in several Member States.

The argument developed in this chapter reflects patterns ‘lifted out’ through the Thematic Analysis from the policy and legal documents, grouped up in NVivo Project 1.

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43 'The politics of class of the European economic governance'
44 NVivo Project 1 focused on the larger picture of EU-level institutional changes and the reform programme of labour markets articulated during the crisis at EU-level in general terms. While the former chapter presented the result of the Thematic Analysis regarding the institutional changes in the governance framework, the present chapter focuses on the articulation of the programme for labour market reforms (see Introductory Chapter).
on the grounds of the subsequent research questions for RT2\textsuperscript{45} and RT3 (see Introductory Chapter on Method):

- RT2: What is the policy strategy for labour market reforms articulated during the years of crisis management (2008-2015)?
- RT3: How does the new governance framework of the EMU relate to the class antagonism between capital and labour? More specifically, how does the promotion of labour market reforms through the governance framework reflect the class conflict?

The relevant policy documents grouped up in NVivo Project 1 are documents that record the general reasoning and strategic plans made by European policymakers for the implementation of structural reforms in the EA\textsuperscript{46}. NVivo project 1 records, in other words, the articulation of a general reform programme for labour markets at EU-level that stands behind the specific reform commitments made by Member States between the years of 2009 and 2015 (that I grouped up in NVivo Project 2 and 3) to which I will turn in the subsequent two chapters. The selection of documents for the analysis followed a snowballing procedure based on a set of initial documents in which references made in one document pointed to the significance of another. A key initial document, in this respect, was the Euro Plus Pact that was endorsed by the Heads of State and Government of the EA in 2011. The latter outlines succinctly a reform programme with the aim to promote “competitiveness and convergence” (p. 11). (It is important to note that my research focuses exclusively on reforms that relate to labour markets, which is a key contribution of the thesis (see Introductory Chapter). Insofar as, for instance, reforms for the restructuring of the financial sector are put forward these are not covered in my project).

In addition, two policy documents from the Commission’s DG ECFIN (Directorate-General for Economic and Financial Affairs) were selected as starting points – on the grounds of secondary literature (and confirmed by the significance given by interviewees from the European Commission to the role of the DG ECFIN during the crisis (interviews 5 and 6)).

\textsuperscript{45} ‘The promotion of labour market reforms through the European governance framework’
\textsuperscript{46} See appendix for the lists of documents according to NVivo Projects.
These were the surveillance report of 2010 “Surveillance of Intra-Euro-Area Competitiveness and Imbalances”, prepared for the Eurogroup of Finance Ministers (European Commission, 2010d, p. 1) (cf. Scharpf, 2016, p. 8), and the analytical note of 2011 “Assessing the Links between Wage Setting, Competitiveness and Imbalances” conducted for the Economic Policy Committee47 in response to the eruption of the Euro-Area crisis (European Commission, 2011a) (cf. Schulten & Mueller, 2015, p. 337,341). From these policy documents, and other related ones (e.g. European Commission, 2007, 2009b), arise the following general pattern of labour market reforms (‘the reform programme for competitiveness adjustment’) articulated at EU-level:

- Direct intervention with capital-labour relations
  - Revision of wage regulations
  - Decentralisation of collective bargaining
  - Deregulation of employment protection legislation
- Indirect intervention with capital-labour relations
  - Cuts/freezes in public sector employment and wages
  - Activation policies
  - Human capital formation
- Cross-connections
  - Labour-cost-oriented strategy
  - Productivity-oriented strategy

This general pattern has been explored in relation to the country-specific pattern ‘lifted out’ from NVivo Projects 2 and 3 – which are presented in Chapters 4 and 5 respectively. These cover the specific reform commitments made by Member States, in other words, the actual Macroeconomic Adjustment Programmes and national reform plans, implemented through the new institutions of the NEEG. This procedure allowed to capture the pattern accurately on grounds of the actual policy commitments made between 2009 and 2015 as well as to determine shifts and deviations from this pattern.

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47 The Economic Policy Committee (EPC) is an advisory body for the Commission and the Council and supports the coordination of the economic-policies of Member States. The Committee itself is composed of significant policymakers: “The EPC comprises two delegates from each Member State, the Commission, and the ECB. They are senior officials and come from the authorities responsible for formulating economic and structural policy. Moreover the EPC also meets in a Eurogroup composition to prepare specific inputs for the Eurogroup” (Economic Policy Committee, 2018, para. 7).
The latter is elucidated in Chapter 5 and, while it does not show a break with the policy strategy, it shows a *strategic adaptation* of the programme for competitiveness adjustment to changing conditions in the EA over time and, consequently, of the underlying class strategy.

The chapter is structured as follows: the first section introduces the analysis of the reform programme for competitiveness adjustment as a class strategy and the distinction between direct and indirect state intervention in the capital-labour relation; in the second section, I go into the details of the pattern of labour market reforms by which competitiveness adjustment is supposed to be implemented in terms of the direct intervention, indirect intervention and the cross-connections. The latter discussion of cross-connections shows the distinction between two sub-strategies: the labour-cost-reducing strategy and the productivity-oriented strategy. Overall, my argument is, however, that the reform programme for competitiveness adjustment reveals a class strategy to empower capital over labour.

1. Competitiveness adjustment as a class strategy

Wage developments matter for both internal and external imbalances. The extent to which a monetary integrated area was hit by major idiosyncratic shocks is probably unprecedented. An efficient response of wages is key for adjusting to those shocks since wage and price adjustment is the only way of nominal adjustment within a monetary union. (European Commission, 2011a, p. 2)

In the first chapter I argued that the EMU embodies an institutional selectivity towards competitiveness adjustment. Given the constraints on monetary and fiscal policy, Member States’ national economies are supposed to adjust to economic imbalances through their export performance, that is, by enhancing the capacity of domestic capitals to compete on the world market. In the short term this can only be achieved through the moderation of labour costs. In the longer term, productivity growth can do the same as long as it is not offset through wage increases. In any case, competitiveness adjustment
requires governmental intervention with labour markets to facilitate this process, if it is not to rely only on ‘the market’ to put pressure on wages through heightened unemployment. The economic logic is well explained in technical terms by the DG ECFIN during the crisis:

Market-driven differentials in wage inflation across countries contribute to correct cyclical divergences in monetary unions. If a shock drives the output gap in a given country much above (below) that in other members of a monetary union, weaker (stronger) wage pressure lead to an improvement (deterioration) of price competitiveness and then to stronger (weaker) growth via net exports. In this respect, market-driven adjustment of labour costs contribute to automatically correct internal imbalances and are perceived as a key equilibrating mechanism in monetary unions (...). Reforms permitting a prompter response of wages and prices are often advocated as key for a better functioning of the euro area adjustment mechanism. (European Commission, 2011a, p. 4)

The DG ECFIN is here keen to emphasise the role of the state in facilitating competitiveness adjustment, urging that: “... market-based wage adjustment can help in this respect but it may not be sufficient. Other policy tools to support the adjustment of wages and prices and to foster productivity growth might be needed” (European Commission, 2011a, p. 5).

Hence, the following recommendation of the DG ECFIN to the Eurogroup in its 2010 surveillance report (see also European Commission, 2009b, pp. 48–49):

In particular, large price and cost adjustments will be needed in Member States which have accumulated large losses in competitiveness and large current account deficits in pre-crisis years. This calls for policy action to foster gains in labour productivity and enhance wage flexibility. In most Member States, wages are formed in a collective bargaining process without formal involvement of governments. Nevertheless, policy-makers can affect wage setting processes via a number of ways... (European Commission, 2010d, p. 3 my italics)

The policy action taken to facilitate productivity growth and implement wage flexibility is referred to in the dominant European integration literature as an export-led growth strategy (Iversen et al., 2016; Scharpf, 2016). From this perspective the NEEG facilitates the dissemination of the Northern export-led growth model to the Southern countries. However, as I have discussed in the Introductory Chapter, while this is descriptively
accurate, such a strategy appears as a dramatic policy mistake given a fallacy of composition (cf. Magnus Ryner, 2015, p. 281). Thus, my research programme drops the assumption that European governance is intrinsically benign, managing simply the “well functioning EMU” for “growth and jobs” (Van Rompuy, Barroso, Juncker, Draghi, 2012, p. 13). Instead, my project operates on the assumption of HM scholarship that governance reflects the contradictions and conflicts of class relations. Thus, I argue that the reform programme for competitiveness adjustment is not merely a policy mistake but reveals a class strategy.

From the class-based perspective developed in the first chapter on European governance, the crisis response advocated here by the DG ECFIN confirms the functioning of the EMU as an anchor for Member States to facilitate through labour market reforms capital’s confrontation of the labour force in order to reduce wages and increase the exploitation of their productive capacities (increasing labour productivity). The latter aim appears, in Marxist terms, as a strategy to increase the appropriation of relative surplus value. According to Marx (Marx, 2008, pp. 331–340, 531–556), the appropriation of relative surplus value is increased when the productivity of workers in the sectors that produce consumption goods is enhanced. As a result, the value and prices of these goods consumed by the workforce is reduced and, therefore, the value and price of labour-power overall, leaving conversely a larger share of surplus value for capital (Fine, 1998, pp. 178–179; Harvey, 2006, pp. 30–32, 48–49). While such “systematic cheapening of wage goods” is not within the power of “individual capitalists”, it can be facilitated through policy action (Harvey, 2006, p. 31).

Exactly such a process was proposed by the Chief Economist of the IMF to promote competitiveness adjustment in the EA with a particular view, however, on the relation between the tradeable (or export) and the non-tradeable sector (gastronomy, housing, transport services, etc). Blanchard’s (2007) argument was to facilitate wage reductions, and increase therefore price competitiveness in the tradeable sector, through the cheapening of non-tradeable goods consumed by workers that would follow from increasing the productivity of labour in the non-tradeable sector:

At a given wage and unemployment rate, higher productivity in tradables indeed translates directly into higher competitiveness. If the price of tradables is given by
the world market however, this has no further effect on the price level, and thus no further effect on the wage. Higher productivity in non-tradables on the other hand leads to a lower price of non-tradables, which leads (for a given real consumption wage) to a lower wage. Thus, it improves competitiveness through the lower wage rather than directly through higher productivity in tradables. (p. 12)

Indeed, the European Commission is clear that competitiveness adjustment is not simply about the tradeable sector but entails the decrease of relative prices of non-tradeables (European Commission, 2009b, p. 41) - or in other words, the “systematic cheapening of wage goods” (Harvey, 2006, p. 31). Thus, insofar that the policy action for competitiveness adjustment includes the non-tradeable sector, it appears in Marxist terms that the export-led strategy is a class strategy to increase the appropriation of relative surplus value.

Furthermore, there is another form of relative surplus value appropriation that is relevant in light of the reform programme for competitiveness adjustment. Individual capitalists can aim to make excess profits, if they manage through stronger labour productivity to reduce the costs of production beyond the average costs in their industry. This is well explained by Harvey (2006):

Individuals can leverage the gap between socially necessary labour time and their own private costs of production. Capitalists employing superior production techniques and with a higher than average productivity of labour can gain an excess profit by trading at a price set by the social average when their production costs per unit are well below the social average. This form of relative surplus value tends to be ephemeral, because competition forces other producers to catch up or go out of business. But by staying ahead of the field in productivity, individual capitalists can accelerate their own accumulation relative to the social average. This then explains why the capitalist ‘whose sole concern is the production of surplus value, continually strives to depress the exchange value of commodities’ by driving up the productivity of labour... (p. 31)

Thus, insofar as the reform programme for competitiveness adjustment seeks to enhance the capacity of individual firms to increase the productivity of their workers, it is conducive to the capacity of domestic capitalists to leverage excess profits. In summary, a Marxist perspective suggests that the reform programme for competitiveness adjustment includes a class strategy to increase the appropriation of relative surplus value, in one way or another.
However, whether higher labour productivity is achieved or not, my argument is that the reform programme for competitiveness adjustment reinforces the control of employers over workers. The Thematic Analysis of the labour market reforms shows that the class strategy cannot be reduced to the endeavour to foster labour productivity but is essentially about intervening in the balance of power between capital and labour. The latter comes strongly to the fore in the reform effort to depress wages, as I argue in detail further below, which operates by abolishing possible constraints, or resistance, to the capacity of employers to push down wages - the implementation of downward ‘wage-flexibility’. My argument coheres, therefore, well with Cammack’s (2006) elaborations on the global politics of competitiveness that, according to the author, has been promoted by international organisations and served “the empowerment of capital over labour” at the national level (p. 5). (However, in contrast to Cammack, who focuses on the global south, my focus is the EA.)

In summary, while competitiveness adjustment, as an export-led growth model for the EA as a whole, appears as a policy mistake, it can be shown to function as a class strategy. From the standpoint of the individual capitalists in international competition, the programme for competitiveness adjustment is conducive to their drive to reduce labour costs, enhance the productivity of labour – potentially increasing the appropriation of relative surplus value – and, ultimately, to assert their control over the labour process. However, the pattern of labour market reforms, discussed below, shows a class strategy that goes beyond the immediate relation between employers and workers in the private (business) sector as it operates through the state-mediated relations through which the labour force is socially reproduced (unemployment benefit, pensions, etc.). I distinguish, therefore, between direct and indirect state intervention with the capital-labour relation. In the next section, I introduce this distinction for the subsequent discussion of the class strategy, contained in the reform programme for competitiveness adjustment, focusing on the indirect dimension of the intervention.
2. Direct and indirect state intervention in the capital-labour relation

*Capitalist production demands that labour-power be available as a commodity for purchase in adequate quantity and quality and at an appropriate price.*

- Vogel (2013, p. 158)

In Chapter 1, I introduced the socio-historical conception of class as the direct relation between capital and wage-labour in which surplus labour is appropriated by capital through the consumption of the commodity labour-power that has the peculiar characteristic of being the source of value. However, as Social Reproduction theorists have pointed out, the peculiarity of the commodity labour-power lies not only in its capacity to produce value but also in the condition that it cannot be separated from the living body of the worker, which is reproduced outside the immediate process of production (Bhattacharya, 2017, pp. 72–74; LeBaron, Ferguson, Farris, & Dimitrakaki, 2016; Oran, 2017; Picchio, 1992, p. 120; Vogel, 2013, p. 157). Social Reproduction scholars have, thus, argued for an integrative analysis of the social relations of production and reproduction broadening the conception of class relations and struggle (Bhattacharya, 2017; Ferguson, 2016, pp. 48–54). In Ferguson’s (2017) words:

Conventional Marxist analyses define productive relations narrowly, as constituted by workplace (i.e. direct labour/capital) relations. (...) A social reproduction feminism perspective, on the other hand, directs our attention to a broader definition – one that includes those relations that generate and sustain workers for capital. (pp. 112-113)

A broader conception of class relations – that includes “relations that generate and sustain workers for capital” – is indeed necessary to capture the complexity, impact and contradictory character in which the class strategy, entailed in the reform programme for competitiveness adjustment, operates. I distinguish therefore between the direct and indirect intervention with the capital-labour relation: the former refers to state action that *directly* intervenes with the relation between employers and workers in the private sector through reforms of wage-setting arrangements and employment protection legislation. The latter refers to state action that intervenes *indirectly* with this relation through reforms of public institutions that contribute to the social reproduction of labour-power (including social security systems, education systems and public sector
employment). The indirect interventions serve to mobilise labour-reserves for the private sector – in other words, they engineer the supply of labour-power. Through this broader perspective, my research contributes further to the understanding of how the class antagonism is reflected in European governance.

However, it is important to note the limitations of my research regarding the criticisms made by Social Reproduction scholars. The analysis of the reform programme for competitiveness adjustment does not elaborate on wage-less housework, nor on gender relations. While this would be appropriate to capture accurately the interaction between policy-driven competitiveness adjustment and the social reproduction of labour-power (see e.g. I. Bruff & Wöhl, 2016; Roberts, 2012), such elaboration goes beyond the scope of the thesis and will require further research in future. The extension made here is more humble and limited. It focuses only on the relations between state, capital and labour and extends the analysis of class conflict to public institutions through which the labour force is reproduced as this is a key aspect of the reform programme for competitiveness adjustment. The latter can hardly be addressed without it. Thus, while limitations remain, the extended conception developed here makes it possible to capture the complexity of the class strategy underlying the programme for competitiveness adjustment.

A central contribution is that this makes visible the multiple layers of the politics of class, which are significant to account for subtle changes in the development of the NEEG over time and its operation in practice. First, it sheds light on the significance of the engineering of the labour supply to the class strategy. Second, it makes it possible to distinguish between the different sub-strategies for competitiveness adjustment, which account for the varied ways of its implementation through the NEEG (see below, as well as Chapter 4 and 5). Third, the analysis becomes more attuned to the contradictions that arise from the politics of competitiveness adjustment, including the broad impact on the working class, which leads to a strategic adaptation of the economic governance around 2013 (which I discuss in Chapter 5). In short, this broader perspective is important to capture the different ‘instruments’ used by state managers to facilitate the class conflict and to understand subtle changes in the course of integration over time.
The indirect interventions with the capital-labour relation appear often as reforms of public institutions that are ostensibly promoted to reduce state debts. However, these reforms affect the social reproduction of the workforce and are essentially instruments to engineer the supply of labour-power. In fact, they serve to mobilise labour-reserves for the private sector in numbers by dismantling social security systems and public sector employment. Here it is important to recall, that in Chapter 1, I had already argued that the pressure exerted by the unemployed on the bargaining position of workers can be a significant mechanism to facilitate competitiveness adjustment and reduce unit labour costs. This mechanism comes across well in the statement of an interviewee of the DG ECFIN about the crisis management (interview 6):

What happened during the (...) I mean during the crisis was that financial markets stopped to finance countries that were supposed to have lost competitiveness. (...) So then it has to restore its competitiveness in a very painful process. (...) I mean that was the situation where you would then have sharp cuts to real wages, you would have losses of employment, high unemployment, and these sort of things, in an effort to restore short-run narrow cost competitiveness.

My point is that the reform programme for competitiveness adjustment instrumentalises this pressure exerted by the unemployed by mobilising further labour-reserves in times of crisis when unemployment is already high – exacerbating consequently this disciplinary pressure. For the class strategy, it is therefore a measure to disempower workers in favour of capital with a view to reduce wages. Moreover, increasing the number of household members offering their labour-power at the market potentially increases also the absolute surplus-labour produced (Fine, 1998, p. 178; Vogel, 2013, p. 162), if unemployment declines. As Vogel (2013) puts it: “more household members may enter the work force, increasing the total amount of wage-labour performed by the household, a phenomenon akin to intensification of a single worker’s labour.” (p. 162). Thus, mobilising labour-reserves entails a class strategy to increase the exploitation of the productive capacities of the national labour force by increasing the surplus-labour produced overall.

However, the mobilisation of labour-reserves for the private sector focuses not only on the numbers but also the skills of workers - referred to as ‘human capital formation’. The programme for competitiveness adjustment includes, therefore, reforms of education
and training systems. While these appear as measures made in the name of workers, they are part of an organized shift from job security through employment protection legislation (EPL) to job security through the individual workers’ employability – referred to as ‘flexicurity’. The programme for competitiveness adjustment deregulates EPL, dismantling security in employment. Correspondingly, workers are supposed to secure their jobs individually by managing their employability through “training on market relevant skills” and “life long learning” (European Commission, 2012c, p. 11). This is also an example of how direct (reforms of EPL) and indirect intervention with the capital-labour relation operate in concert. From a class-based perspective, this means a loss of collective working class gains for protection legislation, burdening instead the individual worker with the responsibility to maintain her employability and continuously adjust her productive capacities to the demands of employers in international competition. These measures correspond, therefore, to the aim of increasing workers’ productivity in the long term – or, in Marxist terms, to raise the appropriation of relative surplus value.

In summary, competitiveness adjustment operates through direct and indirect state interventions with the capital-labour relation. The direct interventions include reforms of wage-setting mechanisms and EPL to facilitate employers’ confrontation of workers in the private sector in order to push down wages and increase labour productivity. The indirect interventions support this objective through reforms of public institutions (social security systems, education and public sector employment) that either intensify the unemployment-driven reduction of wages or develop the productive capacities of the labour force. In Marxist terms, this politics of class appears as a strategy to increase the appropriation of relative surplus value and, if unemployment declines over time, absolute surplus value. However, the central thread that goes through all these reform efforts is the assertion of employers’ control over workers and of the subordination of wage-dependent households to the demands of international capitalist competition. Thus, independent of whether the above state aims are achieved or not, my argument is that the reform programme for competitiveness adjustment reveals a class strategy to empower capital over labour. In the next section, I will substantiate this argument discussing, first, the direct and then the indirect interventions.
The reform agenda has been put well summarised in the assessment of the DG ECFIN in 2010 for the Eurogroup:

Reforms in labour markets should naturally be top of the agenda to improve the functioning of competitiveness adjustment. (...) Low labour mobility hinders the reallocation of production factors across sectors and increases the burden of nominal adjustment. Moreover, some features of wage formation processes can reduce wage flexibility and fuel unit labour cost growth. Finally, labour market reforms should be conducive to increasing labour supply, which is particularly pertinent in the current situation of decelerating potential growth. (European Commission, 2010d, p. 43 my italics)

As argued in the previous chapter, the narrative of the crisis was that Member States had failed to facilitate such reforms – or, in other words, to deliver the objective of ‘competitive labour markets and unit labour costs’. However, the Euro-Area crisis provided the context to strengthen the institutional selectivity of the EMU towards competitiveness adjustment and push forward this agenda. As put by J. M. Barroso, the President of the Commission in late 2008: “I am convinced that at times of crisis, opportunities open up to accelerate change and to introduce structural reforms to make us succeed in the globalised economy of the future. This is a great opportunity for Europe.” (European Commission, 2008a, p. 3).

3. The reform programme for competitiveness adjustment

3.1. Direct intervention in the capital-labour relation

In this section, I present the general pattern of labour market reforms articulated during the EA-crisis at EU-level that directly intervenes with the relation between employers and workers in the private sector. Especially significant in this respect is the list of reform commitments for labour markets that have been put forward in the Euro Plus Pact, as it shows in basic terms the pattern promoted during the crisis and the agreement to these reform commitments by the heads of state and governments. It is worth mentioning, in
this context, that the Euro Plus Pact is remarkably consistent with the propositions made by one of the largest (industrial) European lobby organisation, ‘Business Europe’, as the Corporate Europe Observatory (2011b) has revealed. In summary, the pattern encompasses three policy commitments: (1) Revisions of wage regulations; (2) decentralisation of collective bargaining; and (3) deregulation of employment protection legislation (or ‘flexibility’). In the following sections, I will discuss these three reform commitments and show their meaning as a class strategy. The point here is to show how the imposition of downward ‘wage-flexibility’ and the boosting of labour productivity operate by enhancing employers’ control over workers. In short, the programme for competitiveness adjustment empowers capital over labour.

3.1.1. Revisions of wage regulations

The Euro Plus Pact commits the national governments to: “Review the wage setting arrangements, and, where necessary, the degree of centralisation in the bargaining process, and the indexation mechanisms, while maintaining the autonomy of the social partners in the collective bargaining process”. (European Council, 2011, p. 16)

The reason for this, as the Commission’s DG ECFIN (2011a) argues, is that wage-setting arrangements, as minimum wages and wage indexation mechanisms, “affect labour costs” (p. 10). They create “wage rigidity” that may erode price competitiveness by driving wages up and/or by preventing their reductions (p. 10). In other words, minimum wages and wage indexation mechanisms have to be reviewed as they strengthen the wage demands of workers and hamper the capacity of employers to push down wages.

Regarding minimum wages, it is stated, for example, that: “Minimum wages (...) squeeze the lower end of the wage distribution and minimum wage changes may play a signaling role for contractual wages” (European Commission, 2011a, p. 10). Moreover, “minimum wages may perform a coordination role and drive overall wage developments.” (European Commission, 2011a, p. 11). Further, regarding “the introduction of statutory wage indexation systems”, the Commission (2011a) argues that: “Wage indexation may induce real wage rigidity (...). If wage indexation mechanisms do not take into account inflation
linked to changes in the terms of trade (notably, changing prices of imported energy), second-round inflation effects may aggravate competitiveness losses.” (European Commission, 2011a, p. 10). Thus, reforms of minimum wages and wage indexation mechanisms designed to abolish these or to weaken these wage-setting arrangements have been a central measure in the national reform programs implemented under the new instruments of the NEEG emerging in 2009. From a class-based perspective, these reforms weaken workers’ wage demands and strengthen the freedom of employers to push down wages.

3.1.2. Decentralisation of collective bargaining

As shown in the previous quote (see section 3.1.1.), the Euro Plus Pact proposes to revise the degree of centralisation of collective bargaining. The reason for this, as explained by the European Commission (2011a), is that sectoral level bargaining strengthens the power of trade unions supporting, among other aspirations, their demand for higher wages:

Wage bargaining may either be highly decentralised (taking place mostly at firm level), highly centralised (wage formation at national level) or may take at an intermediate level, normally at the level of sectors, an in some cases at the level of regions or occupations. Aggregate wage developments depend to some extent on the extent of centralisation because this matters for the bargaining power of wage setters and for the extent to which wage bargaining takes into account national level objectives. Moreover, centralisation matters for the extent to which wages can reflect differences in productivity across sectors and firms and labour market conditions across geographical areas. Some economic theories (…) predict that the worst case for wage moderation is when bargaining centralisation is intermediate (typically, bargaining taking place at sectoral level): in this case unions may have substantial bargaining power while not fully internalising the aggregate implications of their wage demands. (European Commission, 2011a, p. 13 my italics)

Thus, the Commission’s DG ECFIN argues that trade unions are strongest when collective bargaining operates at a sectoral level. It is also pointed out further that: “Wage bargaining is (…) conducted mainly at sectoral level in most continental and southern European countries” (European Commission, 2011a, p. 14). It follows that the continental and southern European trade unions are seen by the DG ECFIN as particularly strong in
their confrontation with employers. Consequently, the structural reform programmes implemented through the new institutions of the NEEG led to a dramatic overhaul of the collective bargaining systems in several Southern European countries *decentralising* collective bargaining from the sectoral to the firm level to disempower trade unions vis-a-vis employers (as shown in the following chapters). The latter has been described by Busch (1995 in Degryse, 2012) as the actual purpose of the institutional selectivity of the EMU:

> The unspoken aim of the Maastricht Treaty, in other words, putting in place the necessary wage and price flexibility via the subsidiarity principle applied to wage policy and, consequently, the neoclassical dream of dissolving the trade union cartel with regard to wages, could become a reality (Busch 1995 in Degryse, 2012, p. 9).

### 3.1.3. Deregulation of employment protection legislation

The European Commission (2011a) is clear about the issue that EPL enhances the bargaining power of workers and consequently their resistance to cuts in wages and jobs. It is seen as a major “rigidity” for the reduction of labour costs:

> In general, EPL raises the effective cost of labour (...). EPL also affects the responsiveness of wages. It has been argued that high EPL, by raising the bargaining power of the employed raises their ability to *resist* wage moderation and wage cuts and the higher difficulty of replacing current employed workers with low-wage outsiders induces downward wage rigidity (...). (p. 11, my italics)

Thus, the Commission raises the issue that EPL strengthens the power of workers to resist the confrontation of employers. Consequently, EPL has to be deregulated – or ‘flexibility’ increased – to weaken the bargaining power of workers and strengthen the capacity of employers to push down wages and lay off workers (or relocate them within firms). In the latter case, the fired workers can then be replaced with cheaper or more productive workers.

The deregulation of EPL is not only put forward, therefore, in the name of wage moderation but also to increase productivity growth. As already explained in Chapter 1, it is argued that firms increase productivity and adjust better to the demands of international competition if they are free to reduce or replace their labour force. This is
then what “flexibility” refers to – as one side of the broader agenda for “flexicurity” advocated by the European Commission during the crisis (2010d, p. 44). However, the approach had been defined already in 2007:

(...) new forms of flexibility and security are needed, for individuals and companies as well as for Member States and the Union. Individuals increasingly need employment security rather than job security, as fewer have the same job for life. Companies, especially SMEs, need to be able to adapt their workforce to changes in economic conditions. They should be able to recruit staff with a better skills match, who will be more productive and adaptable leading to greater innovation and competitiveness. (European Commission, 2007, p. 3 my italics)

In the Euro Plus Pact the heads of state commit themselves, correspondingly, to “labour market reforms to promote “flexicurity”…” (European Council, 2011, p. 17).

In summary, the reform programme of competitiveness adjustment entails the deregulation (or increasing of ‘flexibility’) of EPL to enhance employers’ control over workers at the workplace. While ‘flexibility’ increases job insecurity and weakens the workers’ power in collective bargaining, it strengthens the capacity of employers to push down labour costs, to dispose of insufficiently productive workers and exploit workers with more productive capacities instead. In this manner, deregulation is conducive to the capacity of individual capitalists to stay ahead in the field of labour productivity, reduce their costs below average and make excess profits – as a form of relative surplus value appropriation (see above).

In conclusion, the reform programme for competitiveness adjustment operates through the direct intervention with the capital-labour relation: on one side, this intervention is designed to disempower workers’ collective organization and aggravate insecurity in employment; on the other side, it is supposed to enhance the freedom of employers to push down wages, dispose of workers (or working hours) and potentially enhance the exploitation of their productive capacities. Overall, labour market reforms aim for the empowerment of capital over labour.
3.2. Indirect intervention in the capital-labour relation

In continuation of the discussion of the pattern of labour market reforms, in this section I present the indirect intervention with capital-labour relations. This encompasses another three reform commitments: (1) cuts/freezes in public sector employment and wages; (2) Active Labour Market Policies (including reforms of social security systems); and (3) human capital formation. In the following sections, I will go through these three and show their significance as a class strategy.

Through these reform commitments, Member States restructure public institutions that contribute to the social reproduction of the working class. In this manner, labour-reserves are supposed to be mobilised in numbers and skills. The commitment to mobilise labour-reserves quantitatively was concluded, for example, by the European Council in 2011. It was stated that: “...the Heads of State or Government held an initial exchange of views on best practices as regards their employment policies and agreed on the particular need to fully mobilise labour for growth.” (European Council, 2012, p. 69). The commitment to mobilise labour-reserves qualitatively was agreed upon in another conclusion of the European Council in 2011. It was announced that: “Enhanced activation policies should be complemented by efforts to upgrade skills, notably by adjusting education and training systems to labour market needs” (European Council, 2012, p. 69). From a class-based perspective, these commitments show how Member States engineer the supply of labour-power in order to increase the surplus labour produced overall by the working class households, and to provide employers with a labour force that is trained according to their demands. However, a key point is that the mobilisation of labour-reserves was promoted during the Euro-Area crisis when unemployment was skyrocketing – and it remains high in the Southern European countries (at the time of writing). Thus, in the context of the EA-crisis, these reforms served to increase the disciplinary pressure exerted on workers by the high rates of unemployment – empowering consequentially capital over labour.
3.2.1. Cuts/freezes in public sector employment and wages

The public sector is central to the programme for competitiveness adjustment. In the Euro Plus Pact the heads of state committed themselves to: “ensure that wages settlements in the public sector support the competitiveness efforts in the private sector (bearing in mind the important signalling effect of public sector wages)” (European Council, 2011, p. 16). The rationale for this can be derived again from the argumentation of the Commission’s DG ECFIN, which explains that a large public sector strengthens workers’ bargaining position in the private sector and drive their wage demands:

Wages in the government sector spill over to a certain extent to the private sector and, in absence of other mechanism of wage co-ordination and in presence of a large public sector may play a role of wage leadership. Government employment decisions can indirectly contribute to wage demands in the private sector, as the bargaining power of unions and workers is higher when government absorbs a relevant share of the workforce (European Commission, 2011a, p. 10 my italics).

It is further specified that:

...public sector wages affect private sector wages through "demonstration effects", that is by influencing the outcome of private wage agreements taking place after a change in public sector wages. The magnitude of the effects of government wage growth on private wage developments is likely to depend considerably on government size, as with a large government sector demonstration effects are stronger, and the impact on the bargaining power of workers more pronounced. (European Commission, 2011a, p. 11)

Thus, fiscal consolidation – or ‘austerity’ – measures that cut (or freeze) the wage-bill in the public sector and reduce public sector employment, as implemented at a large-scale through structural reform programs in several Euro-Area countries, do not simply aim to reduce public debt but to change the balance of power between employers and workers in favour of employers. Organised labour is supposed to be put under pressure by firing a significant share of the workforce absorbed by the state in times of crisis when unemployment is high, which increases the pressure exerted by the unemployed on the bargaining position of workers. In addition, the wage-bill is supposed to be cut or frozen to prevent it from fuelling workers’ aspirations in the private sector.
3.2.2. Activation policies

ALMPs encompass a set of initiatives including reforms of social security systems that mobilise specific groups of labour-reserves to enter and compete in the labour market. As with public sector reforms, ALMPs may appear as measures to reduce state debts, while they function in times of crisis essentially as instruments to facilitate the pressure exerted by the unemployed on workers to empower employers vis-a-vis the labour force. In the pattern of labour market reforms two types of groups are differentiated and foregrounded for the activation measures including the respective social security systems: (1) the unemployed and unemployment benefits; and (2) age-differentiated groups (the elderly and the young) and pensions. In the Euro-Plus Pact, the Heads of State and Government committed themselves to such activation measures through the commitment to engage in: “Reforms necessary to ensure the sustainability and adequacy of pensions and social benefits” (European Council, 2011, p. 18)\(^\text{48}\). (Insofar as these reform measures refer to unemployment benefits, they also fall under the agenda for “flexicurity”, mentioned above.)

(a) The general approach to the unemployed labour force and unemployment benefits has been outlined in the agenda of “flexicurity” by the Commission, which focuses on mobilising the unemployed by disciplining them to participate and compete in the labour market more intensively through reductions of unemployment benefits and “efficient job search support”:

Modern social security systems offering adequate unemployment benefits, as well as active labour market policies, are essential components providing income security and support during job changes. Good unemployment benefit systems are necessary to offset negative income consequences during job transfers, but they may have a negative effect on the intensity of job search activities and may reduce financial incentives to accept work. This can be largely offset by setting up efficient job search support and work incentives, ensuring a balance between rights and obligations. (European Commission, 2007, p. 6 my italics)

\(^\text{48}\) In this context also reforms of health care systems are mentioned, which I will leave out of the analysis as it is less pronounced in the articulation of the agenda and would go beyond the scope of the thesis.
During the EA-crisis the Commission (2011a) returned to this agenda. Here it is, however, argued further that “the generosity of unemployment benefits” may also weaken the disciplinary effect of unemployment on the bargaining power of organized labour:

Higher replacement rates and longer duration of unemployment benefits may reduce labour supply and increase the *bargaining power* of unions and workers, thus leading to higher wages. Generous unemployment benefit replacement rates and duration may also affect the *responsiveness of real wages to unemployment*, as the cost associated with higher wage demands in terms of increased risk of unemployment is mitigated by benefit generosity (...). (p. 10, my italics)

Hence, in the report for the Eurogroup, the Commission (2010d) specifies that competitiveness adjustment requires activation policies to discipline the unemployed labour force through public employment services and the cutting of benefits:

Activation policies could be enhanced in most euro-area countries. The Commission has stressed the importance of reforms that shift the focus from protection on the job to insurance in the market. These reforms should reconcile workers' demands for protection from unemployment and income risks with the need of firms to respond quickly to swings in consumers' preferences and to the challenges and instability created by technological progress and globalisation. Increasing the *effectiveness and efficiency of public employment services* is also important in PT, SI and SK. Reducing *benefit dependency* is also important. In particular, countries such as BE, DE, EL, FR, MT, NL, AT, SI and FI should aim at removing inactivity and unemployment traps. (European Commission, 2010d, p. 44 original emphasis)

In summary, activation policies focusing on the unemployed labour force aim on increasing the pressure on the unemployed to offer their labour-power at market and to accept lower pay and working conditions. Such measures correspond naturally to the reductions of wages intended under competitiveness adjustment but enhance also the disciplinary effect of unemployment on the bargaining power of workers. The structural reform programs for several Member States contain, therefore, reforms of public employment services (PES) and unemployment benefit systems to ‘activate’ the unemployed.

(b) Regarding pension reforms, the Head of States and Government suggest in the Euro Plus Pact two reform commitments that figure prominently in the programmes for competitiveness adjustment. These are reform efforts in: “aligning the pension system to
the national demographic situation, for example by aligning the effective retirement age with life expectancy or by increasing participation rates”, (European Council, 2011, p. 18). In addition, it required: “limiting early retirement schemes and using targeted incentives to employ older workers (notably in the age tranche above 55)” (European Council, 2011, p. 18). The reform commitments aim, therefore, to contain the elderly labour force in waged-work and to mobilise elderly workers for the labour market that had become part of the labour-reserves through retirement. The point of these reforms, as advocated by the Commission’s DG ECFIN (2010d), is not only ‘fiscal sustainability’ but to contain wage demands and increase the output produced overall:

Finally, increasing participation and the effective retirement age are crucial to minimize the social consequences of the crisis, to preserve European human capital and, ultimately, to return to strong growth. (...) Increasing the effective retirement age by enabling and motivating people to work longer through labour market policies promoting better age-management practices in work places and ambitious reforms of work incentives in pension systems should be high on the agenda of some countries (...). In particular, pension reform that improve the sustainability of public finances, even only in the long run, are likely to reduce risk premiums particularly in high debt countries. To the extent that they increase labour supply, such reforms would furthermore increase potential output and help to keep wage developments supportive of price competitiveness. (European Commission, 2010d, p. 44 my italics)

Moreover, next to the elderly, the young also became a major target for ALMPs during the crisis to increase labour market participation. This entails a set of different initiatives. As shown in Chapter 4, one of these is the promotion of the establishment of lower minimum wages for workers under 26 creating, therefore, a cheaper segment in the labour force. However, the Commission emphasises also the management of the transition from education to the job market (see European Commission, 2012c, p. 10), which amounts to the initiative to foster market-relevant training (discussed further below). In this respect the ECB (2012) highlights that Activation Policies, encompassing market-relevant training, reinforce the disciplinary effect of the unemployed on workers’ demands:

ALMPs [Active Labour Market Policies] should be designed to facilitate the return to work of young and less skilled individuals in particular, by including appropriate training policies to close the gap between the labour skills supplied and demanded,
especially in those countries most affected by the possibly permanent downsizing of certain sectors. Such policies would also help to increase the downward pressure on wages exerted by the unemployed and to limit the decrease in potential output growth associated with higher structural unemployment. (p. 10 my italics)

Thus, the activation policies focusing on mobilising the young, inter alia, through training measures, are also conducive to disciplining workers through unemployment and to increasing the surplus labour produced overall for appropriation.

In summary, the programme for competitiveness adjustment includes the mobilisation of the unemployed and the elderly as well as the young segment of the labour force. The objective is not simply to ensure fiscal discipline but also to increase the output produced overall and alter the balance of power between capital and labour by intensifying the disciplinary pressure exerted by the unemployed on workers.

3.2.3. Human capital formation

A significant tenet of the reform programme for competitiveness adjustment is the formation of human capital, that is, the development of the productive capacities of workers for capitalist exploitation (the development of the use-value of labour-power). It consists of two parts: “training on market relevant skills” and “life long learning” (European Commission, 2012c, p. 11). These measures are supposed to ensure a continuous supply of labour-power with suitable productive capacities for employers to draw on (operating in concert with the above-mentioned activation measures for the unemployed, elderly and young). This specific aspect of the state-managed reproduction of labour-power facilitates, therefore, the capacity of individual capitalists to stay ahead of their competitors in terms of labour productivity, reduce costs below average and, potentially, make excess profits.

In terms of the nature of the skills, while the Commission also mentions the increasing requirement for healthcare professionals in an ageing society and the emergence of a green economy as a source for job creation, it is emphasized that European capital requires ICT skills:

The demand for ICT professionals continues to grow. (…) Development and uptake of ICT applications will become crucial for boosting international competitiveness.
of European business and in turn increasing employment. Making European firms and workers more ICT literate and competent will demand considerable efforts in terms of education, as well as skills policies for workers, and infrastructure… (European Commission, 2012c, p. 6)

The Commission’s DG ECFIN advocated, consequently, reforms of education systems and the development of human capital during the crisis to boost productivity:

Accelerating productivity growth and raising the technology-intensity of the economy rank high on the competitiveness agenda. Speeding up productivity growth by improving the knowledge economy would obviously be beneficial in all Member states but benefits would be particularly high in countries facing large competitiveness adjustment both because faster productivity growth would facilitate necessary labour cost adjustment and because productivity could be more strongly impaired by the crisis in these countries. (…) Further challenges linked to productivity developments in the longer term relate to improvements in education system and human capital formation… (European Commission, 2010d, p. 45)

Correspondingly, in the Euro Plus Pact the Heads of State and Government committed themselves to “specific efforts to improve education systems and promote R&D” (p. 8) in addition to promoting “life long learning” (p. 9).

From a class-based perspective, these initiatives manage the continuous reproduction of workers’ skills suitable to the capitalist drive to increase the productivity of their workers and to appropriate relative surplus value. They show that capital’s competitiveness is not compatible with the self-determined development of the creative capacities of people from wage-dependent households. Instead, these creative capacities are to be determined over the life cycle by the requirements of capitalist competition. However, the class character of human capital formation becomes even clearer under consideration of its relation to the deregulation of EPL (as part of the agenda for ‘flexicurity’). I will return to this issue in the next section on cross-connections.

Overall, the reform programme of competitiveness adjustment intervenes indirectly with the relation between employers and workers in the private sector by mobilising labour-reserves in numbers and skills changing relations through which labour-power is reproduced. The discussion makes visible the significance of the engineering of the supply of labour-power to enhance capital’s control over labour by intensifying the discipline
exerted by the unemployed. Moreover, it potentially increases the absolute surplus labour produced overall and facilitates the drive of capitalists to foster the productivity of labour – and, therefore, potentially the appropriation of relative surplus value. Overall, it shows a class strategy to assert capital’s power over labour and the subordination of wage-dependent households to the demands of capitalist competition.

3.3. Cross-connections in the pattern: sub-strategies across direct and indirect interventions

Two sub-strategies can be discerned through cross-connections in the pattern of direct and indirect interventions in respect of the aims of the class strategy to lower labour costs or increase productivity. I refer to the first one as the ‘labour-costs-oriented strategy’ and the second as the ‘productivity-oriented strategy’. Insofar as the development of labour productivity takes a longer time than the reduction of labour costs, the former can be regarded a shorter-term strategy and the later a longer-term one.

3.3.1. Labour-Cost-Oriented Strategy

The labour-cost-oriented strategy is based on the unemployment-driven reduction of wages. On one side, the direct interventions weaken or abolish legal provisions that strengthen workers’ bargaining power and wage demands in the private sector, in particular, through reforms of wage-setting mechanisms and the decentralization of collective bargaining. On the other side, the indirect interventions intensify the downward-wage pressure exerted by the unemployed through activation policies and cuts in public sector employment. These two sides operate naturally together. The discipline applied to workers through unemployment can only create effective pressure to reduce wages, if this is not offset through legal provisions that strengthen workers’ bargaining power – as minimum wages, wage indexations and more centralised collective bargaining. This is well recognised by the Commission’s DG ECFIN (2011a) who argue, for example, that: “In more centralised settings the response to unemployment and to terms of trade appears insignificant” (p. 16). Also regarding wage regulations it is stated that “countries with indexations systems exhibit on average a weaker reaction of wages to unemployment...” (p. 16). Hence, unemployment-driven reduction of wages needs to be
facilitated through reforms of wage-setting mechanisms. In this manner, specific direct and indirect interventions with the capital-labour relation complement each other as a sub-strategy for wage compression.

3.3.2. Productivity-Oriented Strategy

The productivity-oriented strategy is based on human capital formation. On one side, the direct interventions focuses on the liberalisation of employment protection legislation to increase the freedom of employers to hire and fire and, therefore, to continuously re-ensemble the workforce to drive up labour productivity. On the other side, the indirect interventions concentrate on reforms of education systems to develop the skills of the labour-force according to the needs of capitalists in international competition. In concert, these measures strengthen the capacity of capitalists to stay ahead in the field of labour productivity, reduce their costs below average and make excess profits – as a form of relative surplus value appropriation (see above).

This class strategy that serves the capitalist drive to leverage excess profits is, however, based on burdening the individual workers with the responsibility to continuously manage their skills to secure their employability. While for the employers the deregulation of EPL means more control over the labour process, for the workers it means the erosion of socio-economic security and, correspondingly, a stronger necessity to train in “market relevant skills” (European Commission, 2012c, p. 11) over their lifetime. Thus, the necessity of workers to be and stay employed in the light of the removal of EPL creates the conditions for capitalists to stay internationally competitive. This is the class character of the Commission’s (2007) agenda for “flexicurity” that aims to increase capital’s competitiveness by making workers’ socio-economic security dependent upon the self-management of their skills:

Comprehensive lifelong learning strategies and better investment in human resources are necessary to respond to rapid change and innovation. This is an increasingly crucial factor both for the competitiveness of firms and the long-term employability of workers. High quality initial education, broad key competences and continuous investments in skills improve enterprises’ opportunities to cope with economic change and workers' chances of staying employed or finding new employment. (European Commission, 2007, p. 6 my italics)
Thus, the productivity-oriented strategy makes workers’ socio-economic security increasingly dependent on their efforts to stay attractive to employers throughout their lives. As proposed by the Commission (2012c): “Develop lifelong learning as key to security in employment” (p. 11). In other words, working-class gains for protection legislation are turned under the banner of ‘flexicurity’ into an individualized self-management practice that supports the capitalist drive to appropriate relative surplus value.

I will return to these sub-strategies in Chapters 4 and 5 as these are crucial to illustrate how the promotion of competitiveness adjustment has played out in practice through the NEEG in varied ways. In Chapter 4 the labour-cost-oriented strategy is at the centre of the discussion of the financial assistance, while the productivity-oriented strategy gains importance in the politics of the MIP in Chapter 5. Note that these sub-strategies may overlap in terms of the specific reform efforts as, for example, the deregulation of EPL may naturally also facilitate reductions of labour costs through dismissals. However, the logic and aims of these two sub-strategies differ. For this reason, the distinction makes visible more subtle changes in the course of European integration during the years of crisis and their underlying social purpose (see Chapter 5). Thus, the class-based analysis reveals several layers of the politics of class reflected in the development of the NEEG. The specific shifts in sub-strategies over time and the overarching drive to empower of capital over labour.
Conclusion

In this Chapter I discussed the pattern of labour market reforms through which competitiveness adjustment is to be conducted in the Euro-Area as articulated during the emergence of the Euro-Area crisis between 2009 and 2011 and, thus, parallel to the establishment of the New European Economic Governance, which strengthened the institutional selectivity of the EMU towards such form of adjustment. The Chapter presented, therefore, the remaining result of the Thematic Analysis of NVivo Project 1. The purpose was to show comprehensively the class content of the reform programme for competitiveness adjustment and, consequently, of the governance framework of the EMU, which facilitates it. Hence, it shows the significance of a class-based approach to European integration.

I distinguished through the Thematic Analysis a pattern of direct and indirect state interventions with the capital-labour relation. The direct intervention includes the reform commitments to (1) revise wage regulations; (2) decentralise collective bargaining; and (3) deregulate employment protection legislation. Through these measures, Member States facilitate employers’ confrontation of workers by abolishing legal impediments to the capacity of employers to push down wages, lay off workers and replace them with cheaper or more productive ones, while the bargaining power of workers is weakened. Thus, the objective to implement ‘downward wage-flexibility’ and enhance labour productivity entails a set of reforms that assert capital’s control over labour. From the perspective of Marx’s value theory of labour, I suggested further that the initiative to increase the productivity of labour appears as a class strategy to increase the appropriation of relative surplus value. This is the case insofar as increasing the productivity of labour is supposed to systematically cheapen wage goods in the non-tradeable sector and consequently reduce labour costs in the tradeable one, or to increase the capacity of individual capitalists to reduce their costs below average and make excess profits.

The discussion of the indirect intervention extended the conception of class-relations and conflict to include public institutions that contribute to the social reproduction of the labour force. My research broadens, therefore, the understanding of the relation
between European governance and class by acknowledging the criticism of Social Reproduction scholars that the class antagonism goes beyond the social relations of production encompassing social relations of reproduction. Nevertheless, I also recognised that my work remains significantly limited in this regard – not looking into wage-less housework or gender-relations – given the scope of my research. However, the class strategy underlying the programme of competitiveness adjustment, its sub-strategies and the contradictions that arise from it for the development of European governance could hardly be captured without discussing the indirect interventions. I will return to these points in the following chapters as they are significant to the class-based perspective on the recent process of integration.

The indirect intervention includes three reform commitments: (1) cutting/freezing public sector wages and employment; (2) active labour market policies focused, in particular, on the unemployed, the elderly and the young; and (3) human capital formation. Through these measures, Member States mobilise labour-reserves in numbers and skills to potentially increase the surplus labour produced overall by the working class households, and to provide employers with a labour force that is trained according to their demands. From a Marxist perspective, I suggested therefore that this pattern appears as a class strategy to increase the appropriation of absolute surplus value and to support the appropriation of relative surplus value by developing the productive capacities of workers according to capital’s needs. However, the reform pattern was implemented during the EA-crisis when unemployment was skyrocketing. Thus, I emphasise that these measures show how Member States facilitated capital’s confrontation of the labour force by engineering the supply of labour-power to intensify the disciplinary pressure exerted by the unemployed on workers and their wage demands. In summary, the indirect interventions assert capital’s control over the labour force and the subordination of wage-dependent households to international capitalist competition.

The elaboration of this reform programme for competitiveness adjustment led to the distinction of two sub-strategies according to the specific aims to reduce labour costs or increase productivity by making cross-connections in the patterns of the direct and indirect interventions: the labour-cost-oriented and the productivity-oriented strategy. The first one operates ‘directly’ by weakening legal impediments that hinder employers
from pushing down wages and ‘indirectly’ by intensifying the pressure exerted by the unemployed on workers’ bargaining position. The second sub-strategy operates ‘directly’ by strengthening the capacity of employers to assemble and disassemble their workforce according to their will and ‘indirectly’ by facilitating the development of workers’ skills to create a continuous supply of suitable labour-power for employers to draw on. The latter sub-strategy serves the capacity of capitalists to stay ahead in the field of labour productivity, reduce their costs below average, and make excess profits. However, the key point of my argument is that the reform programme for competitiveness adjustment shows an overarching common thread throughout, that is, a class strategy to empower capital over labour.

In summary, the process of integration during the crisis appears in a different light through the discussion of the class strategy contained in the reform programme for competitiveness adjustment. The debate of the European integration orthodoxy avoids the significance of the political dimension of labour relations to the process of integration. It gives the impression that the European crisis management is inherently ‘benign’ but mistakenly guided by a futile export-led growth strategy, or market-liberal austerity policies (see Introductory Chapter). However, the conclusion drawn from this chapter and the previous one is, instead, that the development of the New European Economic Governance was significantly driven by the promotion of competitiveness adjustment, which is essentially a class strategy to empower capital over labour. In other words, the class conflict between capital and labour can account for the social purpose underlying the recent process of integration. In the following, two chapters I will further substantiate the argument by illustrating the implementation of the politics of class in practice through the NEEG, that is, through the Financial Assistance Facilities (Chapter 4) and the Macroeconomic Imbalance Procedure (MIP) (Chapter 5).
CHAPTER 4
The Politics of Class of the Financial Assistance Facilities: The European Stability Mechanism and Competitiveness Adjustment in Greece, Portugal, Ireland and Cyprus

Introduction

Throughout the last three chapters, I developed the general argument of the thesis that the emergence of the New European Economic Governance (NEEG) was significantly driven by the objective to promote competitiveness adjustment throughout the EA, which reveals an underlying class strategy to empower capital over labour. My research contributes, therefore, to the debates in the field of European integration studies by showing the significance of the promotion of labour market reforms, and the underlying politics of class, to the recent process of integration. These issues had been neglected by the European integration orthodoxy (see Introductory Chapter). In short, the message of my thesis is that class conflict matters to understand the process of European integration.

In Chapter 1, I discussed the initial institutional design of the EMU (prior to the EA crisis) and its policymaking logic that requires Member States to foster international price competitiveness to adjust economically (the institutional selectivity towards competitiveness adjustment). Labour market reforms aiming for the achievement of competitive unit labour costs are therefore the key adjustment mechanism of the EMU. In addition, I showed how this institutional design reflects the class antagonism between capital and labour. The requirement to foster competitiveness through labour market reforms shows that the EMU is a governance framework through which Member States commit themselves to facilitate capital’s confrontation of the labour force in order to reduce unit labour costs.

In Chapter 2, I showed how this governance framework was overhauled through the creation of the New European Economic Governance (NEEG), which reinforces the policymaking logic of the initial institutional design of the EMU (it strengthens the institutional selectivity towards competitiveness adjustment). The prevailing narrative in respect of the EA crisis was that Member States had failed to comply with the initial
governance framework – that is, to implement competitive labour markets and unit labour costs prior to the crisis. The process of integration during the crisis was, consequently, significantly driven by the initiative to create new governance instruments of EU-level economic surveillance to commit Member States to such labour market reforms to foster competitiveness – including the Euro Plus Pact, the Macroeconomic Imbalance Procedure (MIP) and the Financial Assistance Facilities. Thus, the process of integration was significantly about reinforcing Member States’ commitment to facilitate capital’s confrontation of the labour force.

In Chapter 3, I continued the argument by discussing the general pattern of labour market reforms (the ‘reform programme for competitiveness adjustment’) through which Member States were supposed to facilitate this class confrontation with a view to foster competitiveness. I distinguished between the direct and indirect state intervention with the capital-labour relation, that is, reforms that directly intervene with the relation between employers and workers in the private sector, and reforms that intervene indirectly with this relation by reorganising public institutions through which the labour force is reproduced. This distinction made visible that the reduction of unit labour costs is importantly based upon the engineering of the supply of labour-power. Overall, I argued that the reform programme for competitiveness adjustment reveals a class strategy to assert capital’s control over labour. In summary, it follows from Chapters 2 and 3 that the emergence of the New European Economic Governance (NEEG) was significantly driven by the objective to promote competitiveness adjustment throughout the EA, which reveals an underlying class strategy to empower capital over labour.

Now, in the present and the following chapter, I will further illustrate this argument by making the step from the general EU-level development to its effects at the national level. I will show how the promotion of competitiveness adjustment through the NEEG, and its underlying class strategy, has actually played out in practice. This reveals the uneven and varied ways in which Member States have been committed to the reform programme for competitiveness adjustment through the new governance instruments – the Financial Assistance Facilities and the MIP. The present chapter focuses, first, on the Financial Assistance Facilities – specifically the European Stability Mechanism (ESM) – and the implementation of country-specific Macroeconomic Adjustment Programmes (MAPs) in
Cyprus, Greece, Ireland and Portugal. The next chapter will then focus on the Macroeconomic Imbalance Procedure (MIP) of the European Semester and the national reform plans of France, Italy, Slovenia and Spain.

The argumentation of this chapter reflects the results of the Thematic Analysis of the policy and legal documents grouped up in NVivo Project 2. This analysis was made in context of the findings from NVivo Project 1 presented in the previous two chapters. As explained in the Introductory Chapter, the mass of policy and legal documents relevant for the research process was grouped up in three different NVivo projects that were distinguished on the grounds of different institutional foci. The first project concentrated on the larger picture of the institutional changes of the NEEG (Chapter 2 & 3). The second and third projects, in contrast, focused specifically on the operation of the new governance instruments, in other words the Financial Assistance Facilities and the MIP (Chapter 4 & 5 respectively). Each project included the research on the promotion of labour market reforms that corresponds to its institutional focus. For the latter two projects this has meant looking into the specific reform commitments made by Member States under the surveillance of the new governance instruments. In this manner, the research process did not only cover the EU-level development but also its effect on the national level.

The Thematic Analysis of NVivo Project 2 operated primarily on the grounds of the following research questions:

- Research Theme 1:\footnote{Institutional changes of the European governance framework} How has the governance framework changed with the development of the New European Economic Governance?
- Research Theme 2:\footnote{The promotion of labour market reforms through the European governance framework} How did the promotion of the policy strategy for labour market reforms play out in practice through the new institutions of the NEEG?
- Research Theme 3:\footnote{The politics of class of the European economic governance} How does the promotion of labour market reforms through the governance framework reflect the class conflict?
The relevant policy documents regarding the governance framework were the legal and policy documents that established and determined the functioning of the ESM including, *inter alia*, the Treaty establishing the European Stability Mechanism (TESM, 2012), Regulation (EU) 472/2013 adopted through the ‘Two-Pack’, and the Commission’s (2012f) paper defining the scoreboard for the surveillance of macroeconomic imbalances. Regarding the labour market reforms, the relevant policy documents were the six initial Macroeconomic Adjustment Programmes (MAPs) for Greece, Portugal, Ireland and Cyprus including the Memoranda of Understanding on Specific Economic Policy Conditionality (MoU) and the Memoranda of Economic and Financial Policies (MEFP). The research process included, therefore, all Member States that have implemented MAPs as policy conditionality for public-sector loans.

In the first section of this chapter, I will elaborate on central features of the economic surveillance executed through the ESM. I return here to the argument developed in Chapter 2 that the new governance instruments of the NEEG have been constructed to promote competitiveness adjustment. From a class-based perspective this means that the ESM reinforces Member States’ commitment to facilitate by means of labour market reforms capital’s confrontation of the labour force (to reduce unit labour costs). The particularity of the ESM is that it is the strongest instrument in this respect. It is a game changer when it comes to the enforcement capacity it conveys upon EU-level executives to commit Member States to EU policy.

In a second step, I will discuss the specific pattern of labour market reforms contained in the MAPs of Cyprus, Greece, Ireland and Portugal and show its class content. Here I elaborate on the uneven and varied ways in which Member States have been committed to implement the reform programme for competitiveness adjustment, presented in Chapter 3. The discussion illustrates the direct and indirect state intervention with the capital-labour relation through the MAPs. The imposition of the reform programme has been uneven as Greece and Portugal have seen a more extensive adoption of it than

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52 Greece alone had to three different Macroeconomic Adjustment Programmes making, thus, six in total for the four ‘programme countries’.

53 This is not the case for Spain. In Spain the financial assistance and the policy conditionality applied exclusively to the financial sector. However, this policy area is not part of the research project. For this reason, Spain’s financial-sector adjustment programme has been left out.
Cyprus and, especially, Ireland. Moreover, the reform pattern put forward through the MAPs shows a particular variation in terms of the sub-strategies for competitiveness adjustment: the labour-cost-oriented sub-strategy appears to be privileged over the productivity-oriented sub-strategy (see Chapter 3 for the sub-strategies). I highlight in this context the role of the engineering of the supply of labour-power to intensify the pressure exerted by the unemployed during the EA crisis. However, in summary, the first and the second part of the chapter together show how the financial assistance of the NEEG has promoted competitiveness adjustment in Member States, which is essentially as strategy to empower capital over labour.

1. The Troika & the European Stability Mechanism

The policy conditionality attached to the financial assistance granted to Member States that had lost, de facto, excess to financial markets during the EA crisis has been one of the main means to reinforce Member States’ commitment to competitiveness adjustment. A key player in this context was the so-called ‘Troika’ that refers to the collaboration of the European Commission (DG ECFIN), Central Bank and the IMF, which negotiated and monitored the implementation of the policy conditionality (the MAPs) in the crisis-ridden Member States. For this purpose several new governance instruments had been created during the EA crisis including the European Financial Stability Mechanism (EFSM) 54 and the European Financial Stability Facility (EFSF) 55 in 2010. However, the only permanent

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54 The EFSM empowers the Commission to function as an intermediate between capital markets and the financing country, borrowing money under an explicit EU budget guarantee. (see Council Regulation (EU) 407/2010, Article 2, 3, 6)

55 The EFSF provided for financial assistance through the issuing of bonds and other credit instruments on capital markets on the basis of Member States’ budgetary guarantees (European Stability Mechanism, 2019).
new international financial institution is the European Stability Mechanism (ESM) established in 2011 (cf. TESM, 2012), which replaced the operations of the former two\textsuperscript{56}.

The intergovernmental treaty through which the ESM was created – the Treaty establishing the European Stability Mechanism (TESM) - formalised the new powers given to the Troika to intervene with Member States’ economic governance. While the final decision-making authority regarding the provision of financial assistance remains with the Council of Finance Ministers\textsuperscript{57}, the Troika was entrusted with the key competences to make the assessment of the economic situation in Member States and to negotiate as well as monitor the implementation of the Macroeconomic Adjustment Programmes (MAPs) (TESM, 2012, pp. 28-30). In other words, the Treaty entrusted EU-level executives (together with the IMF) with the powers to hold Member States accountable in respect of their commitment to fiscal discipline and the fostering of competitiveness.

In conjunction with the Macroeconomic Imbalance Procedure (MIP), the ESM constitute, therefore, the new EU-level framework for the surveillance and enforcement of competitiveness. As argued in Chapter 2, this development has been central to the strengthening of the institutional selectivity of the EMU towards competitiveness adjustment. While the MIP was set up as the ordinary surveillance procedure for everyday policymaking, the ESM takes over to apply a “strongly reinforced” surveillance process in the case a Member State experiences severe fiscal difficulties (Regulation (EU) 472/2013, Paragraph, I.7).

In the following section, I will discuss key features of the ‘strongly reinforced’ macroeconomic surveillance applied through the ESM. The purpose is to illustrate the general argument that the establishment of the NEEG was significantly driven by the aim to promote competitiveness adjustment. For this reason, I return to the point made in Chapter 2 that the new governance instruments – in this case the ESM – were designed to overcome the limitations of the economic policy co-ordination that prevailed prior to the

\textsuperscript{56} In contrast to the EFSF and the EFSM, the ESM does not operate on the grounds of Member States’ budgetary guarantees but upon an own capital base with the maximum lending capacity fixed at EUR 500bn (TESM, 2012, p. 5).

\textsuperscript{57} The Finance Ministers constitute the Board of Governors of the ESM, which is the highest decision-making authority (TESM, 2012, pp. 13 - 18).
EA crisis, which were the lack of a systematic instrument for macroeconomic surveillance (which includes competitiveness developments) and of ‘harder’ enforcement mechanisms. I will elaborate first on the systematising of the surveillance on grounds of the new scoreboard and subsequently on the stronger enforcement capacity created through the new sanctions regime. I emphasise in this context that the ESM is a game changer when it comes to the power of EU-level executives to intervene with national labour market policy and, thus, to facilitate capital’s confrontation of the labour force.

1.1. The scoreboard for the surveillance of macroeconomic imbalances

In Chapter 2, I discussed the limits of the economic policy co-ordination before the establishment of the NEEG. “A major weakness of the pre-crisis surveillance arrangement”, according to the Commission (2012d), was the “lack of systematic surveillance of macroeconomic imbalances and competitiveness developments” (p. 6). More precisely, the Commission (2012d) criticised the fact that “there was no formal instrument for their systematic analysis and follow-up through concrete policy recommendations.” (p. 6). Such a “formal instrument for the systematic analysis” was created for the new European surveillance framework in the form of a scoreboard of economic indicators – through Regulation (EU) 1176/2011 (see Article 4). The new scoreboard is important as it provides lenses through which the European Commission judges the economic situation in Member States. It applies to the surveillance procedures of the Macroeconomic Imbalance Procedure as well as for the monitoring of Macroeconomic Adjustment Programmes through the Troika (as established by Regulation (EU) 472/2013, Article 11).

My point about the scoreboard is that it is not a neutral set of economic indicators but that it has an inbuilt bias towards the objective to implement competitiveness adjustment. It is, in other words, a more systematic instrument for policymakers, especially the Commission, to push forward labour market reforms that support capital’s confrontation of the labour force. As put in the Regulation (EU) 1176/2011, the explicit aim of the scoreboard was to be “conducive towards promoting competitiveness in the Union” (Article 4.4).
The initial scoreboard was published by the Commission\(^{58}\) in 2012 (European Commission, 2012f, p. 28) and comprises 10 headline indicators with indicative thresholds distinguished between external and internal imbalances. In respect of the politics of competitiveness adjustment, the indicators for external imbalances are most significant (see Figure 3).

**Figure 3: Scoreboard for the surveillance of macroeconomic imbalances**

*Source: (European Commission, 2012f, p. 28)*

<table>
<thead>
<tr>
<th>External imbalances and competitiveness</th>
<th>Internal imbalances</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Headline Indicators</strong></td>
<td></td>
</tr>
<tr>
<td>3-year average of current account balance as a % of GDP</td>
<td>Net International Investment Position as a % of GDP</td>
</tr>
<tr>
<td><strong>Data source</strong></td>
<td>Source of Payments statistics, EUROSTAT</td>
</tr>
<tr>
<td><strong>Indicator thresholds</strong></td>
<td>+6% -4%</td>
</tr>
<tr>
<td><strong>Additional indicators</strong></td>
<td>Current account balance as % of GDP, BoP data</td>
</tr>
</tbody>
</table>

First of all, the Commission clarified in this context that the macroeconomic surveillance is not about symmetrical adjustment between current account surplus and deficit countries. Rather, it concentrates on the asymmetrical adjustment of current account deficit countries through enhanced competitiveness efforts (cf. Oberndorfer, 2014, p. 44):

Surveillance under the MIP covers both current account surpluses and deficits which, from an economic point of view, pose different types of policy challenges. (…) This means that surveillance (…) will encompass all Member States, but that a greater degree of urgency is required in countries with large current account deficits and competitiveness losses. (European Commission, 2012f, p. 6)

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\(^{58}\) The Commission developed, and maintains, the scoreboard in cooperation with Eurostat and Council Committees, especially the Economic and Policy Committee (EPC) and the Lisbon Methodology Working Group (LIME) (European Commission, 2016b, pp. 33–34).
The indicative thresholds for current account imbalances are, consequently, asymmetrical with +6% for surpluses and only -4% for deficits.

Further, in respect of the efforts to foster competitiveness, the scoreboard follows the agreement of the Euro Plus Pact to judge Member States’ “progress” in terms of “wage and productivity developments and competitiveness adjustment needs” (European Council, 2011, p. 16 original emphasis) (cf. European Commission, 2012f, p. 16). The main concern lies with the adjustment of “inappropriate responses of wages to productivity” that, according to the Commission (2012f, p. 10), was an underlying cause of the EA-crisis (see Chapter 2). To measure these wage and productivity developments the indicators of ULC and REER were established that are read in context with Export Market Shares and the Current Account Balance:

The ULC indicator together with the (HICP-based) REER indicator allows a comprehensive assessment of the cost/price competitiveness developments in each Member State. Large and sustained increases in ULCs may lead to the erosion of competitiveness, especially if combined with a widening current account deficit and declining market shares for exports. For instance, in the years preceding the present crisis, wage growth outstripped productivity improvements in many Member States, inducing sharp increases in ULC. Similarly, the developments in REER, which show price and cost competitiveness relative to the main trading partners, point to increased divergence. This may signal potential structural rigidities in product and labour markets... (European Commission, 2012f, p. 15 my italics)

Thus, the scoreboard was designed to foster price competitiveness (cf. Scharpf, 2016, p. 16). From this follows directly the concern for constraining wages and driving up productivity, that is, to push down workers’ wage demands and enhance the exploitation of their productive capacities. In other words, this systematic set of economic indicators serve to hold Member States accountable in respect of their commitment to facilitate capital’s confrontation of the labour force in order to reduce unit labour costs.

1.2. The new sanctions regime

In Chapter 2 I argued that the central thread that goes through the new instruments of the NEEG is the endeavour to enhance the enforcement capacity of EU-level executives
(Commission, Council and ECB) to ensure compliance with the policy objectives of the EMU. A key development in this respect is the creation of a new sanctions regime that potentially burdens Member States’ public finances in case of a failure to comply. This is, *inter alia*, an answer to the lack of ‘harder’ enforcement mechanisms left out of the framework for national economic policy co-ordination before the establishment of the NEEG. The limited possibilities to use “soft instruments” were “too weak” to promote competitiveness adjustment, according to the Commission (2012d, p. 2).

The ESM is a game changer when it comes to the enforcement of competitiveness adjustment. It grants financial assistance to Member States that have lost *de facto* access to financial markets to finance their operations. However, it does so only under the condition of the implementation of fiscal retrenchment and competitiveness adjustment monitored by the Troika on behalf of the Finance Ministers. As recalled by Scharpf (2016, p. 25), the adjustment programmes during the EA crisis “were enforced step-by-step through the partitioning of agreed-upon rescue loans in small tranches that would be withheld until the Troika of inspectors from the Commission, the ECB, and the IMF confirmed perfect compliance”. Non-compliance entailed, therefore, the risk of burdening public finances potentially to the extent of public insolvency and the exclusion of the EMU. Consequently, the policy propositions of the EU-level executives effectively lost their voluntary (non-binding) character of a ‘soft’ enforcement instrument. Thus, the financial assistance increases dramatically direct EU-level executive control over Member States’ economic policies to implement competitiveness adjustment.

However, this direct executive control operates in concert with the discipline imposed by financial markets. For this reason, the so-called ‘no bail-out clauses’ are of particular significance to the functioning of the ESM. These clauses prohibit the autonomous ECB (and national central banks) to act as a lender of last resort (TFEU, 2007, Article 123) and the Union, or any other Member State, to cover the financial liabilities of another Member State (TFEU, 2007, Article 125.1). The consequence of this is that Member States are made exclusively dependent on private finance to fund their public operations – as Oberndorfer (2014) puts it, the consequence is the “disciplining of the public sector by the market” (p. 31). This is well explained by Buti and Carnot (2012) from the Commission’s DG ECFIN:
The framework thus opened the way for markets to play a role in supporting sustainable policies – at least in theory. Because of the Treaty enshrining of no bail-out clauses, it could be expected that efficient financial markets would price in default risk premiums in the event of unsound policies. Market discipline, in other words, would contribute to the maintenance of stability-oriented monetary and fiscal policies, in tandem with self-imposed rules and procedures. (p. 901)

Thus, legal provisions were built into the EMU’s governance framework to reinforce Member States’ subjection to the discipline imposed by private investors and ensure the compliance with the EU-policy objectives of fiscal restriction and competitiveness adjustment.

The creation of the ESM provides EU-level executives with an institution to take advantage of the disciplining of Member States through financial markets to ensure the implementation of competitiveness adjustment. First, if Member States’ fiscal policies appear to be ‘unsound’, financial markets put pressure on Member States through increasing interest rates. Second, as soon as Member States are no longer able to finance themselves through financial markets, the ESM steps in to provide financial assistance under strict conditions (cf. Schaeuble, 2011). This empowers EU-level executives to ensure Member States comply with the EU-policy objectives. Thus, the ESM strengthens the EMU’s institutional selectivity towards competitiveness adjustment by supplementing the reliance on financial market discipline with direct executive control.

Under these considerations, the debate on whether the financial assistance has actually transgressed the no bail-out clause Article 125 of the TFEU (2007) or not (see Micossi, Carmassi, & Peirce, 2011) appears in a different light. Within the EMU’s system of subsidiarity, the no bail-out clause Article 125 is just one of many rules to impose fiscal discipline on Member States that, in turn, channels policymaking towards competitiveness adjustment (the EMU’s institutional selectivity). However, even if the financial assistance broke with this rule (meaning an irregular financial transfer), the financial assistance has not relieved Member States of the requirement for fiscal austerity and competitiveness adjustment. It is exactly the opposite. The financial assistance has dramatically strengthened the capacity of EU-level executives to enforce these policy objectives. In this sense, the no bail-out clause has not been transgressed, as the underlying political purpose has been realised. The “mechanism works”, as put by the
German Finance Minister (Schaeuble, 2011) at the height of the crisis, that is, the combination of financial market discipline and direct EU-level executive control “works” to ensure the implementation of fiscal austerity and structural reforms to an even “unthinkable” extent:

The no-bail-out clause has not been infringed. The assistance measures provided are loans, which are subject to clear conditions, and adherence to these conditions is monitored. The conditions require a shift in policy, budget consolidation and the implementation of structural reforms. (…) The loans are not transfers. And they are not gifts. Besides, there has hardly been a rush of takers for the rescue package. Everyone has been fighting bitterly to keep their distance. Because the truth is that the mechanism works. It starts with the spreads: the higher interest rates become unbearable and a country needs support. And the conditionality is such that the country is compelled to enforce measures that would have been unthinkable before the event.

Ladies and gentlemen, as the German media haven’t always been too kind about Greece in the last year, I would like to add this: Greece has now adopted adjustment measures that hardly anyone would have thought possible. And that shows that the mechanism works in principle. (Schaeuble, 2011, para. 28)

Thus, the financial assistance has done nothing else but to strengthen the institutional selectivity towards competitiveness adjustment through increase enforcement power in the hands of EU-level executives.

The same goes for the public debate (especially in Germany) on the no bail-out clause Article 123 of the TFEU (2007) that prohibits the ECB from functioning as a lender of last resort to Member States (cf. Plickert, 2014). The ECB’s launch of the OMT-programme (Outright Monetary Transactions) in 2012 introduced an instrument for the ECB to potentially act as a lender of last resort. However, the design of this programme has not undermined the pursuit of the EU-policy objectives. Instead, it was made a condition that Member States had to submit to the surveillance of the ESM to benefit from this programme. Thus, it served to empower the ESM – the Troika executives and the Finance Ministers – to enforce fiscal austerity and competitiveness adjustment in the crisis-ridden Member States. As put in De Grauwe’s (2013a) reflections, who is puzzled by the economic logic of this from his neo-Keynesian perspective:

... the ECB has attached as a condition to the use of the OMT-program that the countries concerned apply to the ESM which may then subject these countries to additional austerity programs. This creates the problem that countries are pushed
further into a recession as a condition to obtain relief from the ECB. It is difficult to understand the economic logic of such an approach. (…) (p. 18)

The logic of this condition is, however, not “economic” but a matter of class politics. The OMT-programme functions as another enforcement mechanism for the EU-level executives operating the ESM to commit Member States to labour market reforms, which reveals an underlying class strategy. Through these measures, the financial assistance appears to have become the strongest means of intervention in labour markets – and consequently the capital-labour relation - as pointed out by one Interviewee from the DG ECFIN (interview 6):

You know, we had a couple of countries that had to (...) undergo an adjustment programme. (...) Yes, financial support conditional on reform efforts. I mean, that's the basic design idea of these programmes. And indeed the conditionality has applied in all of these countries, also strongly on labour markets (...) also to wage setting mechanism. So here the influence has been direct and strong. In other countries and in other areas the evidence is mixed.

In conclusion, the ESM is part of the new sanction regime of the NEEG that potentially burdens Member States’ public finances in case of a failure to comply. Through the ESM, financial market discipline operates in concert with direct EU-level executive control to enforce competitiveness adjustment. This illustrates that the establishment of the NEEG followed significantly from the initiative to promote this policy objective and, consequently, to intervene in national labour market policy and facilitate capital’s confrontation of the labour force.
2. Competitiveness adjustment through financial assistance

“(…) it is important to ensure wage and price adjustments that restore and sustain competitiveness and to remove any obstacle to the full utilisation of the economy’s labour potential”.

- European Commission (2011b, p. 34)

The Macroeconomic Adjustment Programmes (MAPs) imposed upon the countries receiving financial assistance through the operations of the Troika (Greece, Portugal, Ireland and Cyprus) entailed a far-reaching intervention with the relationship between capital and labour in the country concerned. This intervention was met with strong popular, trade union and party-political resistance, exemplified by the emergence of the anti-austerity party SYRIZA in Greece. However, despite such democratic counter-movements, the first MAP began to be imposed in Greece in May 2010 followed by two more MAPs in March 2012 and August 2015. In general, Greece saw the most intensive implementation of reform programmes for competitiveness adjustment and fiscal retrenchment. After Greece’s first programme, Ireland followed in November 2010. Portugal, in addition, joined the ranks of programme countries in May 2011 and, finally, Cyprus in March 2013.

In the following, I will discuss this intervention with the capital-labour relation through the MAPs in detail and illustrate how the promotion of competitiveness adjustment through the NEEG played out in practice. The analysis reveals a pattern of direct and indirect interventions with the capital-labour relation that reflects the general EA-wide reform programme for competitiveness adjustment discussed in the previous chapter. The structure is as follows:

- Direct intervention with capital-labour relation
  - Revision of wage regulations
  - Decentralisation of collective bargaining
  - Deregulation of employment protection legislation

The focus lies with the measures for competitiveness adjustment, rather than fiscal retrenchment, and correspondingly with the reform commitments that relate directly to labour markets. Given the large quantity of material in this respect, health care reforms have been left out of the Thematic Analysis, and pension reforms have been included only insofar as these are relevant to the strategy for competitiveness adjustment.
• Indirect intervention with capital-labour relation
  o Cuts/freezees in public sector employment and wages
  o Activation policies
  o Human capital formation

Thus, the discussion of these reform commitments shows that the new governance instruments of the NEEG – in this case, the financial assistance – have actually served to promote competitiveness adjustment in practice. In other words, the NEEG has served to facilitate capital’s confrontation of the working class in Greece, Portugal, Ireland and Cyprus in the years between 2009 and 2015 – with the aim of reducing unit labour costs. However, the implementation of the reform programme for competitiveness adjustment has been uneven across the programme countries. Greece and Portugal have been submitted most extensively to the reform agenda for competitiveness adjustment. Cyprus and Ireland have not seen the same extent of reforms. Moreover, the implementation of this reform pattern exhibits also a variation regarding the two sub-strategies of competitiveness adjustment: the ‘productivity-oriented strategy’ is less pronounced than the ‘labour-cost-oriented strategy’. My discussion will, therefore, focus on the latter, which I will introduce first in the specific context of the four programme countries, before I turn to the pattern of reform commitments.

2.1. Labour costs and the Euro-Area’s reserve army of the unemployed

Given the institutional arrangement of the EMU, the management of economic crisis by individual Member States becomes a matter of fostering international competitiveness (in other words, the institutional selectivity of the EMU). In principle, this can be achieved through increased productivity of labour and improved non-price competitiveness. However, if gains in productivity or non-price competitiveness are not realised, competitiveness adjustment can only be accomplished through the moderation of labour costs (see Chapter 1). For the working class this means either accepting and taking part in the moderation of wages, or being disciplined to do so through unemployment when the
economic situation deteriorates, as put by Blanchard (2007) in respect of Portugal before the eruption of the EA crisis:

The important point here is that, given productivity, this decrease in wages is needed to improve competitiveness. The issue is whether it is achieved over time through unemployment or if unemployment can be avoided, and the same decrease achieved through a voluntary and coordinated reduction of wages by workers. (p. 15)

However, independent of the attitude of the European workers towards wage moderation, with the onset of the EA crisis in 2009/10, unemployment skyrocketed throughout the EA – especially in current account deficit countries. Between 2010 and 2015 the general (3 year average) unemployment rate rose in all four programme countries temporarily above 15% and in Greece even above 25% (see Figure 4)\(^60\). Moreover, the youth unemployment rates went far beyond these levels reaching above 30% in Ireland, Portugal and Cyprus and even above 50% in Greece (see Figure 5).

The downward pressure exerted by the rising levels of unemployment on wages manifested itself directly with the onset of the crisis. According to the Commission’s DG ECFIN (2012e): “The dampening effect of unemployment on wage growth was (…) fully reflected already in 2009 when measured in terms of compensation per employee” (p. 14) (cf. European Central Bank, 2016). However, for the Commission, this is the price these Member States had to pay for not reducing unit labour costs sufficiently in the years before the crisis to foster competitiveness:

Despite repeated warnings, imbalances within the euro area were not treated at a time when economic conditions were favourable. Now, the crisis is forcing an adjustment of current account balances the hard way, through a collapse in domestic demand and sharply rising unemployment. This is most notably - but not exclusively - the case in countries in deficit, such as Spain and Ireland... (European Commission, 2009a, p. 8)

Thus, with the onset of the EA crisis, Member States with deficits were experiencing an “unemployment-driven reduction in labour cost” (European Commission, 2012h, p. 2). This provided then the context for the implementation of the labour-cost-oriented strategy for competitiveness adjustment.

\(^{60}\) The statistics used here are drawn from the indicators used in the scoreboard of the Macroeconomic Imbalance Procedure.
The labour-cost-oriented strategy intervenes directly with the relationship between employers and workers in the private sector by suspending or weakening legal provisions that might be a hindrance to the pressure exerted by the unemployed on workers’ wage demands. This includes provisions for sectoral-level collective bargaining, employment protection legislation (EPL) or wage regulations that strengthen workers’ bargaining power. In the words of the European executives, these labour market institutions create downward “wage rigidity” (European Commission, 2011a, pp. 10–11), that is, they create “a lower responsiveness of wages with respect to unemployment during downturns” (European Central Bank, 2012, p. 84). Thus, by suspending or weakening these institutions workers’ bargaining position and wage demands are diminished and the competitive pressure exerted by the unemployed can operate more effectively to push down wages. Overall, the consequence is that employers’ control over workers is enhanced to reduce unit labour costs.

However, this is only one side of the coin. The labour-cost-oriented strategy intervenes also indirectly with the relation between employers and workers in the private sector by engineering the supply of labour-power, so as to intensify the downward wage pressures exerted by the unemployed. First, the supply of labour-power for the private sector is increased by reducing public sector employment, and by “improving incentives to supply labour” (European Commission, 2012e, p. 103) for the elderly and long-term unemployed by altering pension and benefit systems (including cuts). In the words of the Commission (2012e), the focus lay on “increasing participation and keeping people in the labour market” (p. 53), even though unemployment was skyrocketing during the EA crisis, intensifying labour market competition. Second, Public Employment Services (PES) are supposed to be made more effective and launch training measures for the unemployed. Otherwise, the increasing numbers of unemployed may overstrain the PES, and their skills may deteriorate over time, with the consequence that the “rising share of long-term unemployment puts less downward pressure on wages”, as put by the ECB (2012, p. 85). These measures serve, therefore, to facilitate the competitive pressures imposed by the increasing levels of unemployment. In summary, the labour-cost-oriented strategy

61 For the effect of unemployment on wages and the balance of power between employers and workers, see Hein und Schulten (2005) and De Brunhoff (1978, pp. 9–36).
operates on the grounds of unemployment by intensifying the discipline exerted by the unemployed on workers as well as by weakening legal provisions that are a hindrance to the effective operation of this discipline. Overall, the power of employers vis-a-vis workers is strengthened on these grounds to keep down wages.

The implementation of the labour-cost-oriented strategy, and more broadly speaking the reform programme for competitiveness adjustment overall, appears to have had a significant impact on the four programme countries. The ECB’s research network WDN (Wage Dynamics Network) launched a survey to assess how firms in the EU adjusted wages and employment during the crisis in the context of the large-scale implementation of labour market reforms between the years of 2010-2013 (Izquierdo et al., 2017). The so-called WDN3 survey included about 25,000 firms in 25 countries asking them about their experience with the implemented labour market reforms. The data was collected during the year of 2014 and beginnings of 2015. It included the question whether it has become easier for company managers to adjust wages and employment between 2010 and 2013. On the basis of this survey, Lamo (2017) concludes “that it was precisely in those countries where the largest and most wide-ranging labour market reforms took place (in particular Ireland, Greece, Spain, Cyprus, Portugal and Slovenia) that a substantial percentage of firms found it easier to adjust both employment and wages (and consequently labour costs) in 2013” (Paragraph 3) (cf. Izquierdo et al., 2017, pp. 49–60).

This is well illustrated in the case of the four programme countries (Greece, Ireland, Cyprus and Portugal). According to Izquierdo et al. (2017, pp. 53-54), in Cyprus, approximately 20% of firms responded that it was easier to lay off employees, and around 50% that it was easier to adjust wages (of incumbents and new employees). In Portugal, almost 30% of firms replied that they found it easier to adjust employment, while the number of firms finding it easier to lower wages appears to be rather insignificant. The most remarkable changes are reported in Greece. Almost 40% of managers stated that they found it easier to lay off workers. More than 60% reported that it was easier to reduce wages for incumbents and up to 80% stated that it was easier to lower wages for new employees. In the case of Ireland, the percentages of firms finding it easier to adjust employment and/or wages are somewhat lower in comparison with the other countries. However, this seems to be natural given Ireland’s relatively high labour market flexibility.
already before the EA crisis (cf. European Commission, 2011b, p. 34). The figure of firms finding it easier to lay off employees and reduce wages of incumbents is here about 10%, while the number for the perceived ease of adjusting wages for new employees is around 25%. In summary, from a class-based perspective, these findings support the conclusion that the programme for competitiveness adjustment reveals an underlying class strategy to assert capital’s control over labour.

Furthermore, researchers related to the European Trade Union Institute (ETUI) found that real wages have decreased substantially in all four programme countries between 2010 and 2014, while they had been rising in the period before the crisis from 2001-2009 (Schulten & Mueller, 2015, pp. 350–352). The authors’ estimates indicate that real wages had plummeted in Cyprus by 14%, in Ireland by 6.8%, in Portugal by 6.5% and in Greece by as much as 23.6%. These findings cohere well with the dramatic decreases in unit labour costs experienced in these programme countries that are shown in Figure 6. However, the latter might not only be the result of wage moderation but also of the “structural downsizing in some sectors” (European Commission, 2010d, p. 2) (or potentially even of increasing labour productivity). In any case, these results support the argument that Member States have committed themselves through the NEEG to facilitate capital’s confrontation of the labour force in order to reduce unit labour costs.

In the subsequent sections, I will discuss the reform commitments in detail, emphasising the operation of the labour-cost-oriented strategy. However, note that this does not imply that the productivity-oriented strategy does not figure in the implementation of MAPs. The two key aspects of this sub-strategy – deregulation of EPL and human capital formation – are a part of the programme. My point is simply that the reduction of labour costs was in the forefront in the MAPs, as it has been confirmed by interviewees from the Commission (interview 5, 6, 8). Moreover, the reforms put forward in respect of human capital formation in the MAPs are comparatively sparse and, as I will discuss in the next chapter, it even appears that the promotion of the labour-cost-oriented strategy has had

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62 In contrast to the labour-cost-oriented strategy, the productivity-oriented one does not require the revision of wage-setting mechanisms. It operates simply through the deregulation of EPL to replace less productive workers with more productive ones. Neither does the productivity-oriented strategy require cuts/freezes in public sector employment and wages. Instead, it emphasises human capital formation to ensure a continuous supply of productive labourers for employers to draw on (see Chapter 3).
negative consequences in this respect – revealing the contradictions inherent to competitiveness adjustment.

Figure 4: Unemployment rate (IR, GR, CY, PT)

Unemployment rate – 3 year average

Source of Data: Eurostat
Last update: 17.01.2019
Date of extraction: 22 Jan 2019 14:51:45 CET

Hyperlink to the graphic: https://ec.europa.eu/eurostat/eurostat/htm/prud_graph.do&nr=1&plugin=1&language=en&code=mpc0410&subbox=legend

Disclaimers: This graph has been created automatically by Eurostat software according to external user specifications for which Eurostat is not responsible. Graphics included.

General Disclaimer of the EC website: https://ec.europa.eu/info/legal-notice_en

Short Description: The unemployment rate is the number of unemployed persons as a percentage of the labour force. The total number of people employed and unemployed is based on International Labour Office (ILO) definition. Unemployed persons comprise persons aged 15 to 64 who fulfil all the three following conditions: - are without work during the reference week; - are available to start work within the next two weeks; - have been actively seeking work in the past four weeks or have already found a job to start within the next three months. The indicator monitors high and persistent rates of unemployment and helps to better understand the potential severity of macroeconomic imbalances. It points towards potential misallocation of resources and general lack of adjustment capacity in the economy. The ILO unemployment indicator is the three-year backward moving average, i.e. the data for year Y is the arithmetic average of data for years Y, Y-1 and Y-2. It is calculated: \( U(R)_{Y} = \frac{1}{3} (U(R)_{Y-1} + U(R)_{Y-2} + U(R)_{Y}) \). The indicative threshold is 10%.

The data source is the quarterly EU Labour Force Survey (EU LFS). The EU LFS covers the resident population in private households.

Code: chsuse20
Figure 5: Youth unemployment rate (IR, GR, CY, PT)

Youth unemployment rate - % of active population aged 15-24

Percentage of active population

Source of Data: Eurostat
Last update: 17.01.2019
Date of extraction: 22 Jan 2019 14:55:14 CET
Hyperlink to the graph: https://ec.europa.eu/eurostat/statistics-explained/index.php/GDP_per_capita
Disclaimer: This graph has been created automatically by Eurostat software according to external user specifications for which Eurostat is not responsible. Graphic included.
General Disclaimer of the EC website: http://ec.europa.eu/info/legal-notice_en
Short Description: The youth unemployment rate is the unemployment rate of people aged 15-24 as a percentage of the labour force of the same age. The unemployment rate is the number of unemployed persons as a percentage of the economically active population, the total number of people employed and unemployed divided by the labour force (based on ILO definition). Unemployed persons comprise persons aged 15 to 24 who fulfil all the three following conditions: are without work during the reference week; are available to start work within the next two weeks and have been actively seeking work in the past four weeks or have already found a job to start within the next three months. The HIPS scoreboard indicator is the three years change in percentage points. The indicative threshold is 6.0 pp.
The data source is the quarterly EU Labour Force Survey (EU LFS). The survey covers the resident population in private households.
Code: tipslm60
Figure 6: Nominal unit labour cost (IR, GR, CY, PT)

Nominal unit labour cost - 3 years % change

Source of Data: Eurostat
Last update: 21.01.2019
Date of extraction: 22 Jan 2019 14:56:37 CET
Hyperlink to the graph: https://ec.europa.eu/eurostat/eurostat/tgm/drawGraph.do?lnk=1&plugin=1&language=en&code=tipsml9&show=legend

Disclaimers: This graph has been created automatically by Eurostat software according to external user specifications for which Eurostat is not responsible. Graphs included in the document contain data prepared in accordance with legal obligations. The data presented in the graphs should be used for informative purposes only. Eurostat is not responsible for the accuracy or relevance of this information. Eurostat is committed to providing high-quality statistical information. Should you encounter any issues or have any comments or suggestions, please feel free to contact us.

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Short Description: The unit labour cost (ULC) is defined as the ratio of labour costs to labour productivity.

Nominal ULC (ULC(N)) = ULC(EMD) / ULC(TO), with:
ULC = Compensation of employees, all industries, current prices
EMD = Employees, all industries, in persons (domestic concept)
TO = Total employment, all industries, in persons (domestic concept)

The input data are obtained through official transmissions of national accounts’ country data in the ESA 2010 transmission programme. The scoreboard indicator is the percentage change over three years of nominal unit labour cost (NULC). The indicative threshold is 5% for the euro area countries and 1% for non-euro area countries. The scoreboard indicator is calculated using the formula: NULC(I)-ULC(T-3)/ULC(T-3)*100

Code: tipsml9
2.2. Direct intervention in the capital-labour relation

The direct intervention with the relation between employers and workers in the private sector through the MAPs reflects the general reform programme for competitiveness adjustment, presented in the previous chapter, including: (1) the revision of wage regulation; (2) the decentralisation of collective bargaining; and (3) the deregulation of EPL. However, the commitment to these reforms has been uneven across the Member States (see Table 1). Greece and Portugal have seen by far the strongest adoption of the reform programme in comparison to Ireland and Cyprus. However, in Ireland, labour markets were more ‘flexible’ in the first place. “Ireland has a good track record regarding the flexibility of its labour market and is recognised to provide an attractive business environment, but there is scope for further improvement in certain areas”, as recognised by the Commission in Ireland’s MAP (2011b, p. 34). Thus, in the case of Ireland, there was simply less to do in this respect. In the case of Cyprus, the less extensive reform commitments mirror the change to a more cautious approach to competitiveness adjustment pursuit by the Commission after 2013. I will discuss this subtle strategic change in the next chapter.

In this section, I will review comprehensively the reform commitments63 of the different programme countries and show the underlying class strategy. From a class-based perspective, these reforms enhance employers’ power vis-a-vis workers to push down wages – operating, therefore, in concert with the pressure exerted by the unemployed to lower labour costs. In summary, the consequence of these reforms is that employers’ control over workers is asserted.

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63 The subsequent discussion includes most of the relevant reforms but not every single relevant one given the large quantity of material. For this reason, the appendix contains tables with the details on the relevant reform-commitments.
Table 1: Overview of direct interventions (IR, GR, CY, PT)

<table>
<thead>
<tr>
<th>Reforms</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(1) Revision of wage regulations</strong></td>
<td></td>
</tr>
<tr>
<td>Reduction in minimum wages</td>
<td>Greece, Ireland</td>
</tr>
<tr>
<td>Subjecting changes in the minimum wage to</td>
<td>Cyprus, Portugal</td>
</tr>
<tr>
<td>macroeconomic surveillance</td>
<td></td>
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<tr>
<td>Suspension/weakening of wage indexation</td>
<td>Cyprus, Greece</td>
</tr>
<tr>
<td>Reduction of overtime payment</td>
<td>Portugal</td>
</tr>
<tr>
<td><strong>(2) Revision of collective bargaining</strong></td>
<td></td>
</tr>
<tr>
<td>Decentralisation of collective bargaining</td>
<td>Greece, Portugal</td>
</tr>
<tr>
<td><strong>(3) Deregulation of EPL</strong></td>
<td></td>
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<tr>
<td>Reduction of severance payments</td>
<td>Greece, Portugal</td>
</tr>
<tr>
<td>Deregulation of dismissal protection</td>
<td>Greece, Portugal</td>
</tr>
</tbody>
</table>

2.2.1. Revision of wage regulations

One of the few policy conditions that was imposed upon all four programme countries was the *reduction* or *containment* of minimum wages to provide “additional room for downward wage adjustment”, as written in the second MAP for Greece (European Commission, 2012h, p. 38). This is a key aspect of the labour-cost-oriented strategy as minimum wages are legal impediments that limit employers’ space to manoeuvre to push down wages. Moreover, they drive overall wage developments and may strengthen workers’ wage demands (see Chapter 3) (cf. European Commission, 2011a, pp. 10–11). The revision of minimum wage regulation is, therefore, a means to support employers’ confrontation of workers to reduce labour costs in the context of the competitive pressures exerted by the unemployed. Such intervention “helps viable companies to reduce their production costs, thus creating a potential gains in external market shares” as put by the Commission (2012h, p. 38).

The most comprehensive reforms in this regard were made again in Greece (especially in the second MAP) where the reduction of minimum wages of the National General Collective Agreement (NGCA) were, moreover, “expected to have a strong signalling role to other sectoral and firm-level wages” (European Commission, 2012h, p. 38). In the first MAP minimum wages had to be fixed nominally for three years and sub-minima had to be
established for “groups at risk such as the young and long-term unemployed” (European Commission, 2010e, p. 68). The second MAP required the carrying out of “overhaul of the national general collective agreement” replacing the system of differentiated minimum wages (according to “type of work, education, marital status, seniority”, etc.) with a permanent “single-rate statutory minimum wage” (European Commission, 2012h, p. 38). Further, the wage floors of the NGCA were reduced directly by 22% in general, and by 32% for employees under the age of 25.

In Ireland, moreover, the “inability to pay clause” was reinforced (regarding the national wage agreements), allowing its application “more than once”, and the national minimum wage was lowered nominally by “€1.00 per hour” (European Commission, 2011b, p. 63).

In Portugal and Cyprus (European Commission, 2011c, p. 80, 2013g, p. 93), the arrangement was more flexible. Any intended change to the minimum wage was made subject to the “consultation with the programme partners” of the macroeconomic surveillance (European Commission, 2013g, p. 93) – that is, the Troika. In this manner, the Troika were given the power to prevent that nominal minimum wages increase and drive overall wage developments. Such measures were established to ensure that the “wage setting system” supported the “response of wages to labour market conditions” as put in the MAP for Portugal (European Commission, 2011c, p. 24). In other words, to ensure that the downward pressure exerted by the unemployed on workers’ wage demands could operate unhindered of minimum wage legislation.

In addition to these changes in wage floors, in Greece and Cyprus automatic wage indexation mechanisms that increase workers’ remuneration automatically were suspended or weakened (European Commission, 2012h, p. 147, 2013g, p. 93). Of Cyprus, for example, it was required that the “Cost of living adjustment” (COLA) was reformed, reducing the “frequency of adjustment”, establishing “mechanisms for automatic suspension (…) during adverse economic conditions” and changing from “full to partial indexation, with the rate of wage indexation being set at 50% of the rate of increase of the underlying price index over the previous year” (European Commission, 2013g, p. 93). Furthermore, the Portuguese government reformed the regulations for overtime
payment by reducing the “minimum additional pay (...) to maximum 50%” and by abolishing the “compensatory time off” for overtime (European Commission, 2011c, p. 80).

In summary, all four programme countries receiving financial assistance committed to changes in the regulation of minimum wages and other wage regulations. Thus, wage-setting mechanisms that hinder the capacity of employers to push down wages and that drive overall wage developments strengthening workers wage demands (see Chapter 3) were either suspended or weakened. Correspondingly, Schulten and Mueller (2015, p. 345) found that in the years between 2010 and 2013 real minimum wages fell in Ireland by 3.9%, in Portugal by 6% and in Greece by 28.6%.64

2.2.2. Decentralisation of collective bargaining

“Since the social dialogue between and with private sector employers’ and employees’ representatives did not deliver a satisfactory outcome, the Government legislated a reduction in minimum wages in the private sector and a modification of number of wage-setting procedures, including the rules on the expiration of collective agreements and the arbitration of wage disputes. This is part of a strategy of reducing labour costs in the business economy by 15 per cent in three years...”

- European Commission (2012h, p. 3)

As argued in the previous chapter, for the Commission the bargaining power of organised labour is strongest under conditions of sectoral-level bargaining, which is a tradition in continental and Southern European countries (cf. European Commission, 2011a, pp. 13–14). Thus, the MAPs for Greece and Portugal pushed for the decentralisation of collective bargaining from the sectoral to the firm-level to undermine the bargaining power of organised labour and putting workers of individual firms in competition with each other. According to Clauweart and Schoenman (Stefan Clauwaert & Schoenmann, 2012, pp. 13–14), this decentralisation of collective bargaining was a general trend of the crisis management including, in particular three aspects: permitting company level agreements to prevail over higher level agreements; extending collective bargaining rights at company level to other workers’ associations besides trade unions; and changing the “dispute

64 The authors did not report the development of real minimum wages for Cyprus.
resolution mechanisms” favourably for employers. The authors concluded that: “These reforms of collective labour law will definitely weaken trade union representation and action at all bargaining levels. They affect the very structure of trade unions as well as their institutional means of protecting and representing workers.” (p. 14).

The remoulding of the collective bargaining system in Greece was a case in point for this trend, as succinctly put in the second MAP (2012h):

In 2011, a number of measures were adopted to allow for a greater role of firm level negotiations in the wage bargaining process. There was action on three main inter-related fronts: first, not extending occupational and sector collective agreements to non-signatory firms; second, ensuring that firm-level agreements prevail over occupational and sector agreements by suspending the so-called favourability clause; and, third, allowing firm-level agreements to be negotiated by workers' associations (in addition to trade unions), with a view to increasing the number of firms that can conclude those type of contracts. (p. 37)

In this first reform package it was made clear that these measures were supposed to “provide for a reduction in pay rates for overtime work” and that “local territorial pacts” were supposed to be permitted “to set wage growth below sectoral agreements” (European Commission, 2010e, p. 68). In addition to these policy conditions, the first MAP for Greece also initiated changes in the arbitration system (European Commission, 2010e, p. 68). However, the reforms of 2011 were not seen as sufficient for Greece and it was argued that “further labour market reforms are necessary—to allow wages and hours to adjust faster” (European Commission, 2012h, pp. 37–38).

The policy conditions that followed in the second MAP aimed, therefore, to alter the “playing field in collective bargaining” and weaken substantially the possible impact of collective agreements (European Commission, 2012h, p. 109). This includes, among other aspects, the restriction of the “maximum duration” of collective agreements to 3 years and the shortening of “the grace period after a contract expires (...) from six to three months” (European Commission, 2012h, p. 109). The shorter grace period weakens the bargaining position of trade unions by putting them under pressure to settle for a new agreement within three months as otherwise the “remuneration will revert back to the basic wage plus the following general allowances (seniority, child, education, and hazardous)” (European Commission, 2012h, pp. 109–110). Moreover, in terms of the
dispute settlement system, the position of employers vis-a-vis workers has been considerably strengthened by requiring the consent of employers to the request for arbitration, by making it illegal for arbitrators to decide upon any other benefits than the “basic wage” and by requiring that “economic and financial considerations must be taken into account alongside legal considerations” (European Commission, 2012h, p. 110). The aim is eventually to “guarantee that arbitration awards adequately reflect the needs of wage adjustment” (European Commission, 2012h, p. 148).

The “organized decentralisation” in Portugal, furthermore, followed the example of the first MAP for Greece albeit somewhat less extensive. The reforms focused on the strengthening of company-level agreements relative to higher level ones by, among other aspects, permitting firm-level “works councils” to “negotiate functional and geographical mobility conditions and working time arrangements” and by easing considerably the conditions for such works councils to be allowed to negotiate firm-level contracts, even “without the delegation of unions” (European Commission, 2011c, pp. 80–81).

In summary, the Greek and Portuguese governments were bound through the financial assistance programmes to decentralise collective bargaining systems from the sectoral to the firm-level to strengthen the bargaining power of employers vis-a-vis workers. It is one of several measures to reduce ‘downward wage rigidity’ and make the discipline imposed by unemployment on workers more effective.

2.2.3. Deregulation of employment protection legislation

Employment protection legislation weakens employers’ control over workers. According to the Commission (2011a, p. 11), EPL strengthens the position of workers to resist employers’ demands to reduce wages and hinders the capacity of employers to dispose of workers and replace them with cheaper – or also more productive – ones (see Chapter 3) (European Central Bank, 2017, p. 64; cf. European Commission, 2009b, p. 43). Consequently, deregulation of EPL has been pushed forward in Greece and Portugal focusing on measures that increase the power of employers to dispose of workers including the deregulation of dismissal protection and reductions in severance payments.
In Portugal, for example, extensive revisions of severance payments arrangements have been requested not only aligning the level of severance payments from open-ended to fixed-term contracts but also general reductions of such payments for all new contracts and current ones in respect of the EU average (without lowering acquired up-to-date entitlements) (European Commission, 2011c, pp. 78–79). In addition, the dismissal protection had to be deregulated providing more freedom to the employer to fire workers. For instance, dismissal in case of the “unsuitability of the worker” was initially linked to the “introduction of new technology or other changes to the work place” but had to be opened with the reforms to “situations where the worker has agreed with the employer specific delivery objectives and does not fulfil them” (European Commission, 2011c, pp. 78–79).

In Greece, correspondingly, the government bound itself in the first MAP to lower the rate of severance payments across board and to increase the duration of the “probationary period for new jobs to one year” (from two months) (European Commission, 2010e, pp. 68, 79). In addition, the government committed itself to “facilitate a greater use of temporary contracts and part-time work” and to extend the freedom of employers to dismiss a higher number of workers without the “activation of rules for collective dismissals” (European Commission, 2010e, pp. 42, 70). Further, in the second MAP, the rights of tenure were abolished “in all existing legacy contracts” by adopting a reform that turns “contracts with definite duration (defined as those expiring upon age limit or retirement) into indefinite duration contracts for which standard layoff procedures apply” (European Commission, 2012h, p. 110).

In summary, the reforms regarding EPL in Portugal and Greece increased employers’ control over workers. While, on one side, the freedom of employers was increased to dispose of workers and (potentially) replace them with cheaper or more productive ones, on the other side, workers’ positions were weakened by losing protection from dismissals and increasing their insecurity in employment. Correspondingly, the WDN3 survey showed that a considerable percentage of firm managers in all four programme countries found it easier to adjust employment in 2013 than in 2010, that is, after and during the implementation of the MAPs (Lamo, 2017, Paragraph 3) (cf. Izquierdo et al., 2017, pp. 49-60).
Overall, the labour market reforms put forward in the MAPs intervened directly with the relation between employers and workers in the private sector, reflecting the plans for competitiveness adjustment discussed in the previous chapter. On one side, this intervention is designed to disempower workers’ collective organisation and aggravate insecurity in employment. On the other side, it is supposed to enhance the freedom of employers to push down wages, dispose of workers (or working hours) and potentially enhance the exploitation of their productive capacities. All of these reforms facilitate, therefore, the unemployment-driven reduction of labour costs. Overall, they are directed towards the empowerment of capital over labour.

2.3. Indirect intervention in the capital-labour relation

The MAPs operated also by means of indirect interventions with the relation between employers and workers in the private sector through reforms of public institutions that formed part of the social reproduction of the labour force. The pattern of reform commitments reflected the general EU-wide programme for competitiveness adjustment encompassing: (1) cuts/freezes in public sector employment and wages; (2) active labour market policies (ALMP), especially for the elderly and unemployed; and (3) human capital formation. These reform commitments mobilised labour reserves from the public sector, the unemployed and the potentially retiring during a period of heightened and prolonged unemployment in the programme countries (see above). While these measures may appear to serve the reduction of public debt, from a class-based perspective, they intensify the pressure exerted by the high numbers of unemployed on workers – empowering therefore capital over labour (see Chapter 3). This is the other side of the coin of the labour-cost-oriented strategy. Furthermore, similarly as is the case with direct interventions, the pursuit of the indirect interventions has been uneven across the four Member States. The pattern is basically the same. Greece, followed by Portugal, has seen the most extensive reform efforts, while especially in Ireland there have been fewer (see Table 2).

Table 2: Overview of indirect interventions (IR, GR, CY, PT)
### Reforms

<table>
<thead>
<tr>
<th>(1) Public sector reforms</th>
<th>Countries</th>
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<tbody>
<tr>
<td>Reductions of public sector employment</td>
<td>Cyprus, Greece, Portugal</td>
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<tr>
<td>Cuts/freezes in public sector wages</td>
<td>Cyprus, Greece, Portugal</td>
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<th>(2) Active Labour Market Policy</th>
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<tr>
<td>Activation policies for the elderly</td>
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<td>Activation policies for the unemployed</td>
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<th>(3) Human capital formation</th>
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<td>Market-relevant training</td>
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### 2.3.1. Cuts/freezes of public sector employment and wages

“In parallel with labour market reforms, it is expected that cuts in public sector wages and the reduction in public employment will impact private sector wages through demonstration effects”.

- European Commission (2010e, p. 21)

While cuts in public sector employment and wages appear as a measure to reduce public debts, they are also an intervention with the balance of power between employers and workers. A larger public sector that “absorbs a relevant share of the workforce” strengthens the “bargaining power of unions” and their wage demands, according to the Commission (2011a, p. 10). The MAPs for the four programme countries included, therefore, measures to reduce the share of the labour force employed in the public sector and cut wages to weaken the bargaining position of organised labour in the private sector.

In this respect, it is important to note that the public wage bill (and therefore public employment) is a substantial part of governmental expenditure and, therefore, of aggregate demand. According to researchers from the ECB (Fédéric, Kamath, Lamo, Pérez, & Schuknecht, 2010), it “accounts, on average, for almost a quarter of total public spending in the euro area.” (p. 8). Moreover, “on average, almost 15% of the labour force in the euro area is employed by the public sector” (p. 8). Cuts in public sector employment and wages were, therefore, a significant part of fiscal consolidation measures. However, these have had a negative impact on employment. The Commission (2012e) clarified that “employment growth fell especially in those euro-area countries
having carried out more substantial fiscal consolidation since the outburst of the crisis” (p. 7). From this it follows that the reduction of public sector employment and wages supported the widening of unemployment intensifying, therefore, labour market competition.

Reductions in public sector employment were put forward in Greece, Portugal, and in part in Ireland, either directly through layoffs (including also measures such as furloughing or pre-retirement schemes), or indirectly through restrictive hiring controls. In Greece, for example, a hiring limitation of “1 recruitment for each 5 retirements” was introduced in the first programme (European Commission, 2010e, p. 71) and maintained in the second plus a “1.10” ratio “for state-owned enterprises” (European Commission, 2012h, p. 97). Additionally, in terms of direct reductions, the Greek authorities introduced a labour reserve scheme for the public sector in the second MAP with the aim to “reduce general government employment by at least 150,000 in the period 2011 – 15” (European Commission, 2011c, p. 97). The employees that were dislocated into the “labour reserve” were supposed to get a 60% payment of the “basic wage (excluding overtime and other extra payment) for not more than 12 months, after which they will be dismissed” (European Commission, 2011c, p. 131).

In Portugal, similar hiring controls were required in order to lower public administration staff by 1% per annum and “2% in local and regional administration” in between 2012 – 2014 (European Commission, 2011c, pp. 60, 73). The central administration, moreover, was obligated to reductions of 15% (European Commission, 2011c, p. 72). In Ireland, in contrast, the policy-conditionality for such measures was less precise, requiring “public service numbers reductions through natural attrition and voluntary schemes” (European Commission, 2011c, p. 53).

Moreover, public sector wage cuts were carried out through the MAPs in Portugal, Cyprus and Greece while the last-mentioned experienced again the most extensive reforms. In Portugal, for example, wages were directly cut by 5% in average and fixed nominally in 2012 and 2013. In addition, “the overall budgetary cost of health benefits schemes for government employees” was brought down with a view to save 100 million euros (European Commission, 2011c, p. 60). In Cyprus, in contrast, public sector wages were
reduced by means of the reform of the COLA arrangement mentioned above that applied to both the public and private sector, while in the former case it was completely suspended for the duration of the financial assistance programme (European Commission, 2013g, p. 93).

Furthermore, in Greece during the first MAP, wage cuts took mainly place through the diminishing of benefits as, for example, with the abolishment of the 13th and 14th wage payments (with qualifications for employees earning less than 3000 euros monthly) and the lowering of “Easter, summer and Christmas bonuses and allowances” (European Commission, 2010e, p. 59). Additionally, the third MAP was committed to bring “non-wage benefits such as per diems, travel allowances and perks” in line “with best practices in the EU” (European Commission, 2015i, p. 30). Besides these actions regarding benefits, some more general reforms were required in the second MAP as, for instance, changes to the “wage grid for special regimes (...) (including for judges, diplomats, doctors, professors, police and armed forces), while protecting those at lower pay scales, to realize permanent net savings of about 0.2 percent of GDP” (European Commission, 2011c, p. 97), or also the creation of “ceilings for the wage bill (...) ensuring a declining path of the wage bill relative to GDP” in the third programme (European Commission, 2015i, p. 30).

In summary, in the context of the prolonged period of high unemployment in Cyprus, Greece and Portugal, the labour force absorbed by the public sector was reduced, and public wages compressed, to further weaken the bargaining power of workers and their wage demands in the private sector.

2.3.2. Activation policies
Next to job cuts in the public sector, the mobilisation of labour-reserves in the private sector operates, in particular, through activation policies for the elderly and the unemployed that include reforms of pensions and social security services. These measures are a significant part of the labour-cost-oriented strategy for competitiveness adjustment as they increase the supply of labour-power during the period of high
unemployment and intensify, or support, workers’ competition for jobs. I will first present the reform commitments regarding the elderly and subsequently for the unemployed.

(1) The mobilisation of the elderly labour force operates by increasing the age of retirement and by means of punitive measures intended to prevent earlier retirement. The aim is to reintroduce or keep the elderly labour force in wage-work. However, while these measures may appear as reforms for fiscal consolidation, they serve to dampen wages through increased labour market competition (cf. European Commission, 2010d, p. 44), while in the long run, if unemployment declines, it may lead to higher numbers of employed waged-workers increasing the surplus labour produced overall. As put in the MAP for Ireland: “Simulations carried out for the EU economy as a whole show that a gradual increase in the age of retirement by two years puts downward pressure on wages and raises employment by 2.1% and GDP by 2.2% after 10 years” (European Commission, 2011c, pp. 37–38).

Thus, in Ireland, Greece and Cyprus the retirement ages were extended by different measures, mainly as part of pension reforms, to put downward pressure on wages. The Irish government, for example, agreed to raise the state pension entitlement age gradually “to 66 years in 2014, 67 years in 2021 and 68 years in 2028” (European Commission, 2011c, pp. 33, 65). However, in comparison to Ireland, Cyprus and Greece moreover anchored further potential extensions of the retirement age to increases in life expectancy.

In Cyprus, for instance, these measures figure in the comprehensive reform of the General Social Insurance System (GSIS) and the Government Employee Pension Scheme (GEPS). In the former case among other aspects, “an early retirement penalty of 0.5% per month of early retirement” was established and an “automatic adjustment of the statutory retirement age” was put in place that adapts the retirement age “in line with changes in life expectancy” (European Commission, 2013g, p. 82). Furthermore, the “minimum contributory period” was extended over several years from 10 to 15 years (European Commission, 2013g, p. 82). In the latter case, among other actions, the statutory retirement age was put up by two years across types of employment and the same punitive mechanism for early retirement and automatic mechanism for increasing
retirement age with life expectancy had been set in place (European Commission, 2013g, p. 82).

Similarly to Cyprus, the Greek government committed in the first MAP to an “automatic adjustment mechanism that, every three years starting in 2020, will increase (...) the retirement age in line with the increase in life expectancy” (European Commission, 2010e, p. 64). Further, a “unified statutory retirement age” was established setting it at 65 years and sanctions to prevent early retirement were put in place extending “early retirement age to 60 years (...) including for workers in heavy and arduous professions” as well as cuts “in pension benefits (by 6% per year) for people entering retirement between the ages of 60 and 65 with a contributory period of less than 40 years” (European Commission, 2010e, pp. 63–64). In addition, the “minimum contribution period” was elevated from 37 to 40 years (European Commission, 2010e, p. 81).

By the time of the third MAP for Greece, the statutory retirement age had reached 67 years and it was required from the authorities to further “eliminate gradually the grandfathering to statutory retirement age and early retirement pathways” (European Commission, 2015i, p. 14). The sanctions for early retirement, moreover, were increased to an “equivalent of 10 percent on top of the current annual penalty of 6 percent” (ibid).

(2) The policy conditions for financial assistance included not only activation policies in respect of the elderly but also in general for the unemployed through a range of different measures focused on “facilitating the reinsertion of unemployed in the labour market, reducing disincentives to work” (European Commission, 2013g, p. 5). The aim is to maintain and intensify the competition between workers for jobs and, correspondingly, to weaken their bargaining power and wage demands.

One initiative is to reduce the amount and length of unemployment benefits. According to the Commission (2011a), the latter “increase the bargaining power of unions and workers, thus leading to higher wages” and they “may also affect the responsiveness of real wages to unemployment.” (p. 10). Correspondingly, in Portugal, the maximum length for the reception of unemployment benefits was lowered to 18 months, while maximising at the same time the benefit level to "2.5 times the social support index (IAS) and introducing a declining profile of benefits over the unemployment spell" (European
Furthermore, the government planned to assess the "effectiveness of current activation policies" with particular attention to the young and to develop an "action plan for possible improvements" (European Commission, 2011c, p. 78).

Another initiative focused on maintaining and reinforcing the “intensity of job search activities” (European Commission, 2007, p. 6) through reforms of Public Employment Services (PES) maintaining and increasing job competition between workers undermining their bargaining position and wage demands (cf. European Central Bank, 2012, pp. 85-86).

In Ireland, for example, the government committed to promote activation policies (1) by applying an "instrument to better identify of job seekers' needs ("profiling") and increased engagement", (2) by "a more effective monitoring of jobseekers' activities with regular evidence-based reports" and (3) by the use of "sanction mechanisms for beneficiaries not complying with job-search conditionality and recommendations for participation in labour market programmes" (European Commission, 2011c, p. 63). The latter is supposed to entail "an effective loss of income without being perceived as excessively penalising so that it could credibly be used whenever lack of compliance is ascertained" (European Commission, 2011c, p. 63). Similarly, the Cypriot authorities announced to implement "measures aimed at activating benefit recipient by facilitating their reinsertion in the labour market, reducing disincentives to work and imposing job-search requirements for continued benefit receipt" (European Commission, 2013g, pp. 93–94).

In addition to these reform commitments, in Ireland and Portugal training possibilities were supposed to be improved in addition to the measures in education and training covered below (European Commission, 2011b, p. 63, 2011c, p. 52). Insofar as such training policies are designed for the unemployed to maintain the capacity to compete for jobs, they “increase the downward pressure on wages exerted by the unemployed”, as explained by the ECB (2012, p. 10). In summary, the financial assistance programmes in all four countries concerned sought to activate labour reserves, that is, the elderly and unemployed, taking advantage of the high levels of unemployment during the crisis, maintaining and intensifying labour market competition.
2.3.3. Human capital formation

In the MAPs, the labour-cost-oriented strategy is more pronounced than the productivity-oriented strategy for competitiveness adjustment. This comes most strongly to the fore in considering the reform efforts for the formation of human capital, that is, the development of productive capacities of workers for capitalist exploitation. Reforms regarding education systems to develop the skills of the future labour force are sparse. A few initiatives have been put forward in Greece (European Commission, 2012h, p. 162, 2015i, pp. 22–23) and Portugal (European Commission, 2011c, pp. 81–82), while in Cyprus (European Commission, 2013g, p. 80) they fall under the drive for fiscal consolidation, consequently focusing only on the reduction of costs and not upon the quality of the labour force. For this reason the Cypriot measures will also be omitted here. However, despite it playing a less important role, some reform commitments were put forward that reflect the productivity-oriented strategy.

While some measures are designed to simply improve education, the central thread is to ensure that education and training corresponds to the demands of employers. The focus lies, therefore, on ‘market relevance’ and increasing the involvement of the private (business) sector in public education. In Greece, for example, the government committed itself to reform vocational training through measures as the creation of a “system to identify skills needs”, the initiation of “pilots of partnerships with regional authorities and employers in 2015 – 16” or also the facilitation of “a closer involvement of employers and a greater use of private financing” (European Commission, 2015i, p. 22). Besides these policy conditions, teaching obligations, class sizes and teacher-pupil ratios have been required to be adapted to “the best practices of OECD countries” (European Commission, 2015i, p. 23).

Similarly, in the Portuguese case the authorities have been less detailed in their policy commitments but obligated themselves to elaborate an “action plan” regarding vocational education that aims to guarantee “the quality, attractiveness and labour market relevance of vocational education and training through partnerships with companies or other stakeholders”, among other measures that link the financing of secondary public, private and professional schools to performance (European Commission, 2011c, pp. 81–82).
From a class-based perspective, this shows how education is subordinated to the requirements of capitalist competition. This becomes clearer in connection to the deregulation of employment protection legislation. While, on one side, the freedom of employers is increased to fire workers and replace them with more productive ones, on the other side, reforms of the education system are supposed to ensure a continuous and suitable supply of labour-power for capitalists to draw on. In concert, these measures support the capacity of capitalists to stay ahead in the field of labour productivity, reduce their costs below average and make excess profits – as a form of relative surplus value appropriation. However, for the working class this means that collective gains in protection legislation are lost, and replaced with the burden to manage individually their employability through ‘market relevant’ education (see Chapter 3).

Overall, the MAPs intervene indirectly with the relation between employers and workers in the private sector by mobilising labour-reserves in numbers and skills changing relations through which labour-power is reproduced. The discussion makes clear the significance of the engineering of the supply of labour-power to enhance capital’s control over labour and push down labour costs. The reforms of the public sector, social security and pension systems as well as training take advantage of the high levels of unemployment in the programme countries – intensifying and facilitating the discipline exerted by the unemployed. In the long run, some of these measures may also increase the absolute surplus labour produced overall (if unemployment declines) and facilitate the drive of capitalists to foster the productivity of labour – and, therefore, potentially the appropriation of surplus value (see Chapter 3). Overall, it shows a class strategy to assert capital’s power over labour and the subordination of wage-dependent households to the demands of capitalist competition.
Conclusion

The general argument of the thesis is that the emergence of the New European Economic Governance (NEEG) was significantly driven by the objective to promote competitiveness adjustment throughout the EA, which reveals an underlying class strategy to empower capital over labour. My research contributes, therefore, to the debates in the field of European integration studies by showing the significance of the promotion of labour market reforms, and the underlying politics of class, to the recent process of integration. The present chapter further substantiated this argument and showed how the promotion of competitiveness adjustment has been put into practice. The focus was here on the imposition of Macroeconomic Adjustment Programmes (MAPs) in Greece, Portugal, Ireland and Cyprus through the financial assistance facilities. The chapter presented therefore the results of the Thematic Analysis of NVivo Project 265.

In the first section I discussed the functioning of the only permanent financial assistance facility, the European Stability Mechanism (ESM), which comes into play when in Member States have lost de facto access to private financial markets. My argument was that the design of the ESM shows an inherent bias towards the promotion of competitiveness adjustment. Through the ESM, Member States are held accountable by EU-level executives in respect of their commitment to foster international price competitiveness in an explicit, systematic and more binding manner. The latter is the case as the ESM represents a new sanctions regime that burdens public finances potentially to the extent of public insolvency if Member States do not comply with the policy propositions of EU-level executive institutions. The ESM is, therefore, a game changer when it comes to the enforcement capacity of these executives. Financial market discipline operates here in concert with direct EU-level executive control to enforce competitiveness adjustment with strong consequences for the relation between capital and labour.

In the second section, I discussed the specific reform pattern contained in the MAPs for Greece, Portugal, Ireland and Cyprus that mirrors the reform programme for

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65 NVivo Project 2 concentrates on specific aspects of the process of integration. The research operates with a specific focus on the functioning of the financial assistance – i.e. the European Stability Mechanism – and on the country-specific labour market reforms put forward through the Macroeconomic Adjustment Programmes in Greece, Portugal, Ireland and Cyprus.
competitiveness adjustment discussed in the previous chapter. I illustrated the underlying class strategy as well as the varied and uneven ways of its implementation. Following the distinction between the two sub-strategies for competitiveness adjustment – the labour-cost-oriented and the productivity-oriented one – I argued that the labour-cost-oriented strategy is more pronounced in the MAPs. This shows that EU policymakers took advantage of the prolonged period of heightened unemployment during the crisis to assert capital’s control over labour and reduce unit labour costs.

On one side, the MAPs intervened directly with the relationship between employers and workers in the private sector by suspending or weakening legal provisions that might be a hindrance to the downward wage pressure exerted by the unemployed. This includes the decentralisation of collective bargaining, the deregulation of employment protection legislation and the weakening of wage regulations that would otherwise strengthen workers’ bargaining power and wage demands. On the other side, the MAPs intervened indirectly with the labour relations in the private sector by engineering the supply of labour-power, so as to facilitate and intensify the competitive pressures exerted by the unemployed. This refers to the mobilisation of labour-reserves through cuts in public sector employment and wages, activation policies for the elderly and unemployed, including reductions in pensions and social benefits. Unsurprisingly, all four programme countries have recorded substantial falls in unit labour costs and real wages. Overall, the imposition of competitiveness adjustment has revealed a class strategy to empower capital over labour.

However, it has been uneven across Member States. While Greece and Portugal have been committed to the full reform pattern, Cyprus and especially Ireland have seen only a partial adoption. In the case of Ireland the reasons seem to be that it had more flexible labour markets in the first place. For the case of Cyprus, the next chapter will provide some further clarification. Here, I will look specifically into the Macroeconomic Imbalance Procedure (MIP) of the new European Semester and the National Reform Programmes (NRPs) for Spain, Slovenia, Italy and France. However, this final chapter highlights also the contradictions of the EA’s politics of class.
CHAPTER 5
The Politics of Class of the Economic Surveillance: The Macroeconomic Imbalance Procedure and Competitiveness Adjustment in Spain, Italy, France and Slovenia

Introduction

In the first three chapters, I developed the general argument of the thesis that the emergence of the New European Economic Governance (NEEG) was significantly driven by the objective to promote competitiveness adjustment throughout the EA, which reveals an underlying class strategy to empower capital over labour. In a first step, I discussed the new governance instruments, introduced through the NEEG, that were designed to reinforce Member States’ commitment to competitiveness adjustment. In a second step, I elaborated on the reform programme for competitiveness adjustment articulated during that time and showed its underlying class strategy. Furthermore, I clarified the contribution of my research to the debates in the field of European integration studies that has neglected the role of labour market reforms, and the underlying politics of class, in the recent process of integration (see Introductory Chapter).

These last two chapters are different from the first three as they make the step from the general EU-level development to its effect at the national level. They show how the promotion of competitiveness adjustment through the NEEG, and its underlying class strategy, has actually played out in practice. This reveals the uneven and varied ways in which Member States have been committed to the reform programme for competitiveness adjustment through the new governance instruments – the Financial Assistance Facilities and the MIP. In the latter case, it also illustrates how EU policymakers attempted to manage the contradictions arising from the adjustment process. While the former chapter focused on the financial assistance programmes imposed on Cyprus, Greece, Ireland and Portugal, the present chapter concentrates on the reform plans implemented in France, Italy, Slovenia and Spain under the surveillance of the new Macroeconomic Imbalance Procedure (MIP).
The discussion in this chapter reflects the results of the Thematic Analysis of the policy and legal documents grouped up in NVivo Project 3. This analysis has been made in context of the findings from NVivo Project 1 and 2 presented in the previous chapters. While the first project concentrates on the development at the EU-level in general, the other two projects focus on the specific reform commitments made by Member States under the surveillance of the new governance instruments (see Introductory Chapter). In this manner, the research process does not only cover the EU-level development but also its effect on the national level. The key questions for the Thematic Analysis of NVivo Project 3 are, therefore, the following:

- Research Theme 1: How has the governance framework changed with the development of the New European Economic Governance?
- Research Theme 2: How did the promotion of the policy strategy for labour market reforms play out in practice through the new institutions of the NEEG?
- Research Theme 3: How does the promotion of labour market reforms through the governance framework reflect the class conflict?

The relevant legal and policy documents regarding the governance framework are, in particular, the Regulations (EU) No 1176/2011 and No 1174/2011, through which the MIP was established, the Commission’s (2012f) communication on the scoreboard for the surveillance of macroeconomic imbalances, the Commission’s (2016b) compendium on the MIP and the Commission’s (2013e) communication on the strengthening of the social dimension of the EMU. Regarding the labour market reforms, the relevant policy documents were a number of different reports issued in the MIP process for each of the four countries under investigation (France, Italy, Slovenia and Spain), over the years between 2012 and 2015, including the Country Reports, In-Depth Reviews and the Reviews of the specific monitoring procedure (see list of documents in appendix).

Note that the analysis of the labour market reforms is limited to reforms presented between 2012 and 2015. The reason for this is that the MIP did not start its operations until 2012. Moreover, the research process has focused on four Member States – France,

66 ‘Institutional changes of the European governance framework’
67 ‘The promotion of labour market reforms through the European governance framework’
68 ‘The politics of class of the European economic governance’
Italy, Slovenia and Spain. The reason for this selection is that these are all of the Member States of the EA to which the highest stage of the Macroeconomic Imbalance Procedure has been applied, within the relevant time frame – the so-called specific monitoring procedure\textsuperscript{69}. Slovenia and Spain were first put under specific monitoring in 2013 followed in the subsequent year by Italy and France. The analysis is, therefore, exhaustive including all of those countries that were most strongly affected by the establishment of the MIP in the period between 2012 and 2015. For the same reason, these Member States are also best suited to illustrate the operation of the MIP.

In the first part of this chapter, I will give an overview of the functioning of the MIP and substantiate further the argument developed in Chapter 2 that the new governance instruments of the NEEG have been constructed to promote competitiveness adjustment. I emphasise here the empowerment of the enforcement capacity of EU-level executives through a combination of ‘softer’ and ‘harder’ enforcement instruments. Moreover, I discuss the Commission’s initiative to strengthen the social dimension of the EMU published in 2013. However, I argue that this is not a shift away from the politics of competitiveness adjustment but an attempt to manage the contradictions arising from it – namely, worsening conditions for the social reproduction of labour-power and increasing political instability – to make the adjustment process viable. Nonetheless, it illustrates how the contradictions arising from the class strategy affect in turn the process of European integration.

In the second part of the chapter, I illustrate the promotion of competitiveness adjustment through the MIP in practice. I elaborate on the specific pattern of labour market reforms put forward under the MIP in France, Italy, Slovenia and Spain and show its class content. The discussion illustrates the direct and indirect state intervention with the capital-labour relation through the national reform plans. The pattern shows a variation of the programme for competitiveness adjustment that corresponds to the management of the contradictions arising from the adjustment process. The approach to competitiveness adjustment is more balanced, placing a stronger emphasis on the

\textsuperscript{69} Portugal and Ireland were also included in the specific monitoring procedure during this period as part of the post-programme surveillance after completing the Macroeconomic Adjustment Programmes (MAPs) of the Troika. However, Portugal and Ireland are left out here as they are not typical cases of the MIP, and they are extensively covered in the discussion of the MAPs in chapter 4.
productivity-oriented strategy after 2013. Moreover, the reform pattern is supplemented with social concessions (improvements of basic social protection and demand-side employment measures) that correspond to the concerns voiced by the Commission in its initiative to strengthen the social dimension. The point is to make the promotion of competitiveness adjustment effective in the long run. In summary, the first and the second part together show how the MIP has reinforced Member States’ commitment to facilitate through labour market reforms capital’s empowerment over labour – and manage the contradictions arising from it.

1. The Macroeconomic Imbalance Procedure

The MIP was established in 2011 by Regulations (EU) No 1176/2011 and No 1174/2011 of the ‘Six-Pack’ legislation for the surveillance of Member States’ economic policies within the framework of the European Semester (European Commission, 2016b, p. 15). The latter is an annual timetable for economic and budgetary policy co-ordination and monitoring starting every year in October (see Figure 7). The MIP complements the ESM in the creation of the new EU-level framework for the surveillance and enforcement of competitiveness (as discussed in Chapter 2). While the ESM is an instrument for the “strongly reinforced” surveillance, in the special case that these are receiving financial assistance (Regulation (EU) 472/2013, Paragraph I.7), the MIP is the ordinary surveillance procedure supposed to act pre-emptively. Thus, through the MIP, the imposition of competitiveness adjustment through EU-level governance instruments is extended from the special situation of financial assistance to a regime of everyday EA-wide policymaking (cf. Scharpf, 2016, p. 5). This entails that the Commission has been empowered to make policy prescriptions “over the full range of Member-State competences” (Scharpf, 2016, p. 5). Hence, this new instrument of EU-level surveillance allows also for the intervention with Member States’ labour market policy.

In the following, I will give an overview of main steps of the MIP: (1) screening; analysis and identification of imbalances; and (2) recommendations, monitoring and enforcement
(see Figure 8). I illustrate the general argument that the establishment of the NEEG was significantly driven by the aim to promote competitiveness adjustment. I return, therefore, to the point made in Chapter 3 that the MIP is a governance instrument for EU-level executives to hold Member States accountable in respect of their commitment to foster competitiveness. Important here is that the enforcement capacity of the EU-level executives is strengthened through a combination of ‘softer’ and ‘harder’ instruments: persuasion and ‘naming and shaming’ is applied in a systematic manner and further supported with the deterrent effect of potential financial sanctions.

1.1. Steps in the MIP

1.1.1. Screening, analysis and identification of imbalances
The first step in the MIP procedure is the screening of economic dynamics across Member States by the Commission\textsuperscript{70}, which makes a judgment whether macro-economic imbalances are potentially building up in a particular country requiring further investigation. The results of this assessment are published in November in the Alert Mechanism Report (AMR) (see Figure 7) clarifying in which countries In-Depth Reviews (IDR) have to be conducted in the next step of the MIP. This judgment of the Commission is made primarily on the basis of the scoreboard for the surveillance of macroeconomic imbalances (European Commission, 2016b, pp. 21–24), which I discussed in the previous chapter. I argued that the scoreboard is not a set of neutral economic indicators but that it was designed to promote international price competitiveness. From the scoreboard follows consequently a focus on wage and productivity developments in the Commissions’ economic assessment, entailing the intervention with labour relations (see example of Italy’s IDR of 2014 below).

The second step is the conduct of In-Depth Reviews for the countries selected in the AMR to evaluate the severity of the imbalances (European Commission, 2016b, pp. 24–25). The aim”, as the Commission writes, “is to move away from the pure description of the evolution of statistical indicators and provide a unitary interpretation of the most

\textsuperscript{70} The main role is played by the DG ECFIN (European Commission, 2016b, p. 34).
significant developments, their underlying causes, and implications from a medium-term perspective” (European Commission, 2016b, p. 44). On the grounds of this unitary interpretation, the Commission categorises the Member States according to the severity of their imbalances and the extent of required policy action. The results feed then into the Country-Specific Recommendations (CSRs) of the Commission and the Council (European Commission, 2016b, pp. 48–53). Moreover, the categorisation of Member States takes into account whether they have shown efforts to comply with the MIP-relevant CSRs made in previous years. ‘Table 1’ shows the categories used in 2014 and 2015 as well as the streamlined categories applied by the Commission since 2016.

Thus, through this process of screening, analysing and identifying imbalances, Member States can be held accountable to the EU policy objective of international price competitiveness (and fiscal discipline) in a systematic fashion. It empowers the Commission to systematically exercise soft pressure on Member States through ‘naming and shaming’: After the public ‘naming’ of potential imbalances in the AMR, Member States are ‘shamed’ in the IDRs through the Commission’s categorisation of their economic imbalances and insufficient policymaking performance (see Table 3). A good example of the naming and shaming regarding the failure to foster competitiveness is the 2014 IDR for Italy in which the Commission decided to place Italy under specific monitoring:

Italy is experiencing excessive macroeconomic imbalances, which require specific monitoring and strong policy action. In particular, the implications of the very high level of public debt and weak external competitiveness, both ultimately rooted in the protracted sluggish productivity growth, deserve urgent policy attention. (...) The losses of competitiveness are rooted in a continued misalignment between wages and productivity, a high labour tax wedge, an unfavourable export product structure and a high share of small firms which find it difficult to compete internationally. Rigidities in wage setting hinder sufficient wage differentiation in line with productivity developments and local labour market conditions. (...) Large human capital gaps – reflecting low returns to education for younger generations, the country's specialisation in low-to-medium technology sectors and structural weaknesses in the education system – adds to the productivity challenge. (European Commission, 2014g, p. 3 my italics)

After the naming and shaming of “weaknesses” or “sluggish” performances, the next step in the procedure is the intervention with national policymaking.
Figure 7: Organizational chart of the European Semester

Source: (Republic of Slovenia Ministry of Finance, 2019)
Figure 8: "The Macroeconomic Imbalance Procedure: Main Stages"

Source: (European Commission, 2016b, p. 22)

**Screening**

- Applies to all EU countries, except euro-area countries with financial assistance and macroeconomic adjustment programmes
- The Commission adopts an Alert Mechanism Report (AMR) selecting countries for In-Depth Reviews
- Legal basis: Articles 3 and 4 of Regulation 1176/2011

**Analysis and identification of imbalances**

- In-Depth Reviews are prepared by the Commission services for the countries selected in the AMR
- Commission Communication presenting IDR findings
- Legal basis: Article 5 of Regulation 1176/2011

**Recommendations, monitoring, enforcement**

**Preventive action**

- Country Specific Recommendations issued by the Council upon Commission Recommendations to a subset of countries found to experience imbalances
- Legal basis: Article 6 of Regulation 1176/2011

**Corrective action**

- Excessive Imbalance Procedure (EIP) may apply to countries found to experience excessive imbalances. The EIP is launched with a Recommendation issued by the Council upon a Commission recommendation.
- Legal basis: Chapter III of Regulation 1176/2011
- Possible sanctions for euro-area countries in case of non-compliance (legal basis: Regulation 1174/2011)
1.1.2. Recommendations, monitoring and enforcement

The MIP establishes two forms of policy action: (1) preventive and (2) corrective action, depending on how severe imbalances are perceived to be and the decision of the Commission and the Council (see Figure 8).

(1) Preventive action is introduced in article 6 of Regulation No 1766/2011 and applies to countries with “imbalances”, or also “excessive imbalances” in the case that corrective action is not initiated. Based on the previous steps, MIP-related County-Specific Recommendations (CSRs) are issued by the Commission, subject to endorsement by the Council, and integrated into the broader set of CSRs addressed to the Member State within the procedures of the European Semester (European Commission, 2016b, p. 25).

(2) Corrective action is applied in the MIP through the Excessive Imbalance Procedure (EIP) (see Figure 9) introduced in Chapter III of Regulation No 1776/2011. The power to launch an EIP is held by the Commission and the Council. The government of the country in question is then required to submit a Corrective Action Plan (CAP) that specifies within a
clear time-frame the policy action that will be taken to respond to the excessive imbalances and policy recommendations determined by these EU institutions (European Commission, 2016b, pp. 25–30). The CAP, furthermore, is reviewed by the Council, on the grounds of a report of the Commission, which decides to either endorse the CAP or to reject it requiring the revision of the CAP within two months. In the former case, the process of CAP implementation is monitored by the Commission. The Council, moreover, informed by the Commission, assesses whether corrective action has been taken according to its initial recommendations (European Commission, 2016b, pp. 25–30).

In addition, the procedures for corrective action are based on harder enforcement instruments than ‘naming and shaming’ – creating therefore a more binding character. According to article 3 of Regulation No 1174/2011, in these processes of the EIP the Commission can revert to the imposition of pecuniary sanctions, subject to Reversed Qualified Majority Voting (RQMV) in the Council, as an enforcement mechanism in case of a lack of compliance of Member States. Thus, in the case of an “Insufficient CAP”, that is, if a Member State’s government fails twice in succession to provide for a CAP that is judged sufficient, an annual fine can be inflicted. Additionally, in case the Council declares that the corrective action taken was inappropriate, an interest bearing deposit can be enforced, or an annual fine if this occurs twice successively (European Commission, 2016b, p. 29). However, there is more to these harder mechanisms. If Member States do not comply with the recommendations for corrective action (twice in succession), they can get cut off even from the financial resources of the European Structural and Investment Fund (ESIF) (European Commission, 2016b, pp. 29–30). Thus, the application of soft enforcement instruments throughout the previous steps of the MIP by the Commission is complemented in the EIP with the deterrent effect of harder instruments that may burden Member States’ finances.

However, in the actual implementation of the MIP since 2011, the EIP has never been initiated. Instead, the Commission has introduced the so-called “specific monitoring” procedure in which it monitors more closely Member States’ compliance with the MIP-related recommendations (i.e. CSRs)71 (European Commission, 2016b, pp. 25, 30–33, 53–

71 This procedure has been gradually extended in scope. First it was applied to Spain and Slovenia in 2013. A year later it included “all countries with excessive imbalances and selected euro-area countries with
This procedure is based on “an intensified dialogue with national authorities, missions, and progress reports” (European Commission, 2016b, p. 54). An interviewee from the DG ECFIN describes this dialogue as another step in the application of soft pressure on Member States (interview 6):

Yes, specific monitoring. Which in a way is also a signal to the country: "Look we are watching you!" And it helps with the government and the ministries, (...) if you have this feeling, (...) there are Commission officials visiting, you are having an inconvenient afternoon with the Commission officials having to explain to them, “ok why have you again not done this” (...). So it’s a sort of shaming and blaming (...) so this kind of soft pressure. And we have exercised this kind of soft pressure now repeatedly for several countries.

However, this does not mean that the harder enforcement procedure – that is, the Excessive Imbalance Procedure (EIP) – has been insignificant. The interviewee explained that it is precisely in such negotiations with the national authorities that the EIP is a useful tool to strengthen the persuasion efforts and bargaining position of the EU-level executives (interview 6):

So what we have seen so far and, I mean that is a bit then hidden from the public eye, is that - call it deliberations, negotiations, bargaining with the countries involved – we are: “look... you are at the brink of being at an excessive imbalance, and if you do not come up with something (...) then we will really this time put you in an excessive imbalance”. And so far, then the countries came back, and "ok and look but, I mean, we are trying this, we will do that and...", so this type of negotiating and bargaining.

Thus, on grounds of the EIP, the Commission can make credible threats to pressure Member States to fall in line – as the “corrective arm can be triggered at any time for Member States where excessive imbalances have been identified” (European Commission, 2016b, p. 27). In other words, the EIP is a deterrent that, while it is not applied itself, serves to empower the EU-level executives in negotiation with the Member States. As the interviewee (interview 6) pointed out, the EIP is sometimes referred to playfully as the “nuclear option” in the Commission. Hence, in the MIP the soft enforcement procedures are backed up with the harder ones to achieve a higher degree of compliance with fiscal austerity and competitiveness adjustment. This approach appears to have led to satisfactory results from the perspective of the Commission, making the actual imbalances with systemic relevance”, and since 2016, it was extended to “all countries in the MIP” (European Commission, 2016b, pp. 31–32).
application of the EIP unnecessary so far. “The EIP has so far never been launched, the reason being that the identification of excessive imbalances was followed by strengthened policy commitments in National Reform Programmes followed up by implementation.” (European Commission, 2016b, p. 54).

In conclusion, the MIP is a governance instrument for the EU-level executives to hold Member States accountable in respect of their commitment to foster competitiveness in an explicit, systematic and more binding fashion. The latter is the case as it entails the possibility of imposing financial sanctions on Member States under certain conditions. The MIP illustrates, therefore, the argument that the establishment of the NEEG was significantly driven by the aim to promote competitiveness adjustment in the EA, which will be further substantiated through the discussion of the reform pattern in the second section of this chapter. However, before I elaborate on the labour market reforms, I will turn to the strategic adaptation of this new governance instrument to the contradictions arising from adjustment process.
2. Managing the contradictions of competitiveness adjustment

In the years of crisis management between 2009 and 2013, which included the imposition of the Macroeconomic Adjustment Programmes, the EA saw deteriorating social conditions. Unemployment, and in particular youth unemployment, was skyrocketing in several Member States of the EA as shown for the four programme countries in the previous chapter. A similar picture arises for the four countries under consideration here with the exception of France, which displays more moderate increases, while Spain and Italy especially record vast increases (see Figure 10 and 11). The development of poverty follows a similar story line. In Cyprus, Ireland, Spain, Italy and above all Greece the number of people at risk of poverty, or already in material deprivation, rose dramatically.
between 2009 and 2013. For Portugal and Slovenia the increases are more moderate, while France remains an exception (see Figures 12, 13, 14 and 15).

In response to these developments, the European Commission (2013e) launched the initiative for the “Strengthening the Social Dimension of the European Monetary Union” in October 2013 (which was supported by the European Council (cf. p. 1)). However, this initiative does not mean that the European executives were turning away from the promotion of competitiveness adjustment to concentrate on social policies instead. Rather, the concern for the “Social Dimension” was purely instrumental to the implementation of competitiveness adjustment. The point of the initiative was to improve the capacity of Member States to pursue competitiveness adjustment by addressing social issues that might otherwise have hindered its effective implementation. In other words, the “Strengthening of the Social Dimension” was a measure to manage the contradictions arising from competitiveness adjustment.

At the start of the communication, the European Commission (2013e) clarified that this is about Member States’ “ability to make real economic adjustment” (p. 3), which is necessary in the EMU, even though it might be politically difficult to do so:

The ability to make real economic adjustments is crucial in a monetary union. The crisis revealed gaps in the functioning of the monetary union, although major steps have been taken to reinforce the EU’s economic governance. A very high economic and social price has been paid, since too often the necessary reforms have been delayed because of political circumstances. Structural reforms supporting employment, competitiveness and greater socioeconomic opportunities may take effect with considerable time lags and often seem difficult to undertake in an economic downturn, while in an upturn there may be no sense of urgency. Yet failure to undertake the required measures may result in negative spillover effects and deterioration in the economic fundamentals of the monetary union as a whole (p. 3).

Thus, the Commission started by reiterating the necessity of competitiveness adjustment (given the institutional design of the EMU). However, the executives stated further that the capacity of Member States to effectively implement competitiveness adjustment might be hindered by the aggravating social conditions of that time. There are two reasons for this. First, unemployment and poverty may undermine the development of workers’ productive capacities (human capital formation), which is a problem for the
fostering of competitiveness. More specifically, longer-term unemployment and poverty may mean that workers’ labour-power remains “underutilised” (European Commission, 2013e, p. 3), leading to an erosion of skills, as well as insufficient “investment” (ibid) in their education and training. This could turn out to be detrimental to the capacity of employers to enhance labour productivity.

Second, the Commission is concerned that the worsening of social conditions may lead to political resistance against the EU policy agenda, which may undermine the ability, or even the will, of national governments to push this agenda through – or in the Commission’s words, “to make sound policies” (European Commission, 2013e, p. 3). This concern is not without reason. The years of crisis management from 2009 to 2013 saw the rise of large popular and party-political resistance against the EU policy of fiscal austerity and competitiveness adjustment. Next to SYRIZA in Greece, for example, there was also the emergence of the Indignados Movement in Spain and the Five Star Movement in Italy (cf. Bozkurt-Güngen, 2014, p. 484). Overall, these two potential obstacles to competitiveness adjustment are put forward by the Commission as the main rationale for its initiative to support the social dimension:

Unemployment and social problems mean a loss of income for significant parts of the population or for society as a whole. They also hold back competitiveness and the growth potential of the economies concerned, because present and future human capital is underutilised or lacks investment. Persistent unemployment and social inequalities can also weaken political and public support and can affect the stability of governments and their capacity to make sound policies. Without collective action to ensure that employment and social challenges are tackled in a timely and effective manner, long-lasting disparities may develop. (European Commission, 2013e, p. 3)

In summary, the deterioration of social conditions, and the increasing political resistance to the ‘politics of austerity’, were seen by the Commission as a hindrance to the capacity of Member States to implement competitiveness adjustment effectively. Consequently, an initiative was launched to address these issues.

This initiative is significant to the process of integration during the EA crisis as it shows how the management of economic adjustment during the crisis – as well as its governance instruments - were adapted to the changing social and political environment. This is well exemplified in the case of the MIP. In contrast to the politics of financial
assistance, the procedure in the MIP has not been to phrase recommendations as direct and detailed policy prescriptions but abstract policy objectives that need to be translated into concrete reform efforts by the Member States. In this manner, Member States have been given the freedom to decide on the concrete design of the reform plans. From this it follows that the national governments could potentially leave certain recommendations out, or only implement these partially, depending on the political situation. In the jargon of the Commission, the MIP supports Member States’ “ownership” of the EU policy recommendations (e.g. European Commission, 2013e, p. 12). Given the politically more sensitive situations since the years of crisis management, such a procedure seems to have allowed for the reduction of the political exposure of the EU institutions, as it is harder to blame them for the concrete reform plans, which are the responsibility of the national governments. At the same time, through continuous persuasion and dialogue with the national governments, EU policy objectives could still be attained over the long run. In this way, it seems that the Commission has sought to implement competitiveness adjustment without provoking too much political resistance – especially at the level of national governments – that might be counterproductive (as shown in the emergence of the anti-austerity party SYRIZA in Greece). This is well explained by one interviewee from the DG ECFIN (interview 7):

The idea behind is, is that - and maybe to some extent that also incorporates also the Greek experience - is that you know drafting a programme to a country and then say, "just implement it", or sort of, you just having them fall on their heads, (...) it's never extremely good. Well number one for the European Union, and number two also for the sense of ownership that country has over this reform programme. (...) I mean the experience shows that, probably, it is more useful to keep persuading over the need to do reforms and let the country come up with some of the reforms themselves (...). Rather than simply, you know, "you have to increase the VAT Tax from 22% to 24%". That's far too prescriptive. If you of course persuade a country that there is a problem with the collection of the VAT, or how the balance between VAT and other direct forms of taxation, then you can have a dialogue around this - your way of doing you tax shift between indirect taxation, which way to do it etc. - but I mean, I think, the mood at the moment is not to completely compress (...) political margins (...) in the Member States, because it may be counterproductive.

Thus, in light of the public discontent that arose from the crisis management in the EA, the Commission sought to give Member States much policy discretion in the translation of the EU policy objectives in the MIP to reduce its political exposure as well as to prevent
an opposition from national governments. As put by another interviewee from the DG ECFIN (interview 6): “I mean also the Commission in a way needs to find a co-operative way of life with the respective governments”.

Furthermore, the initiative to strengthen the social dimension led to a change in the design of the scoreboard, and correspondingly to the process of monitoring imbalances, as well as the implementation of the reform pattern for competitiveness adjustment, as recounted by the one of the interviewees from the DG ECFIN (interview 7):

In a way the perception was that this dimension was somehow irrelevant before. I wouldn’t say that it was irrelevant but it is definitely coming to the fore more strongly. It is mostly as a result of a political decision. A political decision that is probably reflecting also some of the trends, or political pressure, that we see with some of this backlash coming from the stronger anti-globalist or protectionist forces within the populist movements. So, this requires in general having more attention to the social dimension. So this is something that has been translated to these indicators, first, in the scoreboard and then, secondly, I would say in the reports in general.

Indeed, in 2013, the Commission introduced new employment and social variables as auxiliary indicators to the scoreboard (including the indicator for ‘severely materially deprived people’ and for ‘people at risk of poverty or social exclusion’). Later on in 2015 three of these indicators – “inclusion of activity rate, long-term unemployment rate, and youth unemployment rate” – were elevated to the status of headline indicators (European Commission, 2016b, pp. 34–35). However, the ECOFIN Council clarified “that social and labour market indicators are not relevant for identifying macro-financial risks and developments in these indicators cannot trigger steps in the MIP process” (European Commission, 2016b, p. 35). Thus, the point of monitoring social and employment developments through the scoreboard is not to initiate any particular step in the MIP but simply to monitor the process of adjustment in which it may become necessary to address these issues – as otherwise they may become an obstacle to its effective implementation.

However, from a class-based perspective, these developments in the economic governance reflect the attempt to manage the contradictions arising from the class strategy underlying competitiveness adjustment. As discussed in the previous chapter, competitiveness adjustment was based on the unemployment-driven reduction of wages
– to which I have referred to as the labour-cost-oriented strategy. As put by a former official of the Commission’s DG EMPL (interview 5):

Adjustment was done through erupt and harsh fiscal consolidation and through internal devaluation, in terms of flexibilising labour markets, accepting high unemployment, accepting (...) the reduction of labour costs. So, the social impact was severe.

However, while the Commission had promoted precisely this reform agenda, now it acknowledged (European Commission, 2013e, p. 3) that persistent unemployment and falling incomes turned out to be a problem for the fostering of competitiveness as it threatened to undermine the suitable reproduction of labour-power. Thus, the procedures of the MIP were strategically adapted to the contradictions arising from this variation of the class strategy underlying the programme for competitiveness adjustment. In the words of the Commission (2016b), the MIP had to be adapted to deal with the “social implications” of the adjustment programmes:

Employment and social aspects receive attention in MIP surveillance. The adjustment process following the unwinding of imbalances is often associated with labour market distress and worsening social conditions linked to increased joblessness, inactivity, stagnating incomes. Surveillance under MIP aims at fostering adjustment while addressing its social implications.” (p. 17).

Thus, in the following section, I will discuss how this management of the contradiction of the politics of adjustment changed the reform pattern for labour markets. After 2013, the pattern leans more strongly towards the productivity-oriented strategy instead of the labour-cost-oriented one. Moreover, some social concessions were promoted to counteract severe poverty and unemployment.

In summary, this discussion shows that an empirically-grounded class-based analysis of the process of European integration can provide insights into specific changes in the development of the NEEG and its political orientation. While the overarching class strategy remains the same - that is, to empower capital over labour - there are shifts in the balance between the sub-strategies (between labour-cost and productivity-orientation) and social concessions are introduced (some reforms for social protection and demand-side employment policies). Moreover, the use of the governance
instruments that facilitates this class strategy – for instance, the scoreboard – is also adapted to the contradictions arising from this strategy.

Figure 10: Unemployment rate (SP, FR, IT, SL)

Unemployment rate – 3 year average

Source of Data: Eurostat
Last update: 30.11.2018
Date of extraction: 20 Dec 2018 13:57:38 CET
Hyperlink to the graph: https://ec.europa.eu/eurostat/tgm/drawGraph.do?tab=table&plugin=1&language=en&cod=ic&ref=elabs&niep=0&do=map&ds=amc
Disclaimer: This graph has been created automatically by Eurostat software according to external user specifications for which Eurostat is not responsible. Graphics included.
General Disclaimer of the EC website: https://ec.europa.eu/info/legal-notice

Short Description: The unemployment rate is the number of unemployed persons as a percentage of the labour force. The total number of employed and unemployed is based on the International Labour Office (ILO) definition. Unemployed persons comprise persons aged 15 to 74 who fulfill all the following conditions:
- are within the labour force at the reference week;
- are available to start work within the next two weeks;
- have been actively seeking work in the past four weeks or have already found a job to start within the next three months.

The Eurostat monitors high and persistent rates of unemployment and it helps to better understand the potential severity of macroeconomic imbalances. It points towards a potential misallocation of resources and general lack of adjustment capacity in the economy.

The unemployment indicator is the three-year backward moving average, i.e. the data for year Y is the arithmetic average of data for years Y - 1 and Y - 2. It is calculated as (URM+URM-1+URM-2)/3. The indicative threshold is 10%

The data source is the quarterly EU Labour Force Survey (EU LFS). The EU LFS covers the resident population in private households.

Code: ur.rate.3y
Figure 11: Youth unemployment rate (SP, FR, IT, SL)

Youth unemployment rate – % of active population aged 15-24
Percentage of active population

Source of Data: Eurostat
Last update: 20.11.2018
Date of extraction: 12 Dec 2018 17:53:37 CET
Hyperlink to the graph: https://ec.europa.eu/eurostat/tgm/graph.do?iemc=daily-1&plugin=1&language=en&code=ISPM0086&toolbox=legend

Disclaimer: This graph has been created automatically by Eurostat software according to external user specifications for which Eurostat is not responsible. Graphical excluded.

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Short Description: The youth unemployment rate is the unemployment rate of people aged 15-24 as a percentage of the labour force of the same age. The unemployment rate is the number of unemployed persons as a percentage of the economically active population (the total number of people employed and unemployed – labour force) based on International Labour Office (ILO) definition. Unemployed persons comprise persons aged 15 to 24 who fulfil all the three following conditions: are without work during the reference week; are available to start work within the next two weeks and have been actively seeking work in the past four weeks or have already found a job to start within the next three months. The MSIP Storeboard Indicator is the three years change in percentage point. The indicative threshold is 2.6 pp.

The data source is the quarterly EU Labour Force Survey (EU LFS). The survey covers the resident population in private households.
Figure 12: ‘Risk of poverty’ rate (IR, GR, CY, PT)

People at risk of poverty or social exclusion

Percentage

Ireland
Europe
Cyprus
Portugal
Unavailable data is ignored

Source of Data: Eurostat
Last update: 14.12.2018
Date of extraction: 17 Dec 2018 20:51:27 CET


Disclaimer: This graph has been created automatically by Eurostat software according to external user specifications for which Eurostat is not responsible. Graphic included

General Disclaimer of the EC website: https://ec.europa.eu/justice/legal-notice_en

Short Description: This indicator corresponds to the sum of persons who are at risk of poverty or severely materially deprived or living in households with very low work intensity. Persons are only counted once even if they are present in several sub-indicators. At risk-of-poverty are persons with an equivalized disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalized disposable income (after social transfers). Material deprivation covers indicators relating to economic strain and durables. Severely materially deprived persons have living conditions severely constrained by a lack of resources: they experience at least 4 out of 9 following deprivations: home cannot afford to pay rent or utility bills, do not keep home adequately warm, Illness, unexpected expenses, yi  not meat, fish or a protein equivalent every second day, wi  a week holiday away from home, wi  a car, wi  a washing machine, wi  a colour TV, or  a telephone. People living in households with very low work intensity are those aged 16-59 living in households where the adults aged 16-59 work less than 20% of their total work potential during the past year. Students are excluded.

Data are expressed both in % of total population and in change over 3 years (in % points). The source of the data is EU Statistics on Income and Living Conditions (EU SILC).
Figure 13: 'Risk of poverty' rate (SP, FR, IT, SL)

People at risk of poverty or social exclusion
Percentage

Source of Data: Eurostat
Last update: 14.02.2018
Date of extraction: 17 Dec 2018 20:52:53 CET

Hyperlink to the graph: https://ec.europa.eu/eurostat/cache/efgm/efgmGraph.do?inst=1&plugin=3&language=en&prod=topic&dataset=legend

Disclaimer: This graph has been created automatically by Eurostat software according to external user specifications for which Eurostat is not responsible. Graph included.

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Sheet Description: This indicator corresponds to the sum of persons who are at risk of poverty or severely materially deprived or living in households with very low work intensity. Persons are only counted once even if they are present in several sub-indicators. At risk-of-poverty are persons with an equivalised disposable income below the risk-of-poverty threshold, which is set as 60% of the national median equivalised disposable income (after social transfers). Material deprivation covers indicators relating to economic strain and durables. Severely materially deprived persons have living conditions severely constrained by a lack of resources; they experience at least 4 out of 9 following deprivations: items cannot afford it to pay rent or utility bills, to keep home adequately warm, to have travel expenses, to eat meat, fish or a protein equivalent every second day, to use holidays away from home, to have a car, to be able to use a washing machine, to use a colour TV, or use a telephone. People living in households with very low work intensity are those aged 8-69 living in households where the adults aged 18-69 work less than 20% of their total work potential during the past year. Students are excluded. Data are expressed both in % of total population and in change over 3 years (in % points). The source of the data is EU Statistics on Income and Living Conditions (EU SILC).

Code: topic120
Figure 14: 'Severe material deprivation' rate (IR, GR, CY, PT)

Severely materially deprived people

Percentage

Source of Data: Eurostat
Last update: 14.12.2018
Date of extraction: 17 Dec 2018 20:54:45 CET
Hyperlink to the graphic: https://ec.europa.eu/eurostat/statistics-explained/images/1/1e/Graph.do&nh=1&plugin=1&language=en&speed=1&tab=0&lang=en

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Short Description: Severely materially deprived persons have living conditions severely constrained by a lack of resources, they cannot afford at least 4 out of 9 deprivation items:
0 to pay rent or utility bills,
0 to buy clothes for adequately warm,
0 to face unexpected expenses,
0 to eat meat, fish or a protein equivalent every second day,
0 to have a week’s holiday away from home,
0 to own a car,
0 to own a washing machine,
0 to own a colour TV,
0 to own a telephone.

Data are expressed both in % of total population and in change over 3 years in % points.

The source of the data is EU Statistics on Income and Living Conditions (EU SILC).

Caption: Figure 14: 'Severe material deprivation' rate (IR, GR, CY, PT)
Figure 15: 'Severely material deprivation' rate (SP, FR, IT, SL)

Severely materially deprived people

Percentage

Source of Data: Eurostat
Last update: 14.12.2018
Date of extraction: 17 Dec 2018 20:56:19 CET

Hyperlink to the graph: https://ec.europa.eu/eurostat/graphs/drawGraph.do?limit=15&plugin=true&language=en&pcode=ipsc30&resetBar=false

Disclaimer: This graph has been created automatically by Eurostat software according to external user specifications for which Eurostat is not responsible. Graphic included.

General Disclaimer of the EC website: https://ec.europa.eu/info/legal-notice_en

Short Description: Severely materially deprived persons have living conditions severely constrained by a lack of resources: they cannot afford at least 4 out of 9 deprivation items:
- To pay rent or utility bills,
- To keep home adequately warm,
- To face unexpected expenses,
- To eat meat, fish or a protein equivalent every second day,
- To have a holiday away from home,
- To have a car,
- To have a washing machine,
- To have a colour TV,
- To have a telephone.

Data are expressed both in % of total population and in change over 3 years on % points.

The source of the data is EU Statistics on Income and Living Conditions (EU-SILC).

Code: topic30
3. Competitiveness adjustment through the MIP

The MIP started its operations in 2012. At that point, the EA had gone already through three years of crisis management “facilitating labour cost adjustment” (Lamo, 2017, para. 1), especially in Member States with current account deficits. Under these particular historical conditions, the MIP did not only serve to promote further reform efforts but to manage the process of adjustment that was already under way in several Member States to ensure its effectiveness. Mirroring the initiative to strengthen the social dimension, a key concern was, therefore, to ensure “a smooth correction” by addressing the “social costs” of adjustment, as put by the Commission (2016b):

The MIP also aims to ensure a smooth correction of existing imbalances. The MIP surveillance was launched in a period in which a number of Member States were already involved in a process of unwinding existing imbalances. In such a context, the aim of the MIP was to monitor and support the correction of imbalances and support recommendations as part of the European Semester aimed at adjusting policy frameworks with a view to effective and durable adjustment, while containing economic and social costs. (p. 17)

Consequently, also the reform programme for competitiveness adjustment was strategically adapted in the MIP.

According to an interviewee from the DG EMPL, this strategic adaptation took place by the end of 2012, when the MIP was launched for the first time (interview 5):

The European Council in December 2012 mentioned for the first time that when we are discussing about improving the Eurozone, eventually, we should also be paying attention to the social dimension of the Eurozone. The social impact by then was very heavy, so unemployment and emigration from the peripheral countries and poverty and all the rest of it. So then the Commission was forced to come up with a narrative about what it means the social dimension of the Eurozone. We actually need to pay attention to what is happening to unemployment, to poverty, to inequalities, to household incomes. We need to take this into account when formulating policy recommendations. So slowly, from late-2012, 2013, 2014 the policy became a bit more nuanced. But in the early days, it was really the kind of orthodox right-wing policies in the fashion of the Washington Consensus from the 90s - in the fashion of the Maastricht Treaty.

This transition is noticeable in the reform pattern for labour markets put forward through the MIP as a shift from the labour-cost-oriented to the productivity-oriented strategy for competitiveness adjustment. Certain reform efforts, which are crucial to the labour-cost-
oriented strategy as the decentralisation of collective bargaining and cuts in public sector employment and wages, were adopted mainly up until 2013. Afterwards, the productivity-oriented strategy came to the forefront, which concentrated on the deregulation of employment protection legislation (EPL) in concert with reforms for human capital formation (see Chapter 3 for the distinction of the sub-strategies). In addition, social concessions were made that ran directly against the logic of the labour-cost-oriented strategy. Thus, after several years of crisis management based on the unemployment-driven reduction of labour costs, there was a rebalancing in the approach to competitiveness adjustment. Greater emphasis was placed on productivity growth that was further supplemented with some social policy measures. The latter includes two particular initiatives to address the contradictions arising from the adjustment process.

The first social concession responded to the dramatic levels of youth unemployment in the EA (see sub-section on Activation Policies below). Temporary demand-side measures were included in the activation polices that created employment opportunities for the young labour force by using public funds (in France also for the elderly). Those measures may have dampened the downward wage pressure exerted by the unemployed temporarily by increasing the demand for labour-power. They were, consequently, not compatible with the labour-cost-oriented strategy. However, they could have supported the growth of labour productivity by preventing the deterioration of the young workers’ skills (due to long unemployment spells). This initiative marked, therefore, a re-orientation from one sub-strategy to the other in the agenda for competitiveness adjustment. Such demand-side measures were implemented, under the banner of the so-called ‘youth guarantee’72, in Spain and Italy. The impact remains to be seen. However, the youth unemployment rate fell consistently in both countries from around 2013 (see Figure 11).

The second social concession was put forward primarily in Italy and to a lesser extent in France and Spain (see sub-section ‘Improving basic social protection’ below). These were

72 “The Youth Guarantee is a commitment by all Member States to ensure that all young people under the age of 25 years receive a good quality offer of employment, continued education, apprenticeship, traineeship within a period of four months of becoming unemployed or leaving formal education” See, European Commission (n.d.) website, retrieved, November 2018, from: https://ec.europa.eu/social/main.jsp?catId=1079.
reforms that improved basic social protection by extending unemployment and other social benefits. In the case of Italy, Figure 15 shows actually a considerable and continuous fall in the number of severely materially deprived people since 2012, after it skyrocketed in 2010, to which these social policies may have contributed. Such concessions stand in stark contrast to the approach of the labour-cost-oriented strategy that included the cutting of unemployment benefits to compress wages. However, they responded to the issue that “human capital (…) lacks investment” (European Commission, 2013e, p. 3). Hence, it may have supported the development of the skills of the present and future labour force. This is consistent with the extensive reforms implemented regarding education systems in all four countries to advance human capital formation. In summary, both social concessions sought to support the social reproduction of labour-power with a view of facilitating higher labour productivity. However, the development of productivity takes time, as discussed in the Chapter 1. So far, in all four countries real labour productivity growth has been stagnating over the long run (with strong oscillations in the short-term) (see figure 16 and 17). In any case, these measures can also be interpreted as social concessions to counteract the rising public discontent and political resistance to the EU policy stance.

However, this does not mean that the labour-cost-oriented strategy was not present at all. Rather, the approach of the Commission to competitiveness adjustment became more balanced with an emphasis on the productivity-oriented strategy starting in 2013. As I will show in the next section, the CSRs endorsed by the Council continuously included recommendations to keep wage developments in line with the aim of fostering competitiveness. Besides reform efforts in respect of collective bargaining and public sector employment/wages, the activation polices for elderly also remained in several cases - for France, Spain and Slovenia - focused on mobilising the elderly labour force by dismantling pensions systems (e.g. increasing contribution period or extending retirement age). Additionally, activation policies sought to improve the effectiveness of Public Employment Services (PES) to maintain or intensify job search activities and consequently, the competitive pressure exerted by the unemployed. Thus, unsurprisingly all four countries showed substantial falls in unit labour costs, with the exception of France in which the decrease was more moderate (see figure 18). However, as this can hardly be
ascribed to strong productivity growth, it stands to reason that it is the consequence of wage compression and/or larger-scale layoffs in specific (better paid) industries. Indeed, according to Schulten and Mueller (Schulten & Mueller, 2015, p. 351), real wages plummeted between 2010 and 2014 by 6.1% in Spain, 2.3% in Italy and 4% in Slovenia. Only France recorded a moderate increase of 1.9% over that time.

In the remainder of the chapter, I will discuss the reform pattern for labour markets and show the alternation between the sub-strategies as well as the strategic adaptation that came particularly to the fore after 2013. The pattern reflects the reform programme for competitiveness adjustment elaborated in Chapter 3, with two additions in the indirect intervention that indicate the social concessions made to support the social reproduction of labour-power:

- **Direct Intervention with capital-labour relation**
  - Revision of wage regulations
  - Decentralisation of collective bargaining
  - Deregulation of employment protection legislation
- **Indirect intervention with capital-labour relation**
  - Cuts/freezes in public sector wages and employment
  - Activation policies
    - Including demand-side policies for the young
  - Improving basic social protection
  - Human capital formation

From a class-based perspective, the productivity-oriented strategy, which came through more strongly in this reform pattern after 2013, intervenes in the capital-labour relation directly by liberalising EPL and indirectly by developing ‘human capital’. In addition, job searches were supported by PES and some social concessions were supposed to work against the deterioration of skills of the labour force due to unemployment or lack of income. Thus, while the capacity of employers was strengthened to assemble and disassemble their workforce according to their will, a continuous supply of workers was supposed to be facilitated for employers to draw on. In concert, these measures appear as a strategy to strengthen the capacity of capitalists to stay ahead in the field of labour productivity, reduce their costs below average and make excess profits as a form of
relative surplus value appropriation (see Chapter 3). However, for the working class, this means a loss of collective achievements for employment protection legislation, which is replaced with the necessity for individuals to maintain their employability, and attain suitable skills, to stay attractive to employers.

In addition, the measures of the labour-cost-oriented strategy weakened the bargaining position and wage demands of workers. Thus, overall, the reform pattern pushed through the MIP surveillance in Italy, France, Slovenia and Spain showed a class strategy to empower capital over labour. However, in the MIP the strategy was not implemented without some social concessions to manage its contradictions and make the adjustment process viable in times of deteriorating social conditions and political support.
Figure 16: Real labour productivity (IR, GR, CY, PT)

Real labour productivity per person employed – annual data

Percentage change on previous period

Source of Data: Eurostat
Last update: 14.12.2018
Date of extraction: 17 Dec 2018 20:58:09 CET
Hyperlink to the graph: https://ec.europa.eu/eurostat/d graphics/12019501354696384541/harmful
&representation=1&show=legend
Disclaimer: This graph has been created automatically by Eurostat software according to external user specifications; for which Eurostat is not responsible. Graphic included

General Disclaimer of the EC website: https://ec.europa.eu/info/legal-notices_en

Graph Description: The labour productivity is GDP/CBO with GDP = Gross domestic product, chain-linked volumes reference year 2010 EIO = Total employment, all industries, in persons

The GDP per person employed is intended to give an overall impression of the productivity of national economies expressed in relation to the European Union (EU28) average. If the index of a country is higher than 100, that country’s level of GDP per person employed is higher than the EU average and vice versa. Basic figures are expressed in PPS, i.e. a common currency that eliminates the differences in price levels between countries allowing meaningful volume comparisons of GDP between countries. Please note that persons employed does not distinguish between full-time and part-time employment.

The input data are obtained through official transmissions of national accounts’ country data in the ESA 2010 transmission programme.

Data are expressed as percentage change comparing year T with year T-1 and as index 2010.

Code: tppor0
Figure 17: Real labour productivity (SP, FR, IT, SL)

Real labour productivity per person employed – annual data

Percentage change on previous period

Source of Data: Eurostat
Last update: 31.12.2018
Date of extraction: 17 Dec 2018 20:59:16 CET

Hyperlink to the graphic: https://ec.europa.eu/eurostat/tgm/graph.do?init=1&plugin=1&language=en&code=igp0070e&label=legend

Disclaimer: This graph has been created automatically by Eurostat software according to external user specifications for which Eurostat is not responsible. Graph included

General Disclaimer of the EC website: https://ec.europa.eu/info/legal-notice_en

Short Description: The labour productivity = GDP/ETO with GDP = Gross domestic product, chain-linked volumes reference year 2010
ETO = Total employment, all industries, in persons
The GDP per person employed is intended to give an overall impression of the productivity of national economies expressed in relation to the European Union (EU-28) average. If the index of a country is higher than 100, this country’s level of GDP per person employed is higher than the EU average and vice versa. Basic figures are expressed in PPP i.e. a common currency that eliminates the differences in price levels between countries allowing meaningful volume comparisons of GDP between countries. Please note that persons employed does not distinguish between full-time and part-time employment
The input data are obtained through official transmissions of national accounts’ country data in the ESA 2010 transmission programme.
Data are expressed as percentage change comparing year Y with year Y-1 and as Index 2010.
Figure 18: Nominal unit labour costs (SP, FR, IT, SL)

Nominal unit labour cost - 3 years % change

Source of Data: Eurostat
Last update: 2012.12.20
Date of extraction: 20 Dec 2018 14:47:32 CET
Hyperlink to the graphic: https://ec.europa.eu/eurostat/tgm/download_graph.do?tab=legend
Disclaimers: This graph has been created automatically by Eurostat software according to external user specifications for which Eurostat is not responsible. Graphic included.

General Disclaimer of the EC website: https://ec.europa.eu/info/legal-notice_en

Short Description: The unit labour cost (ULC) is defined as the ratio of labour costs to labour productivity.

Nominal ULC = (ULC - EULC) / EULC

ULC = Compensation of employees, all industries, current prices
EULC = Employees, all industries, in persons (domestic concept)

E&O = Total employment, all industries, in persons (domestic concept)

The input data are obtained through official transmissions of national accounts country data in the ESA 2010 transmission programme.

The scoreboard indicator is the percentage change over three years of nominal unit labour cost (ULC). The indicative threshold is 9% for the euro area countries and 12% for the non-euro area countries. The scoreboard indicator is calculated using the formula: (ULC(t) - ULC(t-3)) / ULC(t-3) * 100.

Codes: top10
3.1. Direct intervention in capital-labour relation

The direct intervention in the relation between employers and workers in the private sector through the MIP reflects the general reform programme for competitiveness adjustment, presented in the previous chapter, including: (1) the revision of wage regulation; (2) the decentralisation of collective bargaining; and (3) the deregulation of EPL. However, there are some significant variations in the pattern regarding the timing and the specific content. The decentralisation of collective bargaining in Spain, Portugal and France was implemented only up until 2013. Moreover, the preferred intervention with wage regulations is to link wages to competitive conditions (e.g. productivity growth) through social agreements but it does not include direct reductions/freezes of minimum wages or wage indexation mechanisms (in the private sector) as envisioned in the programme for competitiveness adjustment. These variations illustrate the more balanced approach to competitiveness adjustment adopted by the Commission since around 2013 that gives more prominence to the productivity-oriented strategy. Correspondingly, the endeavour to liberalise EPL remains on top of the agenda throughout the MIP surveillance, albeit with different timings for the Member States. The latter increase the freedom of employers to reduce or reassemble the labour force, and reorganise the labour process, to drive up productivity and gain a competitive advantage. Overall, the sum of these direct interventions portrays the class strategy to assert employers’ control over workers and enhance the exploitation of productive capacities.

Table 4: Overview of direct interventions (SP, FR, IT, SL)

<table>
<thead>
<tr>
<th>Reforms</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Revision of wage regulations</td>
<td>Spain, Italy, Slovenia (no formal link)</td>
</tr>
<tr>
<td>Linking wages to competitive conditions</td>
<td></td>
</tr>
<tr>
<td>(2) Revision of collective bargaining</td>
<td>Spain, Italy, France</td>
</tr>
<tr>
<td>Decentralisation of collective bargaining</td>
<td></td>
</tr>
<tr>
<td>(3) Deregulation of EPL</td>
<td>France, Spain, Italy</td>
</tr>
<tr>
<td>Deregulation of dismissal protection</td>
<td></td>
</tr>
<tr>
<td>Reducing severance payment</td>
<td>Spain</td>
</tr>
<tr>
<td>Deregulation of working time</td>
<td>France, Spain</td>
</tr>
</tbody>
</table>
3.1.1. Revision of wage regulations

In stark contrast to the Adjustment Programmes of the Troika, the specific monitoring procedure of the MIP has been less effective in committing national governments to revise minimum wages or other wage-setting arrangement, albeit recommendations in this direction have been continuously made by the Council for all four countries (see reform details attached in appendix). This shows the more careful approach adopted by the Commission in the MIP that leaves much discretion to Member States to decide on the concrete design of the reform plans. This makes it possible for governments to potentially leave certain recommendations out, or only implement these partially, depending on the political situation, while the Commission continues to apply pressure gradually over time. Especially in the case of Slovenia, it can be seen that the national government conceded to the strong resistance of trade unions against the revision of the minimum wage even though the Commission was applying pressure to impose wage-flexibility (cf. S. Clauwaert, Schömann, & Büttgen, 2016, pp. 4, 9).

Some interventions regarding wages were made in Italy through the MIP surveillance starting in 2012. First, Italy received the CSR to “Monitor and if needed reinforce the implementation of the new wage setting framework in order to contribute to the alignment of wage growth and productivity at sector and company level.” (European Commission, 2013b, p. 35). In response, an agreement was arranged with the social partners that recognised the “need to link wages not only to inflation but also to the economic and competitive conditions of the country of the sector concerned” (p. 35). Thus, guidelines were set out for the social partners to contain wage developments in the name of competitiveness. Later on, under specific monitoring, the EU authorities kept on pressuring in the same direction recommending that Italy “Evaluate (...) the impact of labour market and wage setting reforms (...) and assess the need for additional action” (European Commission, 2014j, p. 23). Correspondingly, the notorious ‘Jobs Act’ implemented in 2014 included “the possibility for employers to redefine workers' tasks and remuneration in the context of firm restructuring in crisis situations” (European Commission, 2014j, p. 23). A redefinition of workers' tasks and remuneration in the context of firm restructuring in crisis situations was intended to increase competitiveness. However, the Jobs Act did not lead to a statutory minimum wage for workers not covered by collective agreements. Instead, the minimum wage was further reduced. This shows that the MIP, despite its less effective nature, can still influence wage-setting policies in member states.

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73 Initially, the Jobs Act was supposed to establish a statutory minimum wage for workers not covered by collective agreements. However, this reform has never been implemented (European Commission, 2016a, p. 35).
Thus, the ‘Jobs Act’ imposed downward-flexibility of workers’ remuneration.

Spain received, for instance, the somewhat abstract recommendation to “Promote real wage developments consistent with the objective of creating jobs” (European Commission, 2014h, p. 35), which in the orthodox economic view of the Commission means to reduce real wages (cf. Hein & Schulten, 2005). The reaction of the Spanish government was to point to the responsibility of the “social partners” for wage developments, which in the social agreement for 2012–2014 “linked wages to productivity growth” (European Commission, 2014h, p. 35). Moreover, in the same agreement, “the system of ex-post inflation wage indexation usually applied in collective agreements has been put on hold” (European Commission, 2012b, p. 18). Hence, in Spain the agreement was pushed through to align wage developments to the level of productivity growth and prevent their automatic increases with inflation. In other words, the consequence of the agreement is likely to be a decline in real wages.

In Slovenia such reform efforts developed more dramatically. The Slovenian government had received the recommendation to “Redefine the composition of the minimum wage and review its indexation system” (European Commission, 2014k, pp. 23–24). The Slovenian authorities responded by initiating the social dialogue for a new social contract. However, as noted by the Commission (2013h) there was strong resistance towards the proposed changes in the wage-setting institutions:

(...) the high and uniform level and automatic indexation of the minimum wage in Slovenia hinders employment and reduces adjustment capacity in the short term. This is now acknowledged by the authorities and the government will enter into negotiations with social partners to make first steps toward the necessary adjustment. Revision of the minimum wage setting mechanism is however politically sensitive as social partners strongly oppose any reductions in the minimum wage (p. 11).

At the end of the negotiation process, the Commission (2015h) was disappointed about the result, questioning the weakness of the institutional implementation of wage-flexibility:

The government and social partners concluded a new Social Agreement in January 2015 (…). It has been agreed that the general growth of wages would take into
account sectorial productivity developments, albeit without any formal link, so that the ultimate effect on external price competitiveness remains uncertain. (pp. 14 -15)

Despite these efforts, the employer associations eventually withdrew from the social agreement for the period of 2015-2016 as reported by the Economic and Social Council\textsuperscript{74} (2017). The reason for this was an amendment made to the Minimum Wage Act by the Slovenian government in late 2015 that was regarded by the employers as a breach of contract and trust (ibid.). The reform, namely, incorporated the demands of workers’ associations to exempt “additional payments for night work, work on Sundays and work on public holidays, as well as work-free days” from the minimum wage (S. Clauwaert, Schömann, & Büttgen, 2016, p. 10).

In summary, under MIP surveillance the direct intervention with wage developments in the private sector remained comparatively moderate. Especially in Slovenia it seemed that trade union resistance was important to prevent stronger changes to the minimum wage. However, insofar as direct interventions with wages are politically sensitive and difficult to achieve, a moderate impact appears still to be quite a significant intervention with workers’ remuneration. In the end, in Italy, Spain and Slovenia, it was pushed through that workers would agree (at least on paper) to contain their wage demands for the sake of competitiveness.

3.1.2. Decentralisation of collective bargaining

As argued in Chapters 3 and 4, the class strategy underlying competitiveness adjustment includes the endeavour to decentralise collective bargaining from the sectoral, or national, level to the firm-level to undermine the bargaining power of organised labour. Decentralisation enhances, therefore, employers’ control over workers and facilitates the downward wage pressures exerted by the unemployed. The most important reform in this respect is to allow company-level agreements to prevail over higher level ones or to permit firms to opt out of them. The MIP surveillance served to promote such measures in Spain, Italy and France between 2011 and 2013.

In Spain collective bargaining has been decentralised through its labour market reform adopted in February 2012 (cf. European Commission, 2012b, p. 32). It included extensive measures to ensure the prevalence of firm-level agreements over sectoral-level ones. In this manner, employers’ capacity is increased to push down wages and reorganise the labour process, as summarised by the Commission (2012b, p. 27):

In the area of collective bargaining, the reform could lead to a faster adjustment of wages, in line with the 2011 Council recommendation. This is because it gives the priority to company-level decisions on working hours, tasks and wages. It also makes it easier for firms to opt out of sectoral agreements and it puts an end to the practice of indefinitely extending collective agreements. (European Commission, 2012b, p. 18)

Thus, under MIP surveillance, Spain saw significant collective bargaining reforms to empower employers vis-a-vis workers.

The EU authorities also promoted the decentralisation of collective bargaining in Italy through the MIP. Since 1993, Italy has had a two-tier bargaining system operating between the national and firm-level, with the national level remaining the dominant one. However, since the onset of the EA crisis, the endeavour has been to “further shift the balance towards company-level bargaining” (European Commission, 2013f, p. 27). In 2009 and 2011 “controversial” reforms were pushed through that made it possible for “firm-level collective agreements to derogate from labour law” and “to locally negotiate trade-offs between job security conditions and wage concessions” (European Commission, 2013f, p. 27). Under the MIP surveillance, the European executives committed to monitor the proper implementation of these reforms and to push them further. Italy received, therefore, the recommendation to: “Monitor and if needed reinforce the implementation of the new wage setting framework in order to contribute to the alignment of wage growth and productivity at sector and company level” (European Commission, 2013b, p. 35). The response in Italy was the launch of the so-called Productivity Pact between the social partners in November 2012 that, according to the Commission (2013b), “promotes further decentralisation of collective bargaining by strengthening the second tier of bargaining” (p. 23). Hence, it “might further facilitate wage setting at firm level” (European Commission, 2013f, p. 27).
Finally, the French authorities also took steps to decentralise collective bargaining from the sectoral to the firm-level under MIP surveillance. The important initiative here was the social agreement of 2013 referred to as the "accords de maintien de l'emploi" (European Commission, 2014f, pp. 31–32). The agreement makes it possible for companies experiencing temporary financial difficulties to make agreements with organised workers at the level of the individual firm to reduce wages, and change hours worked, beyond those established at the sectoral-level. It broadens, therefore, the scope to establish firm-level agreements that deviate from the sectoral-level. Such a special agreement requires the support of “unions representing at least 50% of employees” (European Commission, 2014f, p. 32). However, the catch is that employers can dismiss the workers who do not agree to the contract without “the usual obligations related to a collective dismissal” (ibid.). The procedure appears, therefore, to blackmail workers into accepting wage moderation. Furthermore, as part of the so-called ‘Macron Act’ put forward in 2015, the French government “proposed to replace the possibility of being imprisoned with a system of financial sanctions for infringements against the employee’s right of representation (“delit d’entrave”)” (European Commission, 2015f, p. 28). This legislation weakens the position of trade unions as it reduces strongly the risk taken by employers if they undermine the proper operation of workers’ representative organisation. However, the Commission welcomed this initiative as it “will improve the investment climate although some observers fear that there is a risk of weakening the social dialogue” (ibid.).

In summary, the MIP surveillance further supported the general tendency of the crisis management between 2009-2013 to decentralise collective bargaining – illustrated here for the cases of Spain, Italy and France. These are direct interventions to empower employers and facilitate their confrontation of the working class.

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75 The potential prison sentence was one-year long (S. Clauwaert, Schömann, Büttgen, & Rasnača, 2016, p. 11).
3.1.3. Deregulation of employment protection legislation

Spain, Italy and France saw the development of major labour market reforms through the MIP between 2012 and 2015 that liberalised EPL. The reforms that were made in Slovenia in this respect are left out of the discussion here as these were not promoted by the Council as part of the MIP (cf. Council of the European Union, 2012, p. 13). However, it is worth noting that consistent with the programme for competitiveness adjustment, the 2013 labour market reform in Slovenia introduced, among other aspects, cutbacks in severance pay and simplifications of dismissal procedures for permanent contracts (cf. S. Clauwaert, Schömann, & Büttgen, 2016, pp. 5–10; European Commission, 2013c, p. 38). Moreover, while some of the labour market reforms adopted in Spain and France include the liberalisation of working time arrangements (to, for example, promote part-time work and Sunday work) (see reform details attached in appendix), I will focus here on the extensive measures taken regarding dismissal protection.

As discussed in the previous chapters, EPL strengthens the capacity of workers to resist the attacks of employers to reduce wages and lay off workers. Deregulation is, therefore, a key measure to weaken workers vis-à-vis employers and to cut wages, dispose of workers and replace them with more productive ones. On one side, such reforms support therefore the labour-cost-oriented strategy for competitiveness adjustment. On the other side, they are the central direct intervention of the productivity-oriented strategy as it increases the freedom of employers to remove, disassemble, apply and combine labour-power as required to raise the productivity of the labour process. In this way, individual employers gain in the capacity to push production costs below average to make excess profits (see chapter 3).

In Spain the labour market reforms of February 2012 included major measures to reduce the costs of dismissals and deregulate dismissal protection, so as to increase the freedom of employers to lay off workers. Severance pay was brought down “for unjustified dismissals from 45 to 33 days per year of service, up to a maximum of 24 months” (European Commission, 2012g, p. 27). In addition, the legal basis was broadened for employers to dismiss workers for “organisational reasons”, so that a “dismissal is justified when the firm experiences or expects a persistent reduction in the level of sales (previously only revenues were considered)” (European Commission, 2014e, p. 50).
Finally, the same reform abolished “the worker’s right to receive wages for the whole duration of a process against unfair dismissal (the so-called "salarios de tramitación") in case the courts accept an appeal” (European Commission, 2012g, p. 27). Thus, the workers’ bargaining position was weakened.

However, the European authorities kept on pushing for further liberalisation. In the subsequent year, Spain received the recommendation to “Finalise the evaluation of the 2012 labour market reform by July 2013. Covering the full range of its objective and measures”, and “If necessary, put forward amendments to the reform plan by September 2013” (European Commission, 2014m, p. 20). In response, the government adopted the Law 11/2013 and Law 16/2013 in its NRP. The first law facilitates the procedures for collective redundancies. It introduced, among other issues, the possibility to resolve lawsuits on collective dismissals without engaging in individual cases, and it reduced the possibilities for individual workers to dispute collective redundancies with collective effects (Reino de España, 2014, p. 127). Overall, Spain has seen a large-scale liberalisation of EPL under MIP surveillance, strengthening the position of employers.

In a similar fashion, Italy put forward labour market reforms through the MIP to deregulate EPL in several steps and make it easier for employers to fire workers. First, starting in 2011, the Italian authorities responded to the CSRs of the Council with a reform of dismissal protection that facilitates redundancies “by revising Article 18 of the Workers’ Statute regulating wrongful individual dismissals in firms with more than 15 employees” (European Commission, 2012a, p. 16). The same legislation also “aims to simplify procedural obligations and reduce costs to employers” for collective dismissals (European Commission, 2012a, p. 16). Furthermore, the EU executives kept on pushing and recommended that Italy “Evaluate, by the end of 2014, the impact of the labour market and wage-setting reforms on job creation, dismissals’ procedures, labour market duality and cost competitiveness, and assess the need for additional action” (European Commission, 2014j, p. 23). Correspondingly, Italy’s NRP launched the “Jobs Act” that allowed the government to enact legislative decrees for 6 months after it was passed by the parliament in December 2014. The first decree, as the Commission reports (2015g), “reduces the uncertainty and costs associated with dismissal procedures” by revising the rules regarding unfair dismissals (p. 10). More precisely, it diminishes “the scope for
reinstatement following unfair dismissal” (p. 10) and supports pre-trial settlements through the use of a “conciliatory monetary offer” (p. 10). The point of the legislation is that it makes reinstatements of dismissed workers no longer possible “in case a dismissal motivated by economic reason is judged unfair” (European Commission, 2015d, p. 33). Instead, dismissals have to be “discriminatory” for reinstatement to be allowed (European Commission, 2015d, p. 33). Thus, also in Italy it was made easier for employers to dispose of workers.

In France two legislative initiatives put forward under MIP surveillance significantly facilitated the capacity of employers to dispose of workers. First, the law ‘on securing employment’ (sécurisation de l’emploi) enacted in 2013 reduced the time span by which dismissals can be contested by workers. The latter had been criticised by the Commission (CR-France, 2012, p. 41) as a particularly important obstacle to dismissals in France in the previous year. Further, the reform of the collective bargaining system made in the same year (discussed above) had the consequence of making collective dismissals easier for economic reasons. Under the new framework, collective agreements could be arranged between employers and unions at the firm-level to reorganise the work process and reduce wages temporarily in case of “serious economic difficulties” (European Commission, 2014f, p. 32). However, workers that did not support the agreement could be fired. “In that case, the dismissal of more than 10 employees does not trigger the usual obligations related to a collective dismissal.” (European Commission, 2014f, p. 32). As a consequence the law made it possible to dismiss workers collectively without regard for the obstacles put in place through employment protection legislation, if the conditions are met. Indeed, it seems that exactly such instances have already happened, as recounted by the Commission (2014f): “In one of the cases, a significant share of the employees (close to 15%) refused to sign the agreement and was therefore dismissed. As the company did not have to file for a collective dismissal, the cost of these dismissals was reduced compared to the previous situation.” (p. 32).

The second relevant initiative was the so-called ‘Macron Act’ (‘Law on Growth and Economic Activity’) adopted in February 2015. As part of this act, the French authorities announced they would reform the labour court proceedings of the “Justice Prud’homale” to simplify and shorten dismissal dispute procedures (European Commission, 2014i, pp.
21, 32), including “through a three-month deadline for the initial decision” (European Commission, 2015c, p. 55). The measure was welcomed by the Commission (2014i) “to reduce the cost and uncertainty related to long dismissal procedures and, given the observed malfunctioning of the system, an ambitions approach is required” (p. 21). However, these reforms were only the starting point of series of deregulations of EPL, facilitated through the MIP, supposed to make it easier for employers to dispose of workers. The next step was the El Khomri Law in 2016, which lies, however, outside of the scope of the research project.

In summary, national governments in Spain, Italy and France, directly intervened in the relation between employers and workers in the private sector through reforms of EPL supposed to increase employers’ freedom to dismiss workers. In this way, the strengths of workers to resist employers’ attacks on wages, working conditions and employment were weakened. It is a key measure for the productivity-oriented strategy continuously put forward between 2012 and 2015 that strengthened capital’s control over workers and the work process facilitating, therefore, the exploitation of workers’ productive capacities.

3.2. Indirect intervention in the capital-labour relation

Competitiveness adjustment under MIP surveillance operates also by means of indirect interventions with the relation between employers and workers in the private sector through reforms of public institutions that form part in the social reproduction of the labour force. However, while the reform pattern still reflects the general EU-wide programme, it shows also significant deviations from it. It includes: (1) cuts/freezes in public sector employment and wages; (2) active labour market policies (ALMP), which includes demand-side employment policies; (3) human capital formation; and (4) basic social protection. The deviations are the social concessions made for basic social protection and, especially, youth employment.

To a certain extent, the pattern still illustrates the operation of the labour-cost-oriented strategy. This is the case especially for Spain and Slovenia given the reforms made to cut/freeze public sector employment and wages under MIP surveillance and some of the
activation measures – notably, the mobilisation of the elderly labour force through revisions of the pension systems. As argued in the previous chapter, from a class-based perspective, such engineering of the labour supply changes the balance of power between capital and labour in favour of the former. The reason is that the mobilisation of labour reserves from the public sector, and the potentially retiring, during a prolonged period of high unemployment, intensifies the disciplinary pressure exerted by the high numbers of unemployed. However, the social concessions made under the MIP run directly against the logic of the labour-cost-oriented strategy in several cases by subsidising, and consequently creating, employment and improving the social safety nets.

This shows the shift in the reform programme for competitiveness adjustment after 2013. The social concessions respond to the concern of the Commission that the large-scale (youth) unemployment will lead to the deterioration of skills and that low income will mean insufficient financial support for the next generation of the labour force. These social initiatives support, therefore, the endeavour to create a continuous supply of suitably trained labour-power for capitalist to strive in international competition. Thus, the balance between the sub-strategies after 2013 tends towards the productivity-oriented strategy, which is supposed to be made effective by these social measures. The prominence of this sub-strategy for competitiveness adjustment is also illustrated in the quantity of reforms implemented in all four countries to promote the ‘market-relevance’ of education. Overall, this reveals a class strategy to facilitate capital’s drive to push the productivity of labour, reduce costs below average, and make excess profits – as a form of relative surplus value appropriation.
Table 5: Overview of indirect interventions (SP, FR, IT, SL)

<table>
<thead>
<tr>
<th>Reforms</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(1) Public sector reforms</strong></td>
<td></td>
</tr>
<tr>
<td>Reductions of public sector employment</td>
<td>Spain, Slovenia</td>
</tr>
<tr>
<td>Cuts/freezes in public sector wages</td>
<td>Slovenia</td>
</tr>
<tr>
<td><strong>(2) Activation Policies</strong></td>
<td></td>
</tr>
<tr>
<td>Activation policies for the elderly</td>
<td>France, Spain, Slovenia</td>
</tr>
<tr>
<td>Activation policies for the unemployed</td>
<td>Spain, Slovenia, France, Italy</td>
</tr>
<tr>
<td>Demand-side activation for the young (or elderly)</td>
<td>Spain, Italy, (France)</td>
</tr>
<tr>
<td><strong>(3) Human capital formation</strong></td>
<td></td>
</tr>
<tr>
<td>Fostering market-relevant education</td>
<td>France, Spain, Slovenia, Italy</td>
</tr>
<tr>
<td><strong>(4) Basic social protection</strong></td>
<td></td>
</tr>
<tr>
<td>Extending unemployment benefits</td>
<td>France, Italy, Spain</td>
</tr>
<tr>
<td>Introducing new social benefits</td>
<td>Italy</td>
</tr>
</tbody>
</table>

3.2.1. Cuts/freezes in public sector wages and employment

As argued in the previous two chapters, the programme for competitiveness adjustment puts forward cuts/freezes of public sector wages and employment to reduce the share of the labour force employed in the public sector, and their wage bill, with a view on weakening the bargaining position of organised labour, and their wage demands, in the private sector. Thus, while such reforms may appear as measures to reduce state debt, they intervene indirectly with the capital-labour relation to change the balance of power—notably, by intensifying the competitive pressures exerted by the high levels of unemployment in the private sector through the downsizing of the public sector.

Under MIP surveillance, such reform-efforts remained limited to Slovenia and Spain. Following the 2012 recommendation to “ensure that wage growth (…) supports competitiveness” (European Commission, 2013c, p. 40), the Slovenian authorities reduced “nominal gross wage per employee in the public sector by around 3% in 2012 and agreed with social partners to cut the wage bill further in 2013.” (ibid.). In the following year, the government implemented, therefore, further “measures to curb the public sector wage bill from 1 June (full year impact -0.2% of GDP)” (European
Commission, 2014c, p. 10). These measures, however, do not only signify cuts in civil servants’ pay but also cuts in public sector employment (European Commission, 2014c, pp. 9–10). Moreover, over all the years between 2013 and 2015, the authorities froze the “indexation of public sector wages (-0.15% of GDP)” (European Commission, 2014c, p. 10).

In Spain, the authorities started a process of restructuring the local administration in 2013 after being recommended by the Council to do so (European Commission, 2014m, p. 17). The measures included a hiring freeze. Such a measure compresses the share of the labour force absorbed by the public sector (in this case, the local administration). Thus, while in 2013 the expenditure on public employment increased still by 0.3% of GDP, the expenditure growth was supposed to decline gradually to 0.2% of GDP in 2014 and to 0.1% of GDP in 2015 and 2016 (European Commission, 2014d, pp. 10–11).

In summary, Slovenia, and partially also Spain, saw cuts/freezes in the public sector wages and employment under the surveillance of the Commission in the MIP. As discussed in Chapters 3 and 4, these are measures that strengthen employers’ bargaining position in the private sector as they weaken workers’ wage demands and bargaining power. However, given that only Slovenia has implemented extensive initiatives in this respect, this shows that under MIP surveillance the labour-cost-oriented strategy was becoming less important.

3.2.2. Activation policies

A significant aspect of the programme for competitiveness adjustment is to mobilise labour-reserves for the private sector, not only by reducing public sector employment, but also through activation policies for the elderly (potentially retiring or already retired) and the unemployed. For this purpose, pensions systems are supposed to be reformed to prevent elderly workers from leaving the labour market due to retirement. Moreover, social security systems and public employment services (PES) are reformed with the objective of intensifying job search activity of the unemployed – or in other words, to intensify labour market competition. Thus, insofar as these measures are implemented during a period of heightened unemployment, they serve to intensify the downward
wage pressure exerted by the unemployed. They are, consequently, crucial to the labour-cost-oriented strategy. However, under MIP surveillance, such measures were mainly adopted up until 2013. Afterwards, the shift towards the productivity-oriented strategy, which is complemented with social concessions, came to the forefront.

Activation of the elderly labour force through pension reforms was pursued in Spain, France and Slovenia. In Spain, the pension reform of March 2013 “curbed access to early and partial retirement” (European Commission, 2013d, p. 18), after a previous reform implemented in 2011 had already increased the legal retirement age (European Commission, 2014e, p. 49). The Commission welcomed these activation measures stating that they “may have induced older workers to extend their active life in order to sustain prospective incomes” (European Commission, 2014e, p. 49). Further, in line with the typical recommendations of the programme for competitiveness adjustment, the same pension reform also established the so-called “sustainability factor”, which includes “changes in life expectancy” to the “automatic adjustment of future retirees’ new pensions” (among other aspects) (European Commission, 2015b, p. 36).

France saw the reform of its pension system through the MIP in December 2013. This included a higher burden of social security contributions for employers and workers, as well as provisions to “increase the effective retirement age” that will “come into effect from 2020” (European Commission, 2014a, p. 15). Even though these measures were not regarded as sufficient by the Commission, the executives appreciated, especially, the increase in the contribution period for workers: “the minimum number of years an employee must pay into the system before qualifying for a full pension will rise to 43 years by 2035, from an expected 41¼ in 2020” (European Commission, 2014a, p. 15). Furthermore, the MIP monitored the implementation of a pension reform in Slovenia that was enacted in December 2012. The reform elevated directly the “the statutory retirement age for men (from 63) and women (from 61) by 2020 to the age of 65” (European Commission, 2013c, p. 20). In addition, it introduced tighter constraints on early retirement “by reducing early retirement eligibility and generosity.” (European Commission, 2013c, p. 20). In summary, Spain, France and Slovenia, put forward pension reforms, under MIP surveillance, to increase the elderly labour force in waged-
employment by, for example, increasing retirement age, constraining early and partial retirement and enlarging the contribution period.

While these activation policies for the elderly workers reflect well the EU-level programme for competitiveness adjustment, the story is somewhat different when it comes to the activation of the unemployed through the MIP. In the previous two chapters, I have argued that the reform programme for competitiveness adjustment operates especially with two different types of measures to mobilise the unemployed and intensify labour market competition: reductions in the amount and length of unemployment benefits and/or reforms of public employment services (PES) with the aim to enhance the “intensity of job search activities”; and increasing “financial incentives to accept work” (European Commission, 2007, p. 6). However, the activation policies for the unemployed appear contradictory, when it comes to the MIP surveillance. On one side, they try to put pressure on the unemployed as originally envisioned by the programme for competitiveness adjustment. On the other side, they try to extend basic social protection as it follows from the initiative to strengthen the social dimension.

Thus, in Spain (European Commission, 2013d, p. 23) and Italy (European Commission, 2015d, p. 34) reforms were passed to link unemployment benefits to stricter conditionality, and France introduced a greater “emphasis on personalised follow-up” (European Commission, 2014a, p. 37)76. At the same time, measures were implemented that extended the unemployment benefits in all three countries – to which I will return in the next sub-section. The activation policies for the unemployed appear, therefore, to be torn by the contradictions of the process of competitiveness adjustment – disciplining workers without, however, undermining the suitable reproduction of their labour-power. In Spain, for example, the labour market reform of July 2012 modified the unemployment insurance system by diminishing the “gross unemployment benefit after six months (…) from 60 % to 50 % of the reference wage”, while the “unemployment assistance” was increased “from 75 % to 80 % of the IPREM (Indicador público de renta de efectos múltiples)” (European Commission, 2013d, p. 23).

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76 Next to other measure that aim to make the operations of PES more effective (for Spain see European Commission, 2015b, p. 53, for France see 2015c, p. 47).
The activation policies reflect, therefore, the increasing concerns of the Commission about the aggravating social and political situation in the EA that may turn out to be counter-productive to the fostering of competitiveness. Unemployment and falling incomes not only provoke political instability but can also undermine the reproduction of labour-power with suitable skills (required by capitalist competition). Emblematic for this shift is the launch of the ‘youth guarantee’ in 2013 that includes temporary measures to put unemployed workers under the age of 25 in employment, apprenticeship/training contracts or continued education within four months of the unemployment spell.

To a certain extent, the measures implemented under the youth guarantee were still consistent with the labour-cost-oriented strategy, albeit in a co-operative and non-punitive way. In France and Slovenia, for instance, the youth guarantee took the form of supply-side measures that facilitated the capacity of young workers to enter and compete in the labour market. In France, this entailed, for example, “CV-writing workshops and interview simulations” (European Commission, 2014a, p. 22); while in Slovenia it included the “co-operation with school counsellors, who guide dropouts directly to public employment services” (European Commission, 2015e, p. 56). However, on the other side, in Spain (European Commission, 2015b, p. 54) and Italy (European Commission, 2014b, p. 20) the youth guarantee took the form of demand-side measures that created incentives for employers to hire young workers by making use of public funds. Thus, these initiatives ran against the supply-side logic of the labour-cost-oriented strategy by increasing the demand for labour rather than labour market competition. Instead, they were consistent with the productivity-oriented strategy by counteracting the deterioration of skills due to long-term unemployment. The Spanish authorities, for example, introduced a “temporary hiring incentive” that consisted of “a temporary reduction of EUR 300 in the employers’ social security contributions, over six months, for the permanent employment of those who benefit from the youth guarantee” (European Commission, 2014b, p. 20).

77 See European Commission’s website: https://ec.europa.eu/social/main.jsp?catId=1079
78 It is worth mentioning in this context that employment subsidies have also been put forward in France. However, in that case it was for the elderly and can, therefore, be interpreted as a measure to prevent early retirement. Through the “Contrats de generation financial incentive were doubled from EUR 4000 to EUR 8000 in case of hiring of an unemployed senior over 55” (European Commission, 2015f, p. 38).
Commission, 2014h, p. 37). In addition, social security rebates were also foreseen for training and apprenticeship contracts.

In summary, the MIP was instrumental to the engineering of the labour supply envisioned in the programme for competitiveness adjustment mobilising the elderly by dismantling pensions systems in Spain, France and Slovenia. However, regarding the unemployed, and in particular the young, the story is more complex and contradictory. The measures here reflect the Commission’s concern with the difficult social and political situation that is counter-productive to the smooth or effective implementation of competitiveness adjustment. Social concessions are, therefore, made in terms of basic social protection and the creation of employment through public funds. In the next section, I will discuss the former in more detail. However, as argued above, these measures are designed to make the process of competitiveness adjustment viable in the long run and, consequently, the underlying class strategy to empower capital over labour.

3.2.3. Improving basic social protection

The promotion of basic social protection through the MIP followed from the initiative of 2013 to enhance the social dimension of the EMU. As argued above, the objective was to facilitate competitive adjustment in the EMU by making social concessions that support the social reproduction of present and future labour-power. These social policies corresponded to the productivity-oriented strategy of competitiveness adjustment for which the development of workers’ skills is crucial. Instead of reducing social assistance to put pressure on the labour force, these measures extended unemployment or social benefits to ensure sufficient “investment” in “present and future human capital” (European Commission, 2013e, p. 3). However, they did so mainly under specific constraints. The strengthening of the social dimension appears, therefore, as a balancing act between the promotion of better social protection and work discipline.

While a few reforms were made in this respect in France and Spain, Italy saw the most extensive improvements of social safety nets. The Italian government responded to the Council’s CSR by extending the “duration of [unemployment] benefits (from 18 to 24 months)” and the “coverage (although substantially reduced) to previously excluded
categories of workers and the longer–term unemployed” (European Commission, 2015g, p. 11). While these social measures were made “conditional upon the participation of the worker in training and activation initiatives” (ibid), the Commission was not fully satisfied with the constraints. The executives stated that the “risk of unemployment traps stemming from more generous unemployment benefits (...) has been mitigated by fixing a maximum annual benefit cap, but could be further avoided with cost-effective activation policies.” (ibid). Besides the extension of unemployment benefits, the Italian government also launched “a programme to fight absolute poverty” (European Commission, 2014j, p. 24), which led to the implementation of the so-called “Support for Active Inclusion” in 2014 (European Commission, 2014b, pp. 24–25). This referred to “a pilot project to support those in the most disadvantaged situations by means of the ‘new social card’” (European Commission, 2014b, p. 25). In addition, a “baby bonus” was introduced “providing a benefit of EUR 80 per month to families below a certain income level, for each child below the age of three.” (European Commission, 2015d, p. 66).

In Spain, basic social protection was extended for the long-term unemployed, no longer covered by the social security system, through the tripartite agreement of July 2014. It introduced a scheme that “combines a financial support of EUR 426 during six months with an individualised pathway for labour integration and it will cover around 400 000 people, at a cost of about EUR 1 million” (European Commission, 2015b, p. 44). Furthermore, in France the social partners agreed on a modification of unemployment insurance. The reform established “the concept of droits rechargeables, which enables a jobseeker to retain previous accumulated rights to unemployment benefits in future periods of unemployment rather than forfeit them when taking up a job” (European Commission, 2014a, p. 36).

In summary, Italy, Spain and France, saw reforms under the MIP surveillance to improve basic social protection within limitations. These social policies responded to the initiative to strengthen the social dimension. They were an answer to the Commission’s concern that competitiveness adjustment was under threat through increasing public discontent and the deterioration of the skills of the present and future labour force due to a lack of income. It showed the more balanced approach of the Commission to competitiveness
adjustment under the MIP with a stronger focus on the productivity-oriented strategy, in contrast to the financial assistance programmes.

3.2.4. Human capital formation
Reforms of the education systems were consistently implemented under the MIP surveillance in all four countries. In concert with the liberalisation of EPL, these constituted the distinctive pattern of the productivity-oriented strategy. While labour market flexibility was supposed to increase the freedom of employers to hire and fire workers, market-relevant education was supposed to provide for a suitable supply of labour-power for capital to draw on. In the words of the Commission (2015d, p. 65), the focus of the reform efforts lay in promoting the “labour market relevance of education” through, for example, vocational training, apprenticeships, internships and stronger involvement of the private (business) sector. Another initiative was to foster the productivity of the educational systems by establishing stronger competitive pressures in higher education and schools. Overall, while the labour-cost-oriented strategy does not require the reorganisation of educational systems, such measures support the capitalist drive to stay ahead in the field of labour-productivity, reduce production costs below average and make excess profits – as a form of relative surplus value appropriation.

In France, two consecutive reforms were implemented to foster market-relevant education: in 2013, the legislation on higher education and research and, in 2014, the law on vocational training. The former aimed to strengthen the “links between education and economic actors” (European Commission, 2014a, p. 22), while the latter concentrated on fostering apprenticeships by establishing, for instance, “open-ended apprenticeship contracts and providing more secure funding for apprenticeships for those with fewer qualifications” (European Commission, 2014a, p. 23).

Italy also saw several reforms of the education system under MIP surveillance (European Commission, 2015d, pp. 63–65). “Work-based learning” was promoted through an initiative that made “traineeships of at least 200 hours per year compulsory for pupils in the last three years of upper secondary vocational education” (European Commission,
In addition, “a pilot project” was launched in 2014 that “allows students in the last two years of upper secondary education to participate in on-the-job training periods in companies, using apprenticeship contracts” (ibid). All of these were reforms that fostered the market-relevance of education. However, the Commission also welcomed the plans of the Italian authorities to enhance competitive pressures for pupils and teachers in secondary education through “a national system to evaluate school institutions” (European Commission, 2014b, p. 23). From 2014 onwards schools were supposed to “present a self-evaluation report (using a common framework and quantitative data on pupils’ performance provided centrally)” (European Commission, 2014b, p. 23). Moreover, the government planned to overhaul the “purely seniority-based teacher career system” to introduce “merit-based elements” (European Commission, 2014b, p. 64).

In addition, the Slovenian authorities sought to promote the consistency of workers skills with the demands of the labour market through a reform of primary and vocational education. The “Law on Primary Schools”, for example, aimed to facilitate, among other aspects, the development of language skills (European Commission, 2014c, p. 29), while the “Post-Secondary Vocational Education Act” focused on work-based learning and the involvement of the private (business) sector (European Commission, 2014c, pp. 29–30). The legislation raised “the number of hours of compulsory practical work included in courses and made it easier for young experts from enterprises to teach in post-secondary vocational institutions” (European Commission, 2014c, p. 30).

Finally, Spain launched a large-scale reform of the education and training system in 2013 (Ley orgánica para la mejora de la calidad educativa (LOMCE)) with the objective of not only advancing the quality but also the market-relevance of education (European Commission, 2014d, p. 26). This included measures to tighten competitive pressures for students by introducing, for example, “compulsory evaluation of students’ performance after completing primary and secondary education”, and to foster market-relevance through “a new two-year vocational training module” (European Commission, 2014d, p. 26). In addition to the LOMCE, the government promoted the labour market orientation of education through dual vocational training schemes. “All Autonomous Regions”, as the Commission (2014d) recognised, “are implementing dual vocational education and
training in one of the proposed modalities, with more than 9 500 students, 375 learning centres and 1 500 companies involved.” (p. 26).

In summary, consistent with the productivity-oriented strategy throughout MIP surveillance in all four countries under consideration, substantial reforms of the educational system were implemented, with the primary aim of fostering the market-relevance of education. Another important initiative was to impose stronger competitive pressures for teaching staff and students through continuous performance evaluation. As argued in Chapter 3, competitiveness adjustment is not compatible with the self-determined development of the working-class but requires the determination of their creative capacities by the demands of the labour market – or in other words, by the demands of capitalist competition.

Conclusion

The general argument of the thesis is that the emergence of the New European Economic Governance (NEEG) was significantly driven by the objective to promote competitiveness adjustment throughout the EA, which reveals an underlying class strategy to empower capital over labour. My research contributes, therefore, to the debates in the field of European integration studies by showing the significance of the promotion of labour market reforms, and the underlying politics of class, to the recent process of integration. The present chapter further substantiated this argument and showed how the promotion of competitiveness adjustment played out in practice through the MIP. The focus lay on the national reform plans put forward under the macroeconomic surveillance of France, Italy, Slovenia and Spain. The chapter presented therefore the results of the Thematic Analysis of NVivo Project 3.

In the first part of the chapter, I gave an overview of the functioning of the MIP and illustrated the argument developed in Chapter 2 that the new governance instruments of the NEEG were constructed to promote competitiveness adjustment. The MIP is a
governance instrument through which EU-level executives hold Member States accountable in respect of their commitment to foster competitiveness. The key innovation is that the MIP strengthens the enforcement capacity of EU-level executives through a combination of ‘softer’ and ‘harder’ enforcement instruments. In this way, it strengthens the institution selectivity of the EMU towards competitiveness adjustment.

Moreover, I discussed the strategic adaptation of the EMU’s politics of competitiveness adjustment taking place around 2013 that had the objective of making the adjustment process viable in the long run. The process of economic adjustment in the EA brought about increasing poverty and a prolonged period of high unemployment. The negative consequences for the political support of EU policy and human capital formation – and therefore competitiveness – led to an adaptation of the approach of the EU executives. In the interaction between the Commission and governments, more policy discretion was left to the latter, promoting the national ownership of the EU-policy objectives. In addition, the scoreboard for the macroeconomic surveillance was adjusted by introducing social indicators to monitor developments regarding poverty and unemployment. The strategic adaptation is, therefore, also reflected in the reform pattern implemented through the MIP. Overall, this re-orientation in the approach to competitiveness adjustment shows how EU-policymakers attempted to manage the contradictions of the adjustment process itself to ensure its effective implementation in the long run. Thus, there are subtle shifts in the process of European integration that reflect the contradictions arising from class conflict.

In second part of the chapter I showed how the promotion of competitiveness adjustment played out in practice through the MIP. I discussed the specific reform pattern put forward through the MIP in France, Italy, Slovenia and Spain and showed its class content. The pattern shows a variation of the programme for competitiveness adjustment that reflects the management of the contradictions arising from the adjustment process. The approach to competitiveness adjustment is more balanced, placing a stronger emphasis on the productivity-oriented strategy after 2013 that is further supplemented with social concessions. Thus, direct interventions with the capital-labour relation included reforms to decentralise collective bargaining only up until 2013. Moreover, reforms of wage regulations were less comprehensive and based upon agreements
between social partners. Nevertheless, deregulations of EPL, which increase employers’ freedom to hire and fire, remained on the top of the agenda. A corresponding picture arises from the pattern of indirect interventions. Reductions in public sector employment and wages were sparse in the MIP. Activation polices appeared somewhat contradictory. The mobilisation of the elderly labour force by dismantling pension systems followed in line with the labour-cost-oriented strategy. However, the activation of the youth ran counter to its (supply-side) logic in the cases where employment was subsided through public funds, increasing the demand for labour-power. Finally, reforms to foster the market-relevance of education were implemented to a large extent in all four countries throughout the macroeconomic surveillance. This indicates the orientation of the politics of competitive adjustment to boost labour productivity and, therefore, relative surplus value appropriation (see Chapter 3). Overall, all of these measures together still show a class strategy to empower capital over labour. However, the strategy has been adapted to the changing social and political environment to make a viable in the long run.
CONCLUDING CHAPTER

Research Themes

The onset of the Euro-Area crisis in 2009 initiated a rapid process of European integration leading to the establishment of the New European Economic Governance over the years between 2010 and 2013, which managed the crisis through the large-scale implementation of structural reforms. The thesis asked correspondingly the question: why and how has the Euro-Area integrated further during the crisis? My answer to the general research question is that the emergence of the New European Economic Governance was significantly driven by the objective to promote competitiveness adjustment throughout the EA, which reveals an underlying class strategy to empower capital over labour.

My research project sought to take a different route to answer the research question from the ‘European integration orthodoxy’ by addressing some of its limitations (see Introductory Chapter). The general tenor of the debate about the emergence of the NEEG was that the development of the fiscal policy framework was the key moment of integration during the crisis. However, this conclusion arose from an exclusion of labour market policy from the policy mix of the EMU, which is nevertheless crucial to economic adjustment in the EA. The significance of the latter during the crisis has been supported by numerous studies of Industrial Relations scholars depicting a dramatic reorganisation of labour markets in recent years. Nonetheless, their research has remained off the radar of dominant European integration studies, creating a research gap. Moreover, the neglect of labour market policy points to a deeper methodological limitation. The ‘European integration orthodoxy’ avoids the political dimension of labour relations. The development of European governance is abstracted from capitalist class relations. Consequently, the debate was constrained by an uncritical assumption of European governance as intrinsically ‘benign’, concerned with creating a well-functioning EA, which led however to the paradox that the crisis management and the NEEG appeared as a dramatic policy mistake. Hence, my research project sought to answer the overarching research question about the recent process of integration by adopting a class-based
approach that acknowledges the significance of labour market policy within the policy mix of the EMU.

Thus, the thesis focused on the following three Research Themes (RTs) encompassing corresponding sub-questions:

1. RT: *Institutional changes of the European governance framework*
   What is ‘new’ about the new European economic governance?
   More specifically, what is the initial institutional design of the economic governance framework of the EMU? How has it changed with the development of the ‘new European economic governance’? What is the rationale for this change?

2. RT: *The promotion of labour market reforms through the European governance framework*
   How does the promotion of labour market reforms (or ‘structural reforms’) through the governance framework of the EMU contribute to our understanding of the process of integration?
   More specifically, what is the role of labour market policy in the policy mix of the EMU? What is the policy strategy for labour market reforms articulated during the years of crisis management? How did its promotion through the new institutions of the NEEG play out in practice?

3. RT: *The politics of class of the European economic governance*
   How can a conceptualisation of the European economic governance framework on the basis of class relations contribute to the understanding of the recent process of integration?
   More specifically, how does the initial and new governance framework of the EMU relate to the class antagonism between capital and labour? How does the promotion of labour market reforms through the governance framework reflect the class conflict?

In the following, I will summarise the main arguments and contributions of the thesis in relation to these three Research Themes and their specific research questions. These
reflect the results of the Thematic Analysis of policy documents (see Introductory Chapter). Afterwards, I will discuss potential avenues for future research.

Research Theme 1: Institutional changes of the European governance framework

Research Theme 1 sought to investigate the institutional changes of the European governance framework taking place during the EA crisis. The starting question was therefore first of all: ‘What was the initial institutional design of the economic governance framework of the EMU’? In Chapter1, I responded by arguing that the initial design of the EMU established a specific policy mix and policymaking logic for the Member States of the EA regarding monetary, fiscal and labour market policy. I referred to this design as the ‘system of subsidiarity’. The key point here was that the system of subsidiarity constrains Member States’ capacities to unilaterally manage their national economies through other means than the fostering of competitiveness through labour market policy. Firstly, exchange-rate adjustment is not an option within the currency area. Secondly, monetary policy is beyond the reach of individual Member States as it is conducted by the independent European Central Bank at EU-level. Moreover, the EU rules reduce the role of the ECB to the observance of price stability and prohibit its function as a lender of last resort. Finally, the national sovereignty to make fiscal policy is constrained by EU-level surveillance and rules designed to ensure fiscal discipline. This restricts the capacity of Member States to engage in anti-cyclical deficit spending and there is no fiscal capacity at EU-level, which re-introduces the possibility to do so through the Union.

Consequently, Member States lack other options to manage economic imbalances – besides fostering international competitiveness through labour market policy. The main orientation is to lower unit labour costs to enhance price competitiveness. In this manner, negative economic developments are supposed to be counteracted through an enhanced national export performance. I referred to this policymaking logic as the ‘institutional selectivity’ of the EMU towards ‘competitiveness adjustment’. However, while labour market policy is the main economic adjustment mechanism, it remained a national prerogative in the initial design of the EMU. Especially, wage policy and trade union rights were explicitly excluded from the competences of the union. The achievement of
competitive labour markets and unit labour costs was, therefore, a national responsibility following from the institutional constraints of the EMU.

In Chapter 2, I continued the exploration of the institutional changes by responding to the question: ‘How has the governance framework of the EMU changed with the development of the NEEG’? And, ‘what was the rationale for this change’? I argued that the process of integration during the crisis was significantly driven by the aim to further promote competitiveness adjustment. The prevailing crisis narrative blamed Member States for having failed, ostensibly, to comply with their responsibility to foster competitiveness (and fiscal discipline) prior to the crisis through labour market reforms. In addition, the governance framework of the EMU was blamed for lacking the necessary enforcement instruments to ensure their commitment to do so. Consequently, the new governance instruments were established to strengthen Member States’ commitment to the fostering of competitiveness. This includes not only a stricter framework for fiscal discipline but also a new EU-level framework for the surveillance and enforcement of competitiveness, which entrusted new powers to EU-level executive institutions (Commission, Council and ECB) for the intervention with national labour market policy (including wage policy and the workers’ rights for association).

This new framework consists of the Macroeconomic Imbalance Procedure (MIP) and the Financial Assistance Facilities, more specifically, the European Stability Mechanism (ESM). Through these new governance instruments, Member States are held accountable by the EU-level executive institutions in respect of their commitment to foster competitiveness. As a result, the EU-level intervention with national labour market policy is more explicit, systematic and binding than it was before. It is more binding as the enforcement capacity of EU policy objectives has been reinforced by means of a new sanctions regime that potentially burdens Member States’ public finances. However, this means that labour market policy is no longer a national prerogative in the EMU. In a similar way as fiscal policy, the national sovereignty to make labour market policy is now more constrained by EU-level surveillance and rules designed to promote competitiveness. In other words, the institutional design of the EMU – the system of subsidiarity – was overhauled to reinforce its policymaking logic, that is, its institutional selectivity towards competitiveness adjustment.
In Chapters 4 and 5, I discussed in more detail how the Financial Assistance Facilities – more specifically the European Stability Mechanism (ESM) – and the Macroeconomic Imbalance Procedure (MIP) functioned to promote competitiveness adjustment in practice – and consequently to intervene with national labour markets. Thus, these chapters substantiated further the arguments made so far. In respect of the ESM, I emphasised that it is a game changer when it comes to the enforcement capacity of EU-level executives. Financial market discipline operates here in concert with direct EU-level executive control to enforce competitiveness adjustment with strong consequences for national labour markets. However, the ESM operates only in the special case where Member States are receiving financial assistance. Thus, the MIP was established as the ordinary surveillance procedure for everyday EA-wide policymaking. A crucial innovation of the MIP is that it strengthens the enforcement capacity of the EU-level executives through a combination of ‘softer’ and ‘harder’ instruments: persuasion and ‘naming and shaming’ are applied in a systematic manner and further supported with the deterrent effect of potential financial sanctions to commit Member States to the required labour market reforms.

In summary, the general research question for Research Theme 1 was: ‘What is new about the new European economic governance’? The answer is that the NEEG introduced overall three changes to the initial governance framework: (1) the empowerment of the enforcement capacity of EU-level executive institutions; (2) a stricter framework for fiscal policy; and (3) the creation of a EU-level framework for surveillance and enforcement of competitiveness establishing new competences for EU-level executives in the field of labour market policy. Overall, I argued that the process of European integration during the crisis strengthened the institutional selectivity of the EMU’s system of subsidiarity towards competitiveness adjustment. This argument contrasts with the general view in the field of European integration studies that the development of the NEEG has been simply about the development of the fiscal policy framework. It is different as my research did not reflect upon the process of integration under consideration of separate and independent policy fields but under consideration of the *policymaking logic* that follows from the policy mix overall. Moreover, I did not exclude labour market policy from
the policy mix but emphasised its significance to the functioning of the EMU. This followed from the particular focus of the second research theme.

**Research Theme 2: The promotion of labour market reforms through the European governance framework**

Research Theme 2 focused on the promotion of labour market reforms through the European governance framework by asking first of all: ‘What is the role of labour market policy in the policy mix of the EMU’? The answer is already contained in the discussion of the previous Research Theme. As argued in Chapter 1, labour market policy is the key to economic adjustment in the EMU, given the constraints on monetary and fiscal policy and the impossibility of exchange rate adjustment within the currency union. Member States are supposed to manage economic imbalances by fostering international price competitiveness, which means establishing competitive unit labour costs. In the short run, this can be achieved through a labour market policy that focuses on wage compression. In the longer-term, this can be attained by creating the conditions to increase the productivity of labour.

In Chapter 2, I argued further that the revision of the institutional design of the EMU through the creation of the NEEG strengthened this particular policymaking logic of the EMU - instead of changing it. The New European Economic Governance could have created new governing capacities at EU-level to make it effectively possible for Member States to engage in anti-cyclical deficit spending (e.g. EU fiscal authority, transfer union) or symmetrical adjustment through EA-wide wage coordination. (Scharpf (2016) even proposed the re-introduction of the exchange-rate mechanism through a second currency for the EU). However, instead, the development of the NEEG has maintained, and *reinforced*, the role of labour market policy as the means of economic adjustment in the EMU (see previous section).

I continued further by exploring the actual policy content of the proposed agenda for labour market reforms. I asked therefore: ‘What is the policy strategy for labour market reforms articulated during the years of crisis management’? As a response, I presented in Chapter 3 the particular pattern for labour market reforms put forward between 2009
and 2013 in which the NEEG was established. I referred to this pattern as the reform programme for competitiveness adjustment. The reform programme shows that the crisis management did aim to commit Member States to facilitate wage compression and the enhancement of labour productivity. The pattern covers overall six reform commitments: (1) the revision of wage regulations; (2) decentralisation of collective bargaining; (3) deregulation of employment protection legislation; (4) cutting/freezing of public sector wages and employment; (5) activation policies (in concert with reforms of social security systems); and (6) human capital formation.

In the last two chapters, I brought the discussion of the previous two chapters together by investigating the question of ‘How the promotion of the policy strategy for labour market reforms played out in practice through the new institutions of the NEEG’? I showed the uneven and varied ways in which several Member States have committed through the Financial Assistance Facilities or the MIP to implement the reform programme for competitiveness adjustment. The financial assistance has served to impose corresponding labour market reforms in Cyprus, Ireland, Greece and Portugal, albeit unevenly, between 2009 and 2015. Greece, followed by Portugal, has seen the most extensive restructuring of their labour markets through the Macroeconomic Adjustment Programmes (MAPs), in contrast to Cyprus and, especially, Ireland. In all four programme countries real wages have fallen and unit labour costs plummeted, while real labour productivity has been stagnating over the long-term.

The story is similar for the MIP, but with an important exception. The reform pattern has been strategically adapted to the changing social and political environment. Given the deterioration of social and employment conditions, as well as political contestation, the Commission (2013e) sought to support the “social dimension of the EMU”. Not least as falling incomes and high unemployment threatened to have negative effects on human capital formation that is however a significant part of the policy strategy (to enhance labour productivity). Thus, in the MIP the pattern for labour market reforms included, as a variation, the promotion of basic social protection and demand-side employment measures, albeit to a limited extent. This strategically adapted programme for competitiveness adjustment was pushed forward between 2012 and 2015 in France, Italy, Slovenia and Spain. Overall, these Member States have seen decreasing real wages – with
the exception of France – and falling unit labour costs, while real labour productivity has been stagnating over the long-term.

Now, turning to the general question of this research theme, ‘how does the promotion of labour market reforms (or ‘structural reforms’) through the governance framework of the EMU contribute to our understanding of the process of integration’? My answer is that the promotion of labour market reforms, in view of fostering competitiveness, has been a significant driver for the development of the New European Economic Governance – that is to say, for the process of integration during the crisis. EU policymakers did not rely simply on the initial institutional design of the EMU to force Member States to engage in labour market reforms. Rather, stronger governance instruments were created, with new competences for EU-level executives in the area of labour market policy, to commit Member States to labour market reforms in the name of competitiveness. My conclusion differs, therefore, strongly from the general tenor of the European integration orthodoxy that the key moment of integration during the crisis has been the development of the fiscal policy framework. In my view, the most notable steps in the process of integration have been made in the framework for labour market policy. Hence, one of the key contributions of my research is that it brings in labour market policy to the study of European integration. It recognises the central role of labour market policy to the policy mix of the EMU and to the development of the New European Economic Governance. My thesis overcomes, therefore, the prevailing gap between European integration studies and Industrial Relations scholarship (as well as the Economics of integration). Moreover, in contrast to the European integration orthodoxy my research did not eschew the political dimension of labour relations but investigated the underlying politics of class – which brings us to the third research theme.

**Research Theme 3: The politics of class of the European economic governance**

The third Research Theme explored the politics of class underlying these developments of the European economic governance. I started by asking the question of ‘how the initial and new governance framework of the EMU relates to the class antagonism between capital and labour’? In Chapter 1, I introduced, first of all, the socio-historical conception
of class – that guided the research project - as the social relation between appropriators and producers of social wealth. Marx’s Labour Theory of Value reveals that the relation between capital and wage-labour is a historically specific form of this class relation. The source of capitals’ revenues – profit, interest, rent – is, in fact, the peculiar capacity of the commodity labour-power (embodied in the worker) to produce more social wealth than socially necessary for its own reproduction. In this context, I argued that the EMU is as supranational governance framework through which Member States commit themselves to facilitate – through labour market reforms – capital’s confrontation of the labour force in order to reduce unit labour costs. That is to say, to reduce workers’ distributional share and enhance the exploitation of their productive capacities (increasing labour productivity).

Furthermore, in Chapter 2 I argued that the process of integration during the crisis did nothing else but to strengthen this supranational governance framework. As stated above, the development of the NEEG was significantly driven by the promotion of labour market reforms to foster competitiveness – or in other words to establish competitive unit labour costs. Hence, from a class-based perspective, the establishment of the NEEG reflects the initiative to facilitate capital’s confrontation of the labour force in order to reduce workers’ distributional share and enhance the exploitation of their productive capacities. However, these first two chapters provided only a starting point for the analysis of the class strategy underlying the recent process of integration. The discussion remained limited to a general definition of the aims of the class strategy (containing labour costs and increasing labour productivity) as they follow logically from the institutional design of the EMU. I did not at that stage concretise the class strategy for the historically specific context of the recent crisis, nor did I discuss its implementation in practice through the NEEG. This was done in subsequent chapters in which I discussed the policy strategy for labour market reforms put forward during the crisis.

So, the question for these chapters was: ‘How did the promotion of labour market reforms through the governance framework reflect the class conflict’? First of all, in Chapter 3, I recognised the criticism of Social Reproduction scholars of more conventional Marxist analyses that the class antagonism has to be conceptualised beyond the immediate social relations of production including more broadly the social relations of
reproduction. From this followed my distinction between the direct and indirect state intervention with the capital-labour relation. The former refers to reforms of labour market institutions that intervene directly with the relation between employers and workers in the private sector. The latter refers to reforms of public institutions that intervene indirectly with this relation by re-organising the social reproduction of the labour force – or in other words, the supply of labour-power. Thus, my research elaborated a broader conception of the class strategy underlying the reform programme for competitiveness adjustment by including the indirect forms of intervention that impact, more broadly, on the social reproduction of the labour force.

Overall, I argued that the reform programme for competitiveness adjustment revealed a class strategy to empower capital over labour. The direct intervention aimed to (1) revise wage regulations; (2) decentralise collective bargaining; and (3) deregulate employment protection legislation. Through these measures, Member States facilitate employers’ confrontation of workers by relieving them of legal constraints to reduce wages, fire workers and replace them with more productive ones, while the bargaining power of workers is undermined. Thus, labour market reforms were put forward that assert employers’ control over workers with a view to compress wages and boost productivity. From the perspective of Marx’s value theory of labour, I suggested further that this reflects a class strategy to increase the appropriation of relative surplus value. This is the case insofar as higher productivity of labour supports the ability of individual capitalists to reduce their costs below average and, therefore, to make excess profits. Moreover, beyond the individual, the attainment of higher productivity in the non-tradable sector in general, may translate into a cheapening of wage goods and, consequently lower labour costs and higher profitability in the tradable sector.

The indirect intervention, in addition, aimed for the (1) cutting/freezing public sector wages and employment; (2) activation polices, especially for the unemployed, elderly and the young; and (3) human capital formation. I argued that these were measures to mobilise labour-reserves in numbers and skills to augment the surplus labour produced overall by the working-class households, and to supply employers with a labour force that is trained according to their requirements. From a Marxist perspective, I suggested therefore that this pattern appears as a class strategy to increase the appropriation of
absolute surplus value and to support the appropriation of relative surplus value by developing the productive capacities of workers. However, these reforms were put forward during the EA-crisis when unemployment was skyrocketing. Thus, I stressed that these measures were supposed to intensify the downward wage pressure exerted by the unemployed. In summary, reforms were promoted to assert capital’s control over the labour force and the subordination of wage-dependent households to international capitalist competition.

Finally, I distinguished in the pattern of direct and indirect interventions two sub-strategies according to their distinct objectives: the labour-cost-oriented strategy and the productivity-oriented strategy for competitiveness adjustment. The former was supposed to intensify the downward wage pressure exerted by the unemployed, which was facilitated further through reforms of wage-setting institutions. Such measures were, however, not necessary for the latter sub-strategy, which sought to increase the capacity of employers to hire and fire and to provide them with a continuous supply of productive labourers through human capital formation. In this manner, less productive workers could be more easily replaced with more productive ones. However, independent of whether these aims were actually achieved or not, the key point of my argument is that the reform programme for competitiveness adjustment revealed, overall, a class strategy to empower capital over labour. Thus, the discussion of the reform programme developed further the understanding of the social purpose underlying European integration by showing the intervention with the balance of power between capital and labour facilitated through the EMU, as well as the specific modalities of this politics of class.

In the last two chapters, I illustrated the varied implementation of this class strategy in practice through promotion of competitiveness adjustment through new institutions of the NEEG. In Chapter 4, I concentrated on the class politics of the financial assistance programmes imposed on Cyprus, Greece, Ireland and Portugal. I argued that the labour-cost-oriented strategy was more pronounced in these programmes. On one hand, the MAPs intervened directly with the relationship between employers and workers in the private sector by suspending or weakening legal impediments to the pressure exerted by the unemployed on workers’ wage demands. This included the decentralisation of collective bargaining, the weakening of wage regulations and the deregulation of EPL that
would otherwise strengthen workers’ bargaining power. On the other hand, the MAPs intervened indirectly by engineering the supply of labour-power, so as to facilitate and intensify the competitive pressures exerted by the unemployed. This encompassed the mobilisation of labour-reserves through cuts in public sector employment and wages, activation policies for the elderly and unemployed (including reductions in pensions and social benefits). Indeed, as remarked above, all four programme countries saw considerable falls in real wages and unit labour costs between 2009 and 2014.

In Chapter 5, I turned to the promotion of competitiveness adjustment in France, Italy, Slovenia and Spain through the Macroeconomic Imbalance Procedure (MIP). In this context, I discussed the attempt of EU policymakers to manage the contradictions arising from the process of economic adjustment to make it viable in the long run. As remarked above, the process of adjustment – and its underlying class strategy – came along with increasing poverty and a prolonged period of high unemployment in the EA. This threatened the political support of EU policy and the suitable formation of human capital. Consequently, EU executives sought to adapt strategically to the changing political and social environment. Social indicators to monitor the development of unemployment and poverty were introduced to the macroeconomic surveillance and the reform programme for competitiveness adjustment was adapted to include some measures to address these social issues. Thus, after the early years of crisis management there were subtle shifts in the process of European integration that reflect the contradictions arising from the EMU’s politics of class.

The approach to competitiveness adjustment was, therefore, more balanced in the MIP placing a stronger emphasis on the productivity-oriented strategy after 2013 that was further supplemented with social concessions. The mainstay of the national reform plans was, consequently, to intervene directly in the capital-labour relation by liberalising EPL, and indirectly by developing ‘human capital’ through market-relevant education. In addition, public employment services are supposed to be made more effective and some social concessions are made to counteract the deterioration of skills of the present and future labour force due to unemployment or lack of income. Thus, on one side, the freedom of employers was supposed to be strengthened to assemble and disassemble their workforce. On the other side, a continuous supply of workers for employers to draw
on was supposed to be facilitated. I argued that from a class-based perspective these measures are conducive to the capitalist drive to stay ahead in the field of labour productivity, reduce their costs below average and make excess profits as a form of relative surplus value appropriation. However, for the working class they mean a loss of collective achievements for employment protection legislation that is replaced with the individual necessity to maintain their employability, and attain suitable skills, to stay attractive to employers. Overall, the reform pattern pushed through NEEG revealed a class strategy to empower capital over labour. However, in the MIP the strategy is not implemented without some social concessions to manage its contradictions and make the adjustment process viable in times of deteriorating social conditions and political support.

This leads to the general question of the Research Theme: ‘How can a conceptualisation of the European economic governance framework on the basis of class relations contribute to the understanding of the recent process of integration’? The key contribution of such a class-based analysis, to the field of European integration studies, is that it provides for an innovative understanding of the social purpose underlying the recent process of integration defined in my thesis as the empowerment of capital over labour. This view overcomes the conundrum of the dominant debate that the politics of the EMU during the crisis were a dramatic policy mistake as austerity, or an export-led growth strategy, cannot lead to sustainable economic growth in the EA. The crucial methodological difference is that the European integration orthodoxy separates state and market – assuming that the former is intrinsically benign – instead of conceptualising their common social constitution in capitalist relations of production and reproduction (see Introductory Chapter). Hence, my research goes beyond these views by showing the power-laden dynamics of class conflict underlying the ‘benign but mistaken’ policymaking of the EMU.

Moreover, the class-based analysis contributes through its empirical-focus and multi-layered understanding of the politics of class reflected in the reorganisation of the governance framework of the EMU. This reveals the quantitative and qualitative dimensions of the class conflict (compression of unit labour costs and balance of power between capital and labour), main class strategy and sub-strategies as well as their implementation through direct and indirect forms of state intervention. These different
facets do not only matter to account for the operation of the class politics in practice, but also for subtle changes made to the economic governance institutions over the years. In this manner, my research contributes not only to the dominant but also the Historical Materialist literature on the topic (see Chapter 1). While the latter has focused on the authoritarian tendencies of European governance revealed during the crisis, my research shows on empirical grounds the politics of class, and its complexities, facilitated through these tendencies.

**Potential avenues for future research**

**On social reproduction theory, gender and age**

In Chapter 3, I acknowledged the criticism of Social Reproduction scholars on more conventional Marxist analyses that these tend to ignore the broader social relations of reproduction. The deeper methodological issue here is that such research ignores the peculiarity of the commodity labour-power that it cannot be separated from the living body of the worker, which is, however, reproduced beyond the immediate process of production. My discussion of the politics of class underlying the agenda for competitiveness adjustment included, therefore, not only the direct intervention with the relation between employers and workers in the private sector but also the indirect intervention through a reorganisation of public institutions that contribute to the social reproduction of the labour force (e.g. pension systems). However, I noted some important limitations of my research in light of the criticism made by Social Reproduction scholars. My research did not elaborate on wage-less housework, nor on gender relations, given the restricted scope of the project. However, this would be a promising avenue for future research. This would include, for example, the question, how competitiveness adjustment relates to, or affects, wage-less housework and gendered regimes of reproduction. On one side, competitiveness adjustment is likely to mobilise (wage-dependent) women to enter the labour market to compensate for the loss of income in addition to their unpaid work in the household. On the other side, fiscal austerity may
erode public care services increasing the burden of wage-dependent households to provide care work. Rubery (2015) warned, therefore, that the neoliberal politics of the EU is fostering a reproductive arrangement in which “women’s wage employment is an additional burden to their care responsibilities” (p. 736). Moreover, competitiveness adjustment may also advance the financialisation of the social relations of reproduction, and its gendered implications (Roberts, 2013) – for example, regarding pension systems.

In light of these developments I would suggest a research project that follows a feminist historical materialist critique that has emphasised the “systemic devaluation of women’s work” (Roberts, 2012, p. 94) – as a material source of women’s oppression. An important question for such project would, therefore, be to ask how the programme for competitiveness adjustment reproduces ideologies and practices that devalue female labour – waged and unwaged. A crucial aspect of such research would be to make visible productive relations that are obscured through socially constructed distinctions of what constitutes productive work and what not. In summary, the analysis would aim to show the relation between the politics of class and gender underlying the promotion of competitiveness adjustment.

Another promising route for further research with respect to social reproduction theory is the relation between competitiveness adjustment and age relations, which in turn intersect with gender relations. The historical context here is the discourse about demographic ageing in Europe disseminated by EU policymakers. The policy strategy of the Commission is “Active Ageing” (TNS Opinion and Social, 2012, p. 3). The latter is a policy discourse that defines ageing as burden for society and that seeks to mobilise the elderly not only for the labour market but also for care work. “Active ageing is not just about the participation of older workers in the labour market, it's about their active contribution to society through voluntary work, notably as family carers…” (TNS Opinion and Social, 2012, p. 3). Active ageing may have, therefore, a notable impact on the gendered regimes of reproduction. Moreover, Rubery (2015, p. 735) has argued that the politics of austerity in the EU has led to the increasing participation of, especially, older women in the labour market. This raises the question of how older women are affected by the unequal relations of power in the labour market in terms of class and gender. Finally, there is a significant trend in the politics of competitiveness adjustment to
devalue the work of young workers. This is the consequence of the exorbitant levels of youth unemployment during the crisis and the explicit strategy of EU policymakers to establish lower minimum wages for young workers – or reduce respective non-wage costs. Further research could, therefore, elucidate how wage compression operates by taking advantage of age differences in the labour force. In summary, a key contribution of such research, in contrast to a more conventional Marxist analysis, is that social reproduction theory treats labour as an embodied experience. It can show, therefore, how competitiveness adjustment produces differentiations in the workforce on grounds of other social relations of oppression and how the workers’ body is a central part of social (including class) struggles.

**On the colonial constitution of the Euro-Area**

Kraemer (2012) has argued from a post-colonial perspective that Europe as an imaginary community, and its current institutional form as the European Union, has to be understood as constituted by the history of colonialism and its structures of power (pp. 125-126). The latter created, according to Quijano (2007), “the specific social discriminations which later were codified as ‘racial’, ‘ethnic’, ‘anthropological’ or ‘national’…” (p. 168). Europe is, therefore, based on the normative hierarchies of racial and national identities created through colonialism. The author’s argument is inspired by post-colonial research that has turned around its analysis of the colonised ‘other’ to reveal the construction the ‘one’, which follows necessarily form the notion of the ‘other’ (Kraemer, 2012, pp. 126–128). In other words, post-colonial critique is applied not only to societies of the ‘global South’ but also to the ‘West’ to show how these are constituted and permeated by colonial structures of power.

Kraemer’s approach promises a highly original avenue for future research on European integration. My suggestion is to bring the post-colonial and the class-based critique of the EMU together in one research project. The guiding principle could be Quijano’s (2007) argument that colonial relations of power are “the framework within which operate the other social relations of classes or estates” (168). From this follows the research question, how are the colonial structures of power reflected in the project of the Euro-Area? And
how are the politics of class of the EA mediated by this framework? An obvious empirical entry point would be to discuss the colonial character of the repressive border regime of the EU and investigate its relation to the EMU’s politics of class. Worth considering in this respect is, for example, Ferguson’s and McNally’s (2014) argument that “dominant capitalist nations” have established “an array of coercive immigration regimes designed to cheapen migrant labour by restricting its social and political rights.” (p. 7)
Appendix

List of documents grouped up in NVivo Projects

NVivo Project 1

Regarding the New European Economic Governance


Brussels, Belgium.


**Regarding the policy strategy for labour market reform**


Area Competitiveness and Imbalances. Brussels, Belgium.


Regarding the Financial Assistance Facility


Regulation No 472/2013/EU of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability [2013] L140/1


Regarding the Macroeconomic Adjustment Programmes


NVivo Project 3

Regarding the Macroeconomic Imbalance Procedure


Regulation No 2011/1176/EU of 16 November 2011 on the prevention and correction of macroeconomic imbalances [2011] L306/8

Regulation No 2011/1174/EU of 23 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area [2011] L306/25

Regarding the National Reform Plans

Country Reports and In-Depth Reviews


Specific Monitoring Reports


Relevant for the Correction of Macroeconomic Imbalances. Brussels, Belgium.

List of interviews

*Not quoted directly in the thesis

** Off the records

Interview 01 – ETUI*
Senior Member of Staff, Research, European Trade Union Institute
Brussels, 30.09.2017

Interview 02 – DG IP/ previously DG ECFIN*
Member of Staff, Research, Directorate-General for Internal Policies of the Union,
European Parliament/ previously Directorate-General for Economic and Financial Affairs,
European Commission
Brussels, 05.10.2017

Interview 03 – ETUC*
Member of Staff, Research, European Trade Union Confederation
Brussels, 05.10.2017

Interview 04 – ETUC*
Member of Staff, Research, European Trade Union Confederation
Brussels, 06.10.2017

Interview 05 – S&D/ previously DG EMPL
Advisor at the Socialist and Democrats Group in the European Parliament/ previously
Directorate-General for Employment, Social Affairs and Inclusion, European Commission
Brussels, 06.10.2017

Interview 06 – DG ECFIN
Senior Member of Staff, Senior Adviser, Directorate-General for Economic and Financial
Affairs, European Commission
Brussels, 09.10.2017

Interview 07 – DG ECFIN
Member of Staff, Directorate-General for Economic and Financial Affairs, European
Commission
Brussels, 10.10.2017

Interview 08 – DG ECFIN*
Member of Staff, Economic Analyst, Directorate-General for Economic and Financial Affairs, European Commission
Brussels, 11.10.2017

Interview 09 – DG ECFIN*
Senior Member of Staff, Deputy Head of Unit, Directorate-General for Economic and Financial Affairs, European Commission
Brussels, 11.10.2017

Interview 10 – DG IP *
Member of Staff, Directorate-General for Internal Policies of the Union, European Parliament
Brussels, 12.10.2017

Interview 11 – DG IP **
Member of Staff, Research, Directorate-General for Internal Policies of the Union, European Parliament
Brussels, 12.10.2017

Interview 12 – DG IP **
Member of Staff, Research, Directorate-General for Internal Policies of the Union, European Parliament
Brussels, 12.10.2017

Interview 13 – Ecofin**
Member of Staff, Economic and Financial Affairs Council, Council of the European Union
Brussels, 12.10.2017

Interview 14 – DG EMPL**
Senior Member of Staff, Head of Unit, Directorate-General for Employment, Social Affairs and Inclusion, European Commission
Brussels, 13.10.2017

Interview 15 – S&D *
Advisor at the Socialist and Democrats Group in the European Parliament, Committee on Employment and Social Affairs
Brussels, 13.10.2017
Members of the Task Force of the European Council

PRESIDENT OF THE TASK FORCE Mr Herman Van Rompuy
EUROPEAN COMMISSION Mr Olli Rehn
EUROPEAN CENTRAL BANK Mr Jean-Claude Trichet (*)
EUROGROUP Mr Jean-Claude Juncker
AUSTRIA Mr Josef Proll
BELGIUM Mr Didier Reynders
BULGARIA Mr Simeon Djankov
CYPRUS Mr Charilaos Stavrakis
CZECH REPUBLIC Mr Eduard Janota
Mr Miroslav Kalousek
DENMARK Mr Claus Hjorth Frederiksen
IRELAND Mr Brian Lenihan
ESTONIA Mr Aare Jarvan
Mr Jurgen Ligi
FINLAND Mr Jyrki Katainen
FRANCE Ms Christine Lagarde
GERMANY Mr Wolfgang Schauble
GREECE Mr Georgios Papaconstantinou
HUNGARY Mr Peter Oszko
Mr Gyorgi Matolcsy
ITALY Mr Giulio Tremonti
LATVIA Mr Mārtiņš Bīņevskis
Mr Einars Repse
LITHUANIA Ms. Ingrida Šimonyte
LUXEMBOURG Mr Luc Frieden
NETHERLANDS Mr Jan Kees De Jager
POLAND Mr Jan Vincent-Rostowski
PORTUGAL Mr Fernando Teixeira Dos Santos
ROMANIA Mr Sebastian Vladescu
Mr Gheorghe Ialomitianu
SPAIN Ms Elena Salgado
SLOVAKIA Mr Jan Počiatek
Mr Ivan Miklos
SLOVENIA Mr Mitja Gaspari
Mr Franc Križanič
SWEDEN Mr Anders Borg
UNITED KINGDOM Mr George Osborne

(*)The President of the ECB does not subscribe to all elements of this report

Source: (Task Force of the European Council, 2010, pp. 13–14)
Tables with reform details of Macroeconomic Adjustment Programmes

_In context of the discussion in Chapter 4, these tables present in detail the reform commitments of the Macroeconomic Adjustment Programmes for Greece, Portugal, Ireland and Cyprus relevant to the research project. The original wording of the reforms is maintained. However, the statements have been adjusted for presentation purposes to the table format._

_Reform details for Greece_

Note: The Latin numbers I, II, III refer to the first, second and third Economic Adjustment Programme for Greece.

<table>
<thead>
<tr>
<th>Type of Reform</th>
<th>Actions of Greek government</th>
</tr>
</thead>
</table>
| Actions regarding collective-bargaining system | - legislation to reform wage bargaining system in the private sector, which should provide for a reduction in pay rates for overtime work and enhanced flexibility in the management of working time.  
- Allow local territorial pacts to set wage growth below sectoral agreements and introduce variable pay to link wages to productivity performance at the firm level.  
- Government amends regulation of the arbitration system, (Law 1876/1990), so that both parties can resort to arbitration if they disagree with the proposal of the mediator. (Ia) In 2011, adopted reforms:  
- Occupational and sectoral agreements are not extended to non-signatory firms.  
- Suspension of “favourability clause”, so that firm-level agreements prevail over occupational and sector agreements.  
- Allowing firm-level agreements to be negotiated by workers’ associations (in addition to trade unions), with a view to increase the number of firms that can conclude those types of contracts. (II) - all collective contracts should have a maximum duration of 3 years.  
- Collective contracts already in place for 24 months or more will expire not later than one year after the law is adopted.  
- The grace period after a contract expires is reduced from six to three months.  
- In the event that a new collective agreement cannot be reached after three months of efforts, remuneration will revert back to the basic wage plus the following general allowances (seniority, child, education, and hazardous).  
- Removal of ‘tenure’ in all existing legacy contracts in all companies.  
- A freeze of ‘maturity’ provided by law and/or collective agreement. |
(referring to all automatic increases in wages dependent on time) until unemployment falls below 10%
- Elimination of unilateral recourse to arbitration, allowing requests for arbitration only if both parties consent
- It will be clarified that (i) arbitrators are prohibited to introduce any provisions on bonuses, allowances, or other benefits, and thus may rule only on the basic wage; and (ii) economic and financial considerations must be taken into account alongside legal considerations.
- Moreover, by October 2012, an independent assessment of the working of arbitration and mediation shall be prepared, with a view to improve the arbitration and mediation services in order to guarantee that arbitration awards adequately reflect the needs of wage adjustment.

(III) – launching of consultation process with a group of independent experts to review a number of existing labour market frameworks, industrial action and collective bargaining, taking into account best practices internationally and in Europe

---

**Actions regarding public sector wages**

(I) - The 13th and the 14th wage payments will be eliminated for all employees. To protect the lower income segment, here too, for those receiving less than €3000 a month, a flat bonus payment of €1000 a year per employee will be introduced, which will be financed through cutting salary allowances for higher income segments.

- Reduction in the public wage bill by reducing the Easter, summer and Christmas bonuses and allowances paid to civil servants, with net savings amounting to EUR 1500 million for a full year (EUR 1100 million in 2010)
- Government adopts legislation/decrees establishing a simplified remuneration system covering basic wages and allowances that applies to all public sector employees ensuring that remuneration reflects productivity and tasks

(II) - we will adjust the wage grid for special regimes effective July 1, 2012 (including for judges, diplomats, doctors, professors, police and armed forces), while protecting those at lower pay scales, to realize permanent net savings of about 0.2 percent of GDP on an annual basis

- We will also review the new promotion system to ensure that there are appropriate controls against wage drift through such channels

(III) - the authorities will align non-wage benefits such as per diems, travel allowances and perks, with best practices in the EU

- the authorities will reform the unified wage grid

- the current “klados” system will be reformed to have a better articulation of job descriptions that will be reflected in the wage grid

- the authorities will establish (...) ceilings for the wage bill and the level of public employment consistent with achieving the fiscal targets and ensuring a declining path of the wage bill relative to GDP during the period 2016-2019 (key deliverable).

---

**Actions regarding public sector**

(I) - Reduce public employment on top of the rule of 1 recruitment for each 5 retirements in the public sector; the reduction in public employment on top of the 5-to-1 rule should allow savings of at least
employment EUR 600 million

(II)- Personnel reductions. We remain committed to reduce general government employment by at least 150,000 in the period 2011–15. To achieve this target, we will continue to strictly apply the existing 1:5 hiring to attrition ratio (1:10 for state-owned enterprises) as well as the newly established pre-retirement scheme, reduce contractual employment, and furlough enough redundant public employees into the labor reserve by end-2012 to achieve 15,000 mandatory separations (i.e. once their time in the labor reserve has been exhausted).
- The planned functional review of public administration (below), and plans to close, merge or shrink general government entities, will help identify redundant public employees.
- Controls on hiring. To better control and limit hiring, we will:
  (i) reduce the annual intake into schools for public sector employees, namely military and police schools and other public academies, to a level consistent with hiring plans
  (ii) augment the labor reserve annually
  (iii) eliminate vacant positions in the context of public sector restructurings. If slippages vis-à-vis the targeted personnel reductions emerge, we will immediately enact a hiring freeze
- Staff in the labour reserve will be paid at 60 percent of their basic wage (excluding overtime and other extra payments) for not more than 12 months, after which they will be dismissed. This period of 12 months may be extended up to 24 months for staff close to retirement.

Payments to staff while in the labour reserve are considered part of their severance payments
(III) - the authorities will establish (...) ceilings for the wage bill and the level of public employment consistent with achieving the fiscal targets and ensuring a declining path of the wage bill relative to GDP during the period 2016-2019

Actions regarding minimum wage
(I) – adopts legislation on minimum wages to introduce sub-minima for groups at risk such as the young and long-term unemployed, and put measures in place to guarantee that current minimum wages remain fixed in nominal terms for three years
(II) - an immediate realignment of the minimum wage level determined by the national general collective agreement by 22 percent at all levels based on seniority, marital status and daily/monthly wages
- its freeze until the end of the program period
- a further 10 percent decline for youth, which will apply generally without any restrictive conditions (under the age of 25)
- Preparing the overhaul of the national general collective agreement (NGCA) (p. 110)
- to establish a single-rate statutory minimum wage on a more permanent basis

Actions regarding other wage-
### Actions regarding employment protection legislation

1. **(I)**– extend the probationary period for new jobs to one year
   - reduce the overall level of severance payments and ensure that the same severance payment conditions apply to blue- and white-collar workers
   - raise the minimum threshold for activation of rules on collective dismissals especially for larger companies
   - facilitate greater use of temporary contracts and part-time work
   - adjust legislation to introduce annual time accounts and reduce overtime pay
2. **(II)**– Clauses on tenure (...) contained in law or in labour contracts are abolished
3. **(III)** - The Government will launch by October 2015 a consultation process led by a group of independent experts to review a number of existing labour market frameworks, including collective dismissal, industrial action and collective bargaining, taking into account best practices internationally and in Europe

### Actions regarding labour market participation and activation

1. **(I)** – introduction of sub-minimum wages for “groups at risk” such as the young and unemployed
   - Introduction of a unified statutory retirement age of 65 years, including for women in the public sector
   - Introduction of an automatic adjustment mechanism that, every three years and starting in 2020, will increase the (minimum and statutory) retirement age in line with the increase in life expectancy at retirement
   - Measures to restrict access to early retirement. In particular, increase the minimum early retirement age to 60 years (...) including for workers in heavy and arduous professions and those with 40 years of contributions.
   - Abolish special rules for those insured before 1993 (while retaining acquired rights). Substantial revision of the list of heavy and arduous professions
   - Reduction of pension benefits (by 6% per year) for people entering retirement between the ages of 60 and 65 with a contributory period of less than 40 years
   - an increased minimum contribution period from 37 to 40 years by 2015
   - Introduction of stricter conditions and regular re-examination of eligibility for disability pensions
2. **(II)** - 32 % reduction of minimum wages for the young (under the age of 25)
3. **(III)** - further series of guaranteed employment support schemes covering 150,000 persons, including the long term unemployed (29+), young people (16-29), and disadvantaged groups (including inter alia GMI beneficiaries) with individualised active labour market measures for participants
   - ensured that people retiring after 30 June 2015 will have access to the
basic, guaranteed contributory, and means-tested pensions only at the attainment of the statutory normal retirement age of currently 67 years - eliminate gradually the grandfathering to statutory retirement age and early retirement pathways, progressively adapting to the limit of statutory retirement age of 67 years at the latest by 2022, or to the age of 62 and 40 years of contributions, applicable for all those retiring (except arduous professions and mothers with children with disability) - that early retirements will incur a penalty, for those affected by the extension of the retirement age period, equivalent to 10 percent on top of the current annual penalty of 6 percent

**Actions regarding education and training**

(II) - presents draft legislation (...) in order to remove the prohibition to recognise the professional qualifications derived from franchised degrees. Holders of franchised degrees from other Member States should have the right to work in Greece under the same conditions as holders of Greek degrees.

- The Government implements the Action Plan for the improvement of the effectiveness and efficiency of the education system and regularly reports (twice a year) on the progress of its implementation, including an indicative planning of self-evaluations and external evaluations of Higher Education institutions in compliance with the new Law 4009/2011 on Higher Education.

(III) Vocational training:
- legislate a modern quality framework for VET/Apprenticeships
- set up a system to identify skills needs and a process for upgrading programs and accreditation
- launch pilots of partnerships with regional authorities and employers in 2015-16
- provide an integrated implementation plan from the Ministry of Labour, the Ministry of Education, and OAED to provide the required number of apprenticeships for all vocational education (EPAS and IEK) students by 2016 and at least 33% of all technical secondary education (EPAL) students by 2016-2017
- ensure a closer involvement of employers and a greater use of private financing. Regional public-private partnerships will be run during the academic year 2015-16.
- the authorities will prepare an updated Education Action Plan (...) In particular, the authorities commit to align the number of teaching hours per staff member, and the ratios of students per class and pupils per teacher to the best practices of OECD countries
- On the link between education and research and development, the Greek authorities are committed to launch a comprehensive consultation process following the review of linkages between education and R&D (see under Section 4.1 ‘Education’) with a view to implement recommended best practices

Source: (European Commission, 2010e, 2012h, 2015i)
Reform details for Portugal

<table>
<thead>
<tr>
<th>Type of Reform</th>
<th>Actions of Portuguese Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actions regarding collective-</td>
<td>implement the commitments in the Tripartite Agreement of March 2011 concerning the &quot;organised decentralisation&quot;, notably concerning:</td>
</tr>
<tr>
<td>bargaining system</td>
<td>- the possibility for works councils to negotiate functional and geographical mobility conditions and working time arrangements</td>
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<td></td>
<td>- the creation of a Labour Relations Centre supporting social dialogue with improved information and providing technical assistance to parties involved in negotiations</td>
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<tr>
<td></td>
<td>- the lowering of the firm size threshold above which works councils can conclude firm-level agreements to 250 employees</td>
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<tr>
<td></td>
<td>- promote the inclusion in sectoral collective agreements of conditions under which works councils can conclude firm-level agreements without the delegation of unions</td>
</tr>
<tr>
<td></td>
<td>- present a proposal to reduce the firm size threshold for works councils to conclude agreements below 250 employees</td>
</tr>
<tr>
<td>Organized decentralisation:</td>
<td></td>
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<tr>
<td></td>
<td>- the possibility for works councils to negotiate functional and geographical mobility conditions and working time arrangements</td>
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<td>- the creation of a Labour Relations Centre supporting social dialogue with improved information and providing technical assistance to parties involved in negotiations</td>
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<tr>
<td></td>
<td>- the lowering of the firm size threshold above which works councils can conclude firm-level agreements to 250 employees.</td>
</tr>
<tr>
<td></td>
<td>- promote the inclusion in sectoral collective agreements of conditions under which works councils can conclude firm-level agreements without the delegation of unions. An action plan will have to be produced</td>
</tr>
<tr>
<td></td>
<td>- present a proposal to reduce the firm size threshold for works councils to conclude agreements below 250 employees</td>
</tr>
<tr>
<td>Actions regarding public sector wages</td>
<td>- 5 percent average cut in public sector wages this year</td>
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<tr>
<td></td>
<td>- Ensure that the aggregate public sector wage bill as a share of GDP decreases in 2012 and 2013</td>
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<td></td>
<td>- Freeze wages in the government sector in nominal terms in 2012 and 2013 and constrain promotions</td>
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<tr>
<td></td>
<td>- Reduce the overall budgetary cost of health benefits schemes for government employees schemes (ADSE, ADM and SAD) lowering the employer’s contribution and adjusting the scope of health benefits,</td>
</tr>
</tbody>
</table>
with savings of EUR 100 million in 2012

| Actions regarding public sector employment | - Limit staff admissions in public administration to achieve annual decreases in 2012-2014 of 1% per year in the staff of central administration and 2% in local and regional administration  
- Reduce management positions and administrative units by at least 15% in the central administration |

| Actions regarding minimum wage | - commitment that, over the programme period, any increase in the minimum wage will take place only if justified by economic and labour market developments and agreed in the framework of the programme review |

| Actions regarding other wage-setting arrangements | Severance payments.  
- total severance payments for new open-ended contracts will be reduced from 30 to 10 days per year of tenure (with 10 additional days to be paid by an employers’ financed fund) with a cap of 12 months and elimination of the 3 months of pay irrespective of tenure  
- total severance payments for fixed-term contracts will be reduced from 36 to 10 days per year of tenure for contracts shorter than 6 months and from 24 to 10 days for longer contracts (with 10 additional days to be paid by an employers’ financed fund)  
- present a proposal to align severance payment entitlements for current employees in line with the reform for new hires, (taking into account the revised link between entitlement and seniority and the cap to total entitlements) without reducing accrued-to-date entitlements  
- aligning the level of severance payments to that prevailing on average in the EU  
- allowing the severance pay entitlements financed from the fund agreed in the Tripartite agreement to be transferable to different employers by means of the creation of notional individual accounts |

**Definition of Dismissals**  
- Individual dismissals linked to unsuitability of the worker should become possible even without the introduction of new technologies or other changes to the workplace  
- Individual dismissals linked to the extinction of work positions should not necessarily follow a pre-defined seniority order if more than one worker is assigned to identical functions  
- Individual dismissals for the above reasons should not be subject to the obligation to attempt a transfer for a possible suitable position
The Government will prepare an assessment regarding the use made of increased flexibility elements by the social partners associated with the 2009 Labour Code revision and prepare an action plan to promote the use of flexible working time arrangements, including on modalities for permitting the adoption of “bank of hours” working arrangement by mutual agreement of employers and employees negotiated at plant level.

- Draft legislation will be submitted (...) on the following aspects:
  - implementation of the commitments agreed in the March Tripartite Agreement regarding working time arrangements and short-time working schemes in cases of industrial crisis, by easing the requirements employers have to fulfil to introduce and renew these measures;
  - revision of the minimum additional pay for overtime established in the Labour Code:
    (i) reduction to maximum 50% (from current 50% for the first overtime hour worked, 75% for additional hours, 100% for overtime during holydays)
    (ii) elimination of the compensatory time off equal to 25% of overtime hours worked. These norms can be revised, upwards or downwards, by collective agreement

<table>
<thead>
<tr>
<th>Actions regarding about market participation and activation</th>
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<tbody>
<tr>
<td>- reducing the maximum duration of unemployment insurance benefits to no more than 18 months.</td>
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<tr>
<td>- capping unemployment benefits at 2.5 times the social support index (IAS) and introducing a declining profile of benefits over the unemployment spell after six months of unemployment (a reduction of at least 10% in the benefit amount).</td>
</tr>
<tr>
<td>- reducing the necessary contributory period to access unemployment insurance from 15 to 12 months</td>
</tr>
<tr>
<td>- presenting a proposal for extending eligibility to unemployment insurance to clearly-defined categories of self-employed workers providing their services to a single firm on a regular basis.</td>
</tr>
<tr>
<td>- The government will present (...) a report on the effectiveness of current activation policies and other ALMPs [Active labour market policies] in tackling long-term unemployment, improving the employability of the young and disadvantaged categories, and easing labour market mismatch</td>
</tr>
<tr>
<td>- an action plan for possible improvements and further action on activation policies and other ALMPs, including the role of Public Employment Services</td>
</tr>
<tr>
<td>- Training opportunities will be strengthened especially for low skilled workers</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Actions regarding education and training</th>
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</thead>
<tbody>
<tr>
<td>- Set up an analysis, monitoring, assessment and reporting system in order to accurately evaluate the results and impacts of education and training policies, notably plans already implemented</td>
</tr>
<tr>
<td>- Present an action plan to improve the quality of secondary education</td>
</tr>
</tbody>
</table>
services including via: (i) the generalization of trust agreements between the Government and public schools, establishing wide autonomy, a simple formula-based funding framework comprising performance evolution criteria, and accountability; (ii) a simple result-oriented financing framework for professional and private schools in association agreements based on fixed per-class funding plus incentives linked to performance criteria; (iv) a reinforced supervisory role of the General Inspectorate.

iii.
Present an action plan aimed at (i) ensuring the quality, attractiveness and labour market relevance of vocational education and training through partnerships with companies or other stakeholders; (ii) enhancing career guidance mechanisms for prospective students in vocational educational training.

Source: (European Commission, 2011c)
Reform details for Ireland

<table>
<thead>
<tr>
<th>Type of Reform</th>
<th>Actions of Irish government</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Actions regarding public sector employment</strong></td>
<td>- On current expenditures, we are pursuing public service numbers reductions through natural attrition and voluntary schemes</td>
</tr>
</tbody>
</table>
| **Actions regarding minimum wage** | - Reduce by 1 EUR per hour the nominal level of the current national minimum wage  
- Enlarge the scope of the “inability to pay clause” permitting firms to invoke this clause more than once  
- Independent review of the Framework REA and ERO arrangements                                                                                                                                                                                                                                                                                                     |
| **Actions regarding labour market participation and activation** | - To reduce long-term unemployment and to facilitate re-adjustment in the labour market, we will reform the benefits system and legislate to reform the national minimum wage  
- Improving the efficiency of the administration of unemployment benefits, social assistance and active labour market policies, by exploiting synergies and reducing the overlapping of competencies across different departments  
- Enhancing conditionality on work and training availability - strengthening activation measures via: i. the introduction of instruments to better identify of job seekers' needs ("profiling") and increased engagement  
  ii. A more effective monitoring of jobseekers' activities with regular evidence-based reports  
  iii. The application of sanction mechanisms for beneficiaries not complying with job-search conditionality and recommendations for participation in labour market programmes set in such a way as to imply an effective loss of income without being perceived as excessively penalising so that it could credibly be used whenever lack of compliance is ascertained  
- The Authorities undertake to introduce legislation to increase the state pension age. Under the Government’s National Pension Framework the age at which people will qualify for the State Pension will be increased to 66 years in 2014, 67 in 2021 and 68 in 2028 |

Source: (European Commission, 2011b)
## Reform details for Cyprus

<table>
<thead>
<tr>
<th>Type of Reform</th>
<th>Actions of Cypriot government</th>
</tr>
</thead>
</table>
| **Actions regarding public sector wages** | - The application of the Cost of living adjustment (COLA) in the public sector has been suspended for the full programme period (end-2016)  
  - In the meantime, a reform of the COLA will reduce the frequency of adjustment (once instead of twice per year), will introduce a mechanism for automatic suspension during adverse economic conditions and move from full to partial indexation of 50%  
  - to reduce the growth in expenditure on the public sector wage bill, social benefits and discretionary spending, while minimising the impact of consolidation on vulnerable groups |
| **Actions regarding minimum wage** | - over the programme period, any change in minimum wage covering specific professions and categories of workers should be in line with economic and labour market developments |
| **Actions regarding other wage-setting arrangements** | - Suspension of the Cost of living adjustment (COLA) in the public sector for the full programme period  
  Reform of the COLA:  
  - a lower frequency of adjustment (once instead of twice a year)  
  - introduction of mechanisms for automatic suspension of application and derogation procedures during adverse economic conditions  
  - a move from full to partial indexation, with the rate of wage indexation being set at 50% of the rate of increase of the underlying price index over the previous year |
| **Actions regarding about market participation and activation** | - ensure that the planned reform of public assistance includes measures aimed at activating benefit recipients by facilitating their reinsertion in the labour market, reducing disincentives to work and imposing job-search requirements for continued benefit receipt  
  - provide an assessment of current activation policies  
  - review and enhance the cooperation between the public employment service and the benefit-paying institutions in the activation of the unemployed  
  - for the General Social Insurance System (GSIS):  
    (i) increase the minimum age for entitlement to an unreduced pension by 6 months per year to be brought in line with the statutory retirement age  
    (ii) introduce an early retirement penalty of 0.5% per month of early retirement so as to make early retirement actuarially neutral  
    (iii) introduce an automatic adjustment of the statutory retirement age every 5 years in line with changes in life expectancy at the statutory retirement age, to be applied for the first time in 2018  
    (iv) gradually (1 year per year) extend the minimum contributory period in the system from the current 10 years to at least 15 years over the period 2013-17 (in place since December 2012) |
- for the Government Employee Pension Scheme (GEPS):
  (i) increase the statutory retirement age by 2 years for the various categories of employees
  (ii) increase the minimum age for entitlement to an unreduced pension (by 6 months per year) to be in line with the statutory retirement age (iii) while preserving acquired rights, introduce an early retirement penalty of 0.5% per month of early retirement so as to make early retirement actuarially neutral
  (iv) introduce an automatic adjustment of the statutory retirement age every 5 years in line with changes in life expectancy at the statutory retirement age, to be applied for the first time in 2018; (v) introduce a change of indexation of all benefits from wages to prices
  (vi) pension benefits will be calculated on a pro-rata basis taking into account life-time service as of January 2013 (in place since January 2013)

<table>
<thead>
<tr>
<th>Actions regarding education and training</th>
</tr>
</thead>
<tbody>
<tr>
<td>- a reduction of the number of teachers seconded to the Ministry of Education and Culture,</td>
</tr>
<tr>
<td>- the removal of 1:1.5 teaching time ratio from evening schools of general and technical and vocational education,</td>
</tr>
<tr>
<td>- the elimination of teaching time concession to teachers for being placed in two or more educational districts,</td>
</tr>
<tr>
<td>- the elimination of mentoring components for pre-service and in-service training for newly appointed teachers and the reduction of the cost of afternoon and evening programmes</td>
</tr>
</tbody>
</table>

Source: (European Commission, 2013g)
## Tables with reform details of Macroeconomic Imbalance Procedure

*In context of the discussion in Chapter 5, these tables present in detail the relevant reform efforts of Spain, Slovenia, Italy and France related to the Macroeconomic Imbalance Procedure (before and during ‘specific monitoring’). The reform tables contain the exact wording of the programme documents (this refers to the text in the cells that is not bold). The roman numbers indicate in chronological order that the respective reform effort is recorded in a subsequent policy document that followed after the first monitoring document.*

### Reform details for Spain

#### Relevant MIP-related CSRs before specific monitoring

<table>
<thead>
<tr>
<th>Type of Reform</th>
<th>MIP-Related Country-specific recommendations of 2012 for labour markets</th>
<th>Progress by mid-2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actions regarding collective bargaining/employment protection legislation/activation</td>
<td>CSR 5: Implement the labour market reforms and take additional measures to increase the effectiveness of active labour market policies by improving their targeting, by increasing the use of training, advisory and job matching services, by strengthening their links with passive policies, and by strengthening coordination between the national and regional public employment services, including sharing information about job vacancies.</td>
<td>Spain has implemented the CSR partially. Implementation of the 2012 labour market reform continues; its impact will be subject to an evaluation currently being developed by the government. The Royal Decree-Law of 13 July 2012 on measures to ensure budget stability and promote competitiveness has strengthened the links between active and passive labour market policies, tightening job-search conditionality and revising conditions for unemployment assistance. New measures were taken in the area of ALMPs, namely as regards youth unemployment and the links between ALMPs and PLMPs. Further reform is considered urgent to increase employability. Coordination between the national and regional public employment services (PESs) has been improved with the adoption of the measures contained in the RDL 4/2013, which sets the conditions for information sharing among PES and introduces regulatory changes for public-private cooperation in the field of job intermediation and placement. No other measures have been taken or announced so far.</td>
</tr>
</tbody>
</table>
far concerning the reinforcement or modernisation of PES themselves.

Source: (European Commission, 2013d)

### Relevant reform efforts made under specific monitoring procedure

<table>
<thead>
<tr>
<th>Type of Reform</th>
<th>Statements of Country-Specific Recommendations (CSR)</th>
<th>Measures committed to in Spanish National Reform Plans (NRP)</th>
<th>Implementation progress according to specific monitoring</th>
</tr>
</thead>
</table>
| Actions regarding framework for activation | Carry out swiftly a result-oriented reform of active labour market policies, including by improving the targeting and efficiency of guidance. -- Fully operationalise the Single Job Portal. -- Speed up the implementation of public-private partnership in placement services to ensure its completion in 2013. -- Enhance the effectiveness and targeting of active labour market policies, including hiring subsidies, particularly for those facing more difficulties in accessing employment. (II) | Pluri-annual Strategy for Employment Activation (2014–16). -- Single Job Portal: a common database, for the entire national territory, that will include all the training or employment offers managed by public funds. -- Public-private partnership is under way in the field of labour intermediation (private agencies will be paid for each insertion accomplished, according to the characteristics of the unemployed and the job). -- | The government is currently finalising the 2014–16 Activation Strategy, which has already been discussed and agreed with the regions. -- IT systems should become compatible from early 2014. -- 2.8.2013: the Council of Ministers adopts framework agreement for public-private partnership in placement services. Fourteen out of 17 regions join the framework. -- On 4/07/2014, the Council of Ministers adopted a RDL 8/2014 on urgent measures to reinforce growth, competitiveness and efficiency (validated by the Parliament on 10/07/2014), which, among others, modifies the Law 53/2006 of 16 December, on Employment, to adapt it to the new active
labour market policies (ALMPs) model, set out in the 2014-2016 Spanish Activation Strategy. (II)

On 5/09/2014, the Government adopted the 2014-2016 Activation Strategy. The Strategy intends to improve targeting of ALMPs and in consequence the employability of groups particularly affected by unemployment: workers over 55, long-term unemployed and beneficiaries of the PREPARA programme. The Strategy is accompanied by a regulation on employment programmes and should lead to a results-based reallocation of funds. (II)

**Actions regarding activation of the elderly labour force**

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>Aligning the legal and the real retirement age and regulating the sustainability factor for pensions. The sustainability factor for pensions introduced by Law 27/2011, will also be regulated.</td>
</tr>
<tr>
<td>27.9.2013</td>
<td>(...)</td>
</tr>
<tr>
<td>23.12.2013</td>
<td>27.9.2013: the government approves the draft law on regulating the sustainability factor of pensions, and sends it to Parliament.</td>
</tr>
<tr>
<td>Actions regarding activation of the unemployed</td>
<td>Adopt the 2013 National Employment Plan by July 2013.</td>
</tr>
<tr>
<td>- Strengthen the job-search requirement in unemployment benefits. (II)</td>
<td></td>
</tr>
<tr>
<td>Actions regarding activation of the young</td>
<td>Implement and monitor closely the effectiveness of the measures to fight youth unemployment set out in the 2013–16 Youth Entrepreneurship and Employment Strategy, for example through a youth guarantee scheme.</td>
</tr>
<tr>
<td>2013–16 National Youth Entrepreneurship and Employment Strategy.</td>
<td>2013–16 Youth Entrepreneurship and Employment Strategy adopted in March 2013; 40% of the measures are in place. (…)</td>
</tr>
<tr>
<td></td>
<td>On 4/07/2014, the Council of Ministers adopted a RDL 8/2014 on urgent measures to reinforce growth, competitiveness and efficiency (validated by the Parliament on 10/07/2014), which foresees the national youth guarantee system. By 10/09/2014 about 33,000 persons had registered in the system either through the eportal set up in early July, or directly. According to the Ministry of Employment and Social Affairs, about 15,000 of these applications have been considered positively on the basis of the established criteria and about 6,700 have already been approved. (II)</td>
</tr>
<tr>
<td></td>
<td>The RDL 8/2014 established a new temporary hiring incentive, linked to the youth guarantee. The RDL foresees a</td>
</tr>
</tbody>
</table>
temporary reduction of EUR 300 in the employers' social security contributions, over six months, for the permanent employment of those who benefit from the youth guarantee. The incentive will remain in force until 30/06/2016. The RDL 8/2014 reinforced incentives to the training and apprenticeship contracts by allowing higher reductions in social security contributions. Moreover, new tax breaks are established for paid work experience undertaken by university students and those on vocational training courses. (II)

| Actions regarding education & training of labour force | Reform of the educational system (including decreasing the early school leaving rate to 15% by 2020). -- The NRP describes the progress on implementation of the dual vocational training, but there are no announcements of further measures to promote vocational education and training. (II) -- The NRP draws on | 28.11.2013: adoption of the organic law on improving the quality of education by Parliament. -- The Law on Quality of Education (LOMCE) is being implemented gradually, starting from the school year 2014/2015. The complex implementation process requires dialogue with regions. (II) -- The Law on Quality of Education (LOMCE) is |
Effectively implement the new educational schemes to increase the quality of primary and secondary education. (II)

- Enhance guidance and support for groups at risk of early school leaving. (II)
- Increase the labour-market relevance of vocational education and training and of higher education, in particular by enhancing the cooperation with employers and supporting the training of trainers and tutors. (II)

the implementation of the Law on Quality of Education (LOMCE) to improve education performance and combat early leaving from school and training. The law was adopted in November 2013. (II)

- The NRP describes the progress on implementation of the dual vocational training, but there are no announcements of further measures to promote vocational education and training. (II)

being implemented as foreseen, gradually, starting from the school year 2014/2015. Linked to the youth guarantee system, in place since July 2014, a specific committee has been set up in the labour market sectorial conference, which will examine, among others, the relevance of education and training curricula to the labour market needs. The implementation of the pilot projects on dual vocational training continues (currently developed in 1,000 firms and benefiting 20,000 pupils), and its extension to other sectors and companies is already foreseen (including also by amending the 2012 RDL establishing the bases for dual vocational training in Spain). (II)

### Actions regarding employment protection legislation

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.8.2013</td>
<td>Adoption of Law 11/2013, introducing some modifications to the collective dismissal procedure.</td>
</tr>
<tr>
<td>20.12.2013</td>
<td>Adoption of Law 16/2013 to promote part-time work.</td>
</tr>
</tbody>
</table>

### Actions regarding public sector employment

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
</table>
administration more efficient overall by October 2013.
electoral law will be amended, reducing the number of city counsellors.

| Actions regarding of wage-setting arrangements | Promote real wage developments consistent with the objective of creating jobs. (II) | The social partners' Interconfederal Agreement for Employment and Collective Negotiation 2012-2014 (valid until end-year) linked wages to productivity growth, and included guidelines for wage bargaining in 2012, 2013, and 2014. The social partners are currently discussing a new agreement. (II) |

Source: (European Commission, 2014h, 2014m)
Reform details for Slovenia

**Relevant MIP-related CSRs before specific monitoring**

<table>
<thead>
<tr>
<th>Type of Reform</th>
<th>MIP-Related CSR of 2012 for labour markets</th>
<th>Progress by mid-2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actions regarding public sector wages/minimum wages</td>
<td>CSR 7: Following consultation with social partners and in accordance with national practice, ensure that wage growth, including minimum wage adaptation, supports competitiveness and job creation.</td>
<td>The CSR has been partially implemented. The government has cut nominal gross wage per employee in the public sector by around 3% in 2012 and agreed with social partners to cut the wage bill further in 2013. The real average wage decreased in 2012 compared to 2011 while the nominal unit labour cost (NULC) registered a moderate positive growth in 2012 (0.7%) due to negative productivity growth (-1.1%). However, until Slovenia can sustain NULC growth below that of its trading partners it will not repair previous cost-competitiveness losses, especially from the 2007-2009 period. No measure has been taken to adapt the minimum wage. The NRP announces adjustments in the minimum wage setting in 2013 in consultation with social partners to support competitiveness and fairness, however, no detailed measures are reported. There are strong built-in dynamics in both public and minimum wages that could reignite adverse trends in the coming years. Pressures on wages are expected to pick up once economic growth resumes as employees seek to re-establish differentials that were compressed in 2010 by a hike in minimum wages and by its subsequent inflation-indexation based increases.</td>
</tr>
</tbody>
</table>

Source: (European Commission, 2013c)
## Relevant reform efforts made under specific monitoring procedure

<table>
<thead>
<tr>
<th>Type of reform</th>
<th>Statements of Country-Specific Recommendations (CSR)</th>
<th>Measures committed to in Slovenian National Reform Plans (NRP)</th>
<th>Implementation progress according to Specific monitoring procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actions regarding activation of the elderly labour force</td>
<td>Strengthen the long-term sustainability of the pension system beyond 2020 by further adjusting all relevant parameters, including through linking the statutory retirement age to gains in life expectancy, while preserving the adequacy of pensions. Take further measures to increase employment of young tertiary graduates, older persons and the low-skilled by focusing resources on tailor-made active labour market policy measures while improving their effectiveness. Address the skills mismatch by improving the attractiveness of the relevant vocational education and training programmes and by further developing cooperation with the relevant stakeholders in assessing labour market needs. -- Agree measures to ensure the sustainability of the pension and disability insurance system after 2020.</td>
<td>Discussion paper on the pension and disability insurance system after 2020. -- Analysis of the effects of the 2012 pension reform up to the end of April 2014. (III) Preparation of the public debate on the pension and disability insurance system after 2020 (so called White book). (III) Targeted measures of the Active Employment Policy for the most vulnerable groups in the labour market: young, long-term unemployed, elderly, less educated. (III) -- A white paper on the long term sustainability of pensions is announced to be published in mid-2015. (VI) The Law on Establishment and Functioning of the demographic reserve fund is to be adopted by 30 June 2015. (VI)</td>
<td>The government has established a reflection working group with members from academia and ministries on a further pension reform to preserve sustainability of the system beyond 2020. -- April 2014: first evaluation pointed towards a reduced inflow of new pensioners and an increase in average working age. (III) September 2014: new data confirm these findings. Along with new projections on fertility and migration, the reform shows important fiscal savings. (III) October 2014: The progress on addressing labour market mismatches has been so far limited (III) -- January 2013: The results of the evaluation of the impact of the 2013 pension reform are published. Through the implementation of the reform fiscal savings</td>
</tr>
</tbody>
</table>
pension system and adequacy of pensions beyond 2020, encompassing adjustments of key parameters, such as linking the statutory retirement age to gains in life expectancy and encouraging private contributions to the second pillar of the pension system. (III)

To increase employment of low-skilled and older workers, adapt the working environment to longer working life and focus resources on tailor made active labour market policy measures, while improving their effectiveness. (III)

| Actions regarding activation of the unemployed | Take further measures to increase employment of young tertiary graduates, older persons and the low-skilled by focusing resources on tailor-made active labour market policy measures while improving their effectiveness. Address the skills mismatch by improving the attractiveness of the relevant vocational education and training programmes and by further developing cooperation with the | Some new tailor-made ALMP measures were prepared and implemented; however, it is not clear how their effectiveness is being monitored. -- Further measures are expected to focus on the young and long-term unemployed. (II) |
relevant stakeholders in assessing labour market needs.

**Actions regarding activation of the young labour force**

| Actions regarding activation of the young labour force | Take further measures to increase employment of young tertiary graduates, older persons and the low-skilled by focusing resources on tailor-made active labour market policy measures while improving their effectiveness. Address the skills mismatch by improving the attractiveness of the relevant vocational education and training programmes and by further developing cooperation with the relevant stakeholders in assessing labour market needs. -- Take measures for further decreasing segmentation, notably addressing the efficiency of incentives for hiring young and older workers and the use of civil law contracts. (III) | Implementation of the Youth Guarantee and the Youth Initiative. (III) | Some new tailor-made ALMP measures were prepared and implemented; however, it is not clear how their effectiveness is being monitored. The new act on Emergency Measures in the field of Labour Market and Parental Care Act introduces a tax break for social security contributions for young workers on permanent contracts. -- Further measures are expected to focus on the young and long-term unemployed. (II) -- January 2015: The implementation of Youth Guarantee Programme is on track. 22,000 young are included in the measures; 90% of them received an offer from the public employment services. (VI) |

**Actions regarding employment protection legislation**

| Actions regarding employment protection legislation | Monitor closely the effects of the recent labour market reform and if necessary identify the areas where further action is needed to foster job creation and tackle segmentation, | Indicator based monitoring of the impact of the labour market reform in terms of increased flexibility and reduced segmentation. | A working group has been created and tasked with reporting on the implementation and impact of the March 2013 reform by March 2014. |
including through the regulation for student work.

employers and employees whose contractual relations were discontinued. Monitoring of sectoral collective agreements.

| Actions regarding education & training of labour force | Take further measures to increase employment of young tertiary graduates, older persons and the low-skilled by focusing resources on tailor-made active labour market policy measures while improving their effectiveness. Address the skills mismatch by improving the attractiveness of the relevant vocational education and training programmes and by further developing cooperation with the relevant stakeholders in assessing labour market needs. |
| Amendments to the Vocational Education Act, General High School Act, new Slovenian Qualifications Framework Act. -- Work has started on the new Higher Education Act. One of the provisions is expected to delineate the student status from the student benefits in order to repel incentives to prolong studies in order to prolong student benefits. The new electronic Information system of records and analysis for higher education has become an official source of information on student status used by public institutions to grant scholarships, transport and food subsidies, dormitories, health insurance, student work and others. By the end of 2015, the system will become a valuable analytical tool. |

October 2014: The progress on addressing skills mismatch has been so far limited. (III)

2014: Alongside the Scholarships Act a policy paper is published identifying 24 deficient occupations, which are to be supported through scholarship. (VI)

January 2015: Scholarships for deficient professions will be awarded starting from the year 2015 based on the 2014 Scholarship Act. (VI)
<table>
<thead>
<tr>
<th>Actions regarding minimum wages and other wage-setting arrangements</th>
<th>Ensure that wage developments, including the minimum wage, support competitiveness and job creation. -- Following consultation with social partners and in accordance with national practices, develop a comprehensive Social Agreement (SA) by the end of 2014 ensuring that wage developments, including the minimum wage, support competitiveness, domestic demand and job creation. Redefine the composition of the minimum wage and review its indexation system.</th>
<th>Change in the minimum wage setting in consultation with social partners to support competitiveness and make it fairer. -- Possible increase of the role of collective bargaining over institutions influencing labour costs and flexibility, with the aim of creating jobs without aggravating the social status of low-income employees. (III) Comparison of costs of individual forms of work and identification of measures that ensure their comparability. (III)</th>
<th>In consultation with social partners, the government aims to freeze temporarily the level of the minimum wage in 2014 and introduce some changes in the definition of the minimum wage. -- Social partners will set up a working group to assess the applicable laws and possible amendments, thus negotiations with the social partners are expected to continue. (II) -- October 2014: the government adopted its proposal for the Social Agreement 2014-2018. (III) -- January 2015: The government and social partners conclude a new Social Agreement which will be valid for the period 2015-2016 and covers a wide range of topics. (VI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actions regarding public sector wages and labour costs</td>
<td>Reinforce the budgetary strategy with specified structural measures, for the year 2014 and beyond to ensure correction of the excessive deficit in a</td>
<td>Slovenia will pursue its fiscal objective of achieving a general government deficit target of 3.2% of GDP in 2014 and 2.4% in 2015, excluding any one-off expenditure.</td>
<td>15 October: The authorities submitted the Draft Budgetary Plan (DBP). The government projects the deficit in 2014 to reach 4.4% of GDP and decline to 2.8% of GDP</td>
</tr>
</tbody>
</table>
sustainable manner by 2015 through the achievement of the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure. A durable correction of the fiscal imbalances requires a credible implementation of ambitious structural reforms to increase the adjustment capacity and boost growth and employment. (III)

To attain this scenario in the medium-term fiscal effort, the strategy sets out a combination of economic policy and structural and institutional changes, including extending the duration of austerity measures in the area of wages and social transfers until active working population reaches 850,000. (III)

in 2015 predominantly through expenditure measures.

24 October: The government submitted additional details of the new measures underpinning the DBP. On the expenditures side that would, in total, bring EUR 607 million savings and measures on revenue side that would bring EUR 108 million additional revenues. (III)

October 2014: the government started negotiations with social partners and civil servants trade unions over intended cuts into civil servants wage bill. (III)

Source: (European Commission, 2013h, 2014k, 2014l, 2015h)
Reform details for Italy

**Relevant MIP-related CSRs before specific monitoring**

<table>
<thead>
<tr>
<th>Type of Reform</th>
<th>MIP-Related CSR of 2012 for labour markets</th>
<th>Progress by mid-2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actions regarding employment protection legislation/ activation / collective bargaining/wage-setting mechanisms</td>
<td>CSR 4: Adopt the labour market reform as a priority to tackle the segmentation of the labour market and establish an integrated unemployment benefit scheme. Take further action to incentivise labour market participation of women, in particular through the provision of childcare and elderly care. Monitor and if needed reinforce the implementation of the new wage setting framework in order to contribute to the alignment of wage growth and productivity at sector and company level.</td>
<td>Some progress has been made towards addressing this CSR. In line with the CSR, an ambitious reform of the labour market was adopted in June 2012, but still requires the adoption of implementing decrees for some of its provisions. Although measures were adopted to encourage female participation in the labour market, their scope remains narrow. Furthermore, the measures regarding the provision of childcare and elderly care remain at a general stage and have limited scope. On wage bargaining, an agreement was signed by the social partners – with the exception of the CGIL trade union – in November 2012. It promotes decentralised bargaining and acknowledges the need to link wages not only to inflation but also to the economic and competitive conditions of the country of the sector concerned. This agreement is a promising step to contribute to a better alignment of wages to productivity developments and sustain competitiveness. However, since it sets out only guidelines, requiring further agreements by social partners for the practical implementation, its effectiveness remains to be seen. The government is supporting the agreement with tax rebates on productivity-related pay, recently enacted with decree law endorsed by social partners.</td>
</tr>
</tbody>
</table>

**Source:** (European Commission, 2013b, 2014b)

**Relevant reform efforts made under specific monitoring procedure**

<table>
<thead>
<tr>
<th>Type of reform</th>
<th>Statements of Country-Specific Recommendations (CSR)</th>
<th>Measures committed to in Italian National Reform Plans (NRP)</th>
<th>Implementation progress according to specific monitoring procedure</th>
</tr>
</thead>
</table>
**Actions regarding framework for activation**

Strengthen the link between active and passive labour market policies, starting with a detailed roadmap for action by December 2014, and reinforce the coordination and performance of public employment services across the country.

Streamlining existing incentives for hiring workers; establishing a National Employment Agency for the integrated management of active and passive labour policies; strengthening and upgrading public/private partnerships to improve matching of employment demand with supply; coordinating the action at the various level of government; facilitating the active involvement of job seekers; upgrading the information system for managing the labour market and monitoring the provision of services (via enabling ‘Jobs Act’).

December 2014: Law 183/2014 (‘Jobs Act’) enables the government to enact within 6 months legislative decrees to: (…)

(v) reform the governance of active labour market policies and their interplay with passive measures;

(…) (II)

---

**Actions regarding activation of female labour force**

Adopt effective action to promote female employment, by adopting measures to reduce fiscal disincentives for second earners by reducing tax disincentives to female (second-earners) employment, reorganising measures work-life and extending maternity benefits to categories

April 2014: The government presented an enabling law (‘Jobs Act’) to Parliament, where the law is currently still under discussion (first Senate reading completed (Atto Senato no. 1428); law now in Chamber of Deputies). The enabling law would allow the government to take action by decree within 6 months inter alia in view of reforming the governance of active labour market policies and their interplay with passive measures.

---

April 2014: The government presented an enabling law (‘Jobs Act’) to Parliament, where the law is currently still under discussion (first Senate reading completed (Atto Senato no. 1428); law now in Chamber of Deputies). The enabling law would allow the government to take action by decree within 6 months inter alia in view of reforming the governance of active labour market policies and their interplay with passive measures.
March 2015 and providing adequate care services.
not yet covered (via enabling law 'Jobs Act').
-- Legislative decrees implementing other parts of the Jobs Act, including the reform of active labour market policies and the rationalisation of wage supplementation schemes, are expected in the course of spring 2015. (II)

in Chamber of Deputies). The enabling law would allow the government to take action by decree within 6 months inter alia in view of reducing tax disincentives to female (second-earners) employment, reorganising measures work-life and extending maternity benefits to categories not yet covered.
-- December 2014: Law 183/2014 ('Jobs Act') enables the government to enact within 6 months legislative decrees to: (…) (x) reduce tax disincentives to female (second-earner) employment, foster a better work-life balance and extend maternity benefits to categories not yet covered. (II)

February 2014: A legislative decree tabled by the government features measures to foster a better balance between work and private life and achieve higher labour market participation among women. It will enter into force after the non-binding opinion of the Parliament. (II)

| Actions regarding the activation of the young | Provide adequate services across the country to non-registered young people and ensure stronger private | Implementing the European Youth Guarantee by ensuring that all young people receive an offer of good-quality | July 2014: The European Commission has approved the operational programme submitted by the Italian authorities for using additional the EU |
sector commitment to offering quality apprenticeships and traineeships by the end of 2014, in line with the objectives of a youth guarantee.

Employment, apprenticeship or training within four months of leaving formal education or becoming unemployed.

-- Legislative decrees implementing other parts of the Jobs Act, including the reform of active labour market policies and the rationalisation of wage supplementation schemes, are expected in the course of spring 2015. (II)

| Actions regarding employment protection legislation | Evaluate, by the end of 2014, the impact of the labour market and wage-setting reforms on job creation, dismissals' procedures, labour market duality and cost competitiveness, and assess the need for additional action. | Streamlining and optimising the use of fixed-term employment contracts and apprenticeships | Streamlining contracts to make them more consistent with the current needs of the domestic and international business and industrial context (via enabling law ‘Jobs Act’) |
| | May 2014: Law 78/2014 is adopted and implementing legislation has been put in place. It relaxes some constraints on apprenticeship and temporary contracts. | |
| | April 2014: The government presented an enabling law (‘Jobs Act’) to Parliament, where the law is currently still under discussion (first Senate reading completed (Atto Senato no. 1428); law now in Chamber of Deputies). The enabling law would allow the government to take action by decree within 6 months inter alia in view of: (i) introducing a new permanent contract with progressive entitlements for the new hires; (ii) further rationalising existing contracts; (iii) introducing |

May 2014: Implementation on the ground started in May and monitoring activities are conducted on a regularly basis.
the possibility for employers to redefine workers' tasks and remuneration in the context of firm restructuring during crisis situations; (iv) simplifying administrative obligations for employers.

December 2014: Law 183/2014 ('Jobs Act') enables the government to enact within 6 months legislative decrees to: (i) introduce a new permanent contract with progressive entitlements for new hires; (ii) further rationalise existing contracts; (iii) introduce the possibility for employers to redefine workers' tasks and remuneration in the context of firm restructuring in crisis situations; (...) (viii) simplify administrative obligations for employers; (ix) streamline all existing hiring subsidies; (II)

December 2014: A legislative decree (Atto del governo sottoposto a parere parlamentare n. 134) in the context of the Jobs Act reforms dismissal regulation for open-ended contracts for new hires. It will become law in March 2015. (II)

February 2014: A legislative decree tabled by the government
The government intends to rationalise the existing types of labour contracts in view of limiting the use of temporary atypical contracts and turning the permanent contract subject to new dismissal rules into the standard, as such reducing labour market duality. It will enter into force after the non-binding opinion of the Parliament.

### Actions regarding basic social protection

<table>
<thead>
<tr>
<th>Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work towards a more comprehensive social protection for the unemployed, while limiting the use of wage supplementation schemes to facilitate labour re-allocation.</td>
<td>Extending the coverage of unemployment benefits, while reducing the scope of application and duration of wage supplementation schemes (via enabling law ‘Jobs Act’)</td>
</tr>
<tr>
<td>To address exposure to poverty and social exclusion, scale-up the new pilot social assistance scheme, in compliance with budgetary targets, guaranteeing appropriate targeting, strict conditionality and territorial uniformity, and strengthening the link with activation measures.</td>
<td>Launching a programme to fight absolute poverty, combining passive and active measures so as to gradually bridge the gap and eventually achieve universal coverage and designed for all people living in poverty.</td>
</tr>
<tr>
<td>Improve the effectiveness of</td>
<td>Legislative decrees implementing other parts of the Jobs Act, including the reform of active labour market policies and the rationalisation of wage supplementation schemes, are expected in the course of spring</td>
</tr>
</tbody>
</table>

April 2014: The government presented an enabling law (‘Jobs Act’) to Parliament, where the law is currently still under discussion (first Senate reading completed (Atto Senato no. 1428); law now in Chamber of Deputies). The enabling law would allow the government to take action by decree within 6 months inter alia in view of extending the coverage of unemployment benefits, while reducing the scope of application and duration of wage supplementation schemes.

August 2014: A monitoring report on wage supplementation schemes has been published.

August 2014: Interministerial decree no. 83473 introduces more restrictive criteria to access wage supplementation schemes (‘Cassa Integrazione’).
<p>| Actions regarding education &amp; training of labour force | Implement the National System for Evaluation of Schools to improve school outcomes in turn and reduce | Full implementation of the Regulation on the use of the National System for Evaluation of Schools as from the start of the next school | September 2014: The implementation of the National System for Evaluation of schools has started in the 2014-15 school year. |</p>
<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>To reward merit, teachers’ contracts and the hiring system for teachers and school principals must be revised to ensure a faster and more effective administrative process that is capable of selecting the best skills.</td>
</tr>
<tr>
<td>2014</td>
<td>Supporting apprenticeships, traineeships with companies, alternating education and work, turning experimental projects into widespread practice, increasing the number of hours that young people spend working for a business during the academic years, and certifying the skills they acquire. Technical education will be strengthened (e.g. the Higher Technical Institutions) and positive experience will be rewarded.</td>
</tr>
<tr>
<td>2014</td>
<td>Assessing universities and providing incentives for the best ones (ANVUR).</td>
</tr>
<tr>
<td>2014</td>
<td>A decree law on school reform is expected by end-February 2015. The decree law is intended to improve the school-to-work alignment.</td>
</tr>
<tr>
<td>2014</td>
<td>September 2014: The government has launched a public consultation for the reform of the education system. The main aim is to replace the current seniority-based teacher career system with a merit-based system and to make access to the teacher profession possible via open competitions only as of 2016. Further measures proposed include the making compulsory of traineeships for pupils in the last three years of upper secondary vocational education. The public consultation will be closed on 15 November 2014.</td>
</tr>
<tr>
<td>2014</td>
<td>November 2014: The national register of qualifications is planned to be ready by November 2014 and will consist of a single database containing qualifications.</td>
</tr>
</tbody>
</table>
transition, to modernise the curricula, to enhance the evaluation of schools and teachers, to reform the career progression of teachers, and to move as of 2016 to an open competition system as the only way to access the teacher profession. (II)

existing regional skill qualification systems. 2014 and beyond: The share of performance-related public funding to universities will increase from 13.5% in 2013 to 18% in 2014 and standard costs will be defined and gradually introduced over 2014-18 as criteria for allocating the remaining share of public funding. (2015: A quality-rewarding financing model for the Higher Technical Institutes will be introduced.)

December 2014: The 2015 Stability Law set aside EUR 1 billion in 2015 and EUR 3 billion from 2016 onwards to finance the planned school reform. Most of the resources available will be used to hire on a permanent basis from September 2015 around 150,000 teachers that have so far worked under short-term contracts. (II)

| Actions regarding wage regulations | Legislative decrees implementing other parts of the Jobs Act, including the reform of active labour market policies and the rationalisation of wage supplementation schemes, are expected in the course of spring 2015. (II) | December 2014: Law 183/2014 (‘Jobs Act’) enables the government to enact within 6 months legislative decrees to: (…) (iii) introduce the possibility for employers to redefine workers' tasks and remuneration in the context of firm restructuring in crisis situations; (…) (vii) introduce a statutory |
need for additional action. minimum wage for workers not covered by collective contracts; (...) (II)  

Source: (European Commission, 2014j, 2015g)

Reform details for France

**Relevant MIP-related CSRs before specific monitoring**

<table>
<thead>
<tr>
<th>Type of Reform</th>
<th>MIP-Related CSR of 2012 for labour markets</th>
<th>Progress by mid-2013</th>
</tr>
</thead>
</table>
| Actions regarding employment protection legislation/ minimum wages/ activation of elderly labour force | CSR 2: Introduce further reforms to combat labour market segmentation by reviewing selected aspects of employment protection legislation, in consultation with the social partners in accordance with national practices, in particular related to dismissals; continue to ensure that any development in the minimum wage is supportive of job creation and competitiveness; take actions to increase adult participation in lifelong learning. | Some progress  
A national agreement was reached by social partners on 11 January. This agreement has two main strands. It offers new rights to employees and increases the flexibility of the labour contract for employers. The implementing draft law was presented to the Parliament in April and definitely adopted by mid-May. The agreement reached is a step in the right direction, although it is still too early to fully assess its impact as it needs further implementation by the social partners. At this stage, the measures included in the agreement are in line with the CSR as they address partly labour market segmentation and reduce the uncertainties of dismissals. On the other hand, the discretionary hike in the minimum wage decided in July 2012, although limited, goes clearly against the recommendation. Despite the reforms undertaken, the French participation rate of adults in lifelong learning remains below the EU average. The planned transfer of additional lifelong learning competences to the Regions provides an opportunity to address the weaknesses of the current system. In addition, the national agreement of 11 January (see above) included a number of lifelong learning-related proposals which are still to be implemented. The government has
announced further consultation planned for this summer and a draft bill on apprenticeship and lifelong learning before the end of 2013.

<table>
<thead>
<tr>
<th>Actions regarding activation of elderly labour force</th>
<th>MIP-RELATED CSR OF 2013 FOR LABOUR MARKETS</th>
<th>PROGRESS BY MID-2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CSR 1 (continued):</strong> Take measures by the end of 2013 to bring the pension system into balance in a sustainable manner no later than 2020, for example by adapting indexation rules, by increasing the full-pension contribution period, by further increasing the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy and by reviewing special schemes, while avoiding an increase in employer social security contributions, and increase the cost-effectiveness of healthcare expenditure, including in the areas of pharmaceutical spending.</td>
<td><strong>Some progress</strong></td>
<td>Pension reform measures adopted in 2013 include an increase in the required contribution period, from 2020, and an increase in social security contributions by 0.6 pp to be in place by 2017. Limited progress has been made in increasing the cost effectiveness of the healthcare system.</td>
</tr>
</tbody>
</table>

| Actions regarding minimum wages | **CSR 2 (continued):** Ensure that developments in the minimum wage are supportive of competitiveness and job creation, taking into account the existence of wage support schemes and social security contribution exemptions | **Some progress** | In 2013 and 2014, the government did not increase the minimum wage beyond the minimum level set in the law (inflation and half of the purchasing power of the hourly wages of workers and employees (SHBOE)). |

| Actions regarding employment protection legislation | **CSR 6:** Implement fully and without delay the January 2013 inter-professional agreement, in consultation with the social partners. Take further action to combat labour-market segmentation, in particular to address the situation of inter agency workers. | **France has made some progress in addressing CSR 6** | Some progress | The law on securing employment, which transposed the inter-professional agreement into French law, was adopted in June 2013. It facilitates moving to part-time work and reduces the risks from an employer’s perspective linked to dismissal procedures. |

| Actions regarding basic social protection | **CSR 6 (continued):** Launch urgently a reform of the unemployment benefit system in association with the social partners and in accordance | **Some progress** | In March 2014, an agreement was found among the social partners, including the MEDEF employers' federation, to reform the unemployment benefit system. The |
with national practices to ensure sustainability of the system while ensuring that it provides adequate incentives to return to work.

The agreement introduces only moderate changes. It introduces the concept of *droits rechargeables*, which enables a jobseeker to retain previous accumulated rights to unemployment benefits in future periods of unemployment rather than forfeit them when taking up a job. The savings measures are expected to yield around EUR 800 million according to the national reform programme. Taking into account the costs linked to the implementation of the *droits rechargeables*, this will most likely be insufficient to significantly reduce the system's debt.

| Actions regarding activation of elderly labour force | CSR 6 (continued): Enhance the employment rate of older workers and stimulate their participation in the labour market. Take specific action to improve the employment perspective of older unemployed people in particular through specific counselling and training. | Limited progress  
The measure introduced by the government in March 2013 to increase the number of older workers in employment (the *contrats de génération*) has proved insufficient. |
| --- | --- | --- |
| Actions regarding education & training | CSR 6 (continued): Increase adult participation in lifelong learning, especially of the least qualified and of the unemployed. | Some progress  
A law on vocational training was adopted in March 2014. Personal training accounts aim to increase access to training for unemployed people and those with fewer qualifications. The law increases the role played by the régions. In addition, 30 000 jobseekers have been offered targeted training to help meet the needs of sectors which do not have a sufficient workforce. |
| Actions regarding activation of the unemployed | CSR 6 (continued): Ensure that public employment services effectively deliver individualised support to the unemployed and that active labour market policies effectively target the most disadvantaged. | Substantial progress  
The reform of public employment services allows for an increased emphasis on personalised follow-up and a focus on unemployed people who have been out of the labour market for the longest period of time. |
| Actions regarding activation of the young/education & training | CSR 6 (continued): Take further measures to improve the transition from school to work through, for example, a Youth Guarantee and promotion of apprenticeship | Some progress  
The 'jobs of the future' programme has helped stabilise the number of young people registered as unemployed. The law on vocational training is expected to increase support for apprenticeships by increasing the regional coordination role and funds granted to the régions. It also aims to guarantee quality apprenticeships |
for those with fewer qualifications. Limited progress has been made, however, on the Youth Guarantee, with improvement needed in coverage, quality of offers and the coordination of actors in the scheme.

Source: (European Commission, 2013a, 2014a)

### Relevant reform efforts made under specific monitoring procedure

<table>
<thead>
<tr>
<th>Type of reform</th>
<th>Statements of Country-Specific Recommendations (CSR)</th>
<th>Measures committed to in French National Reform Plans (NRP)</th>
<th>Implementation progress according to specific monitoring</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Actions regarding activation of the young and elderly labour force</strong></td>
<td>Ensure that older workers benefit from adequate counselling and training and re-assess the relevant specific unemployment benefit arrangements with respect to their situation on the labour market.</td>
<td>The governments will increase the resources for the least skilled, youth and seniors, notably with additional resources for generation contracts, with a view to ensuring the smooth transfer of skills between seniors and youth (EUR 0.4 bn.).</td>
<td>In July social partners announced a “Plan for Seniors” and the Draft Budgetary Plan allocates additional resources in 2015 for that purpose (e.g. rollout of 80 000 job integration contracts in 2015). -- The Government has announced a &quot;Plan senior&quot; to address senior unemployment. As a translation the &quot;Contrats de génération&quot; financial incentive were doubled from EUR 4000 to EUR 8000 in case of hiring of an unemployed senior over 55. The Budget Law for 2015 also targets the 80 000 subsidised job integration contracts in the private sector to senior and long-term unemployed. 80 000 additional public employment services counselling actions will be also targeted to senior</td>
</tr>
<tr>
<td>Actions regarding the activation of the unemployed</td>
<td>Take additional measures to reform the unemployment benefit system in association with social partners, in order to guarantee its sustainability while ensuring that it provides adequate incentives to return to work.</td>
<td>Social partners reached an agreement on the unemployment insurance convention on 22 March 2014. This agreement will enter into force in July 2014 with a time limit of 2 years. -- A new convention unemployment insurance will be subject to negotiations among the social partners before the end of 2016. One of the objectives of this renegotiation will be to improve the financial stability of the system. (II)</td>
<td>The Renewal of the unemployment insurance Convention, following the agreement of 22 March 2014, was approved by the Minister of Labour on 26 June and entered into force on 1 July 2014. Draft Budgetary Plan: A new convention unemployment insurance will be subject to negotiations among the social partners before the end of 2016. One of the objectives of this renegotiation will be to improve the financial stability of the system. -- The convention defining the priorities of the public employment services for 2015-2018 has been signed in December 2014. It should increase the number of dedicated supports by Pôle Emploi counsellor to job seekers the furthest away from the labour market. (II)</td>
</tr>
<tr>
<td>Actions regarding basic social protection</td>
<td>Take additional measures to reform the unemployment benefit system in association with social partners, in order to guarantee its sustainability while ensuring</td>
<td>Social partners reached an agreement on the unemployment insurance convention on 22 March 2014. This agreement will enter into force in July 2014 with a time limit of 2 years.</td>
<td>The new unemployment insurance Convention entered into force on the 1st of July 2014, implementing new measures with activation purposes such as the &quot;refillable rights&quot; to unemployment benefit. Measures to support</td>
</tr>
</tbody>
</table>
that it provides adequate incentives to return to work.

| Actions regarding employment protection legislation | In dialogue with social partners, the government will propose to Parliament in 2014 an evolution of the legislation concerning the regulation of Sunday work, based on the Bailly report. --

(...) Finally, the draft law proposes a reform of Sunday opening hours for retail shops (...) (II)

The envisaged bill on Economic Activity will include measures that will help clarify the rules for Sunday work, based on the Bailly report. In addition, the law includes a strengthening of the liberalisation of the bus sector.

The envisaged bill on Economic Activity would also include a reform of the system of Justice Prud’homale – a system of conciliation for individual labour contract disputes. The French authorities are reviewing the use of specific very short-term contracts (CDD d’usage), with a view to limiting their scope depending on the sector.

Two packages of 50 simplification measures were adopted by the Simplification Council and taken over by the Government. A law on administrative simplification, taking up a number of measures proposed by the Council, was adopted on December 20th. Other sustainability of the scheme are expected to reduce the yearly deficit of EUR 0.3bn in 2014 and EUR 0.8bn in 2015, while the cumulated debt would still increase from EUR 21.4bn in 2014 to EUR 24.9bn in 2015. (II)
measures of this simplification package have been introduced in the draft law on Economic Activity which was presented in December to the Council of Ministers. (...) (II)

The implementation of the two packages of simplification measures is ongoing. 1/4th of the first 50 measures proposed have already been implemented. (...) (II)

Source: (European Commission, 2014i, 2015f)
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