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### **S&D GROUP CRISIS SEMINAR EUROPEAN ECONOMIC GOVERNANCE: SOCIAL DIALOGUE AND COLLECTIVE BARGAINING AT RISK?**

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#### European economic governance

The current debate on economic governance is very important. Nobody will doubt that we need fundamental reforms with respect to the coordination of national fiscal and macroeconomic policies.

During the past decade, the existing governance structure failed to correct fiscal and competitiveness imbalances in good time.

Much stronger institutional and political incentives are needed in the system to deliver the right policies at the right time. This (sovereign debt) crisis has demonstrated a fundamental interconnection between fiscal sustainability, competitiveness, growth and job creation, which is our ultimate concern.

Member States must address fiscal or macroeconomic imbalances before they become a real threat to financial stability, jobs and living standards.

Europe must develop a more integrated surveillance process, reinforce the drive for growth-enhancing reforms and have real means to enforce compliance. This is the vision for the future.

That is what the package of 6 legislative proposals to reinforce economic governance is about which is currently being discussed within the European Parliament and Council. This also includes a new framework to monitor competitiveness and to ensure that measures are taken that are conducive to sustainable and balanced growth.

Such a new framework should prevent that countries accumulate large debt and competitiveness imbalances as happened before the crisis. In this regard, we favour the concept of a Competitiveness Pact, based on sound policy principles and a credible method to translate political commitments into action. Because improving competitiveness is pre-condition for a better functioning and more cohesive euro area economy.

Obviously, the rebalancing of the European economy will not be easy. The appropriate policy response will vary from country to country. But there is one common goal: being able to combine a return to fiscal sustainability and higher growth in the years to come. This is a collective responsibility.



These two objectives are mutually reinforcing. Fiscal discipline provides confidence to households and investors. Growth and jobs are the only base for sustainable tax revenues for governments.

## European economic governance, social dialogue and collective bargaining

Social dialogue and constructive industrial relations are a critical factor for success. This is why we must show a sense of collective responsibility, including at the European level.

The crisis has clearly demonstrated that competitiveness adjustments are not functioning properly or quickly enough. This is particularly true in the euro area. This is due to various reasons, including labour market rigidities and inflexible wage-setting mechanisms (other factors are: poor fiscal management in good times, unpredictable financial markets and lax prudential rules).

For example, most observers agree that the evolution of non-sustainable wages is one of the reasons for the present imbalances in the eurozone. For example, according to the ECB, between 1999 and 2009, nominal unit labour costs grew by 24% in cumulative terms in the euro area; in Greece and Ireland, they grew by 34 and 38% respectively.

Wages and unit labour costs must therefore be part of the new framework of macroeconomic coordination that is currently being set up. They are important – even essential – objective indicators in the monitoring of competitiveness developments.

Because of the importance of such issues as competitiveness, labour markets, wage policies and social issues, the discussion around the new framework of economic governance is of direct concern to social partners.

Does this mean that the new framework for macroeconomic coordination will put collective bargaining and social dialogue at risk? Clearly not. But if the social partners want their autonomy to be respected, they must act in a responsible way. When social dialogue is not conclusive then governments may need to step in.

BUSINESSEUROPE attaches great importance to the autonomy of social partners, in particular where it concerns wage policies and wage bargaining. But, as much as we regret it, there are times when realism and the sense of urgency should prevail and governments might need to step in.

## The role of the European social partners

By and large, the discussion around wages is a matter for the national level. But there is also a role to play for social partners at the European level in the discussion around making Europe more competitive and able to create jobs and boost growth. This is particularly true where it concerns the Europe2020 strategy and its



objectives. Only last June, we adopted a joint statement on Europe2020 in which we agreed on the need to cap public indebtedness combined with investments in growth-enhancing areas. We have in a number of occasions jointly recommended that wage increases must be kept consistent with productivity gains. It is possible to state principles of this kind at EU level but for many reasons it will not be possible (nor desirable) to state any precise figures at the European level.

We need to be able to pursue the reflection and assessment of Europe 2020 and its implementation in the European social dialogue. With respect to both the design and implementation of reforms, we invite the ETUC to reflect with us on how we can make this happen. Employers are prepared to engage in a constructive dialogue with trade unions. The long-term benefits of reforms for growth, jobs and therefore prosperity, fiscal and financial stability should be our goal.

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