

The Politics of Labour that Underlies European Monetary Integration

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Abstract

The dominant literature on the development of the EU's new economic governance regime suggests that it constitutes another step towards integration in the European fiscal policy framework. However, I argue that this limited view neglects the politics of labour that underlies European monetary integration. In the euro area competitiveness adjustment is promoted, which means in practice fostering and facilitating the confrontation of workers by employers in order to keep unit labour costs down. The new economic governance reforms consistently reinforced this policy-making logic. Its central innovation was the systematization and 'hardening' of the macro-economic surveillance framework beyond fiscal policy, which created new competences at the EU level to intervene in national labour market policies, including wages. This is what is actually new about the new economic governance; marking a recent key moment in European monetary integration and reinforcing the politics of labour underlying it.

Keywords: new economic governance; European monetary integration; euro area crisis; politics of labour; class conflict

Introduction

A recent special issue of the *JCMS* called for dissident voices in theorizing Europe in light of the ' yawning chasm between scholarly attempts to theorise European union and the political realities of the EU in crisis' (Manners and Whitman, 2016, p. 3). This article responds to the call for dissent that provide an alternative understanding of European monetary integration during the euro area crisis between 2008 and 2015 – 'one that is critically aware that socio-economic power structures [...] are potentially embodied in all politics' (Manners and Whitman, 2016, p. 14).

The euro area crisis led to a deepening of the process of European monetary integration through the development of the new economic governance regime (NEG) established in the years between 2011 and 2013 by the legal provisions of the six pack, two pack, the fiscal compact and the treaty of the European stability mechanism (Degryse, 2012). These steps in the process of integration have naturally become a key concern of academic debates (Bulmer and Joseph, 2016; Ioannou *et al.*, 2015; Tosun *et al.*, 2014). While the conceptual approaches differ, the general tenor in the dominant literature is that the development of the NEG has meant further integration in the fiscal and financial policy framework to ensure the stability of the euro area (Bulmer and Joseph, 2016, p. 742; Ioannou *et al.*, 2015; Tosun *et al.*, 2014, p. 204). As put by Schimmelfennig (2015) in an exemplary fashion: 'the crisis produced a major leap in financial and fiscal integration designed to stabilize the euro and the EA [euro area]' (p. 177).

However, there are two shortcomings in this dominant account of the process of integration, which are addressed in this article: First, it misses the extent by which the NEG has strengthened EU political authority over national economic management beyond fiscal policy – especially, over labour market policy. In fact, this development has been acknowledged in the field of industrial relations (Erne, 2018; Schulten and Mueller, 2015). However, industrial relations scholarship has ‘largely remained off the radar of EU studies’ (Smismans, 2012, p. 1). Thus, it is time to bridge the gap between these academic fields and elaborate on the key steps of integration made in the field of labour market policy through the development of the NEG. I argue that even though key aspects of labour market policy were originally excluded from the competences of the Union, the NEG has turned labour market policy into a field of shared competences between member states and the Union. Thus, labour market policy can no longer be regarded as a national prerogative in the European Monetary Union (EMU).

From this first point follows the second. The dominant account avoids speaking of the politics of labour that is inscribed in the institutional design of the EMU and that shapes its development. The EMU’s institutional design is not a loose ensemble of independent policy fields but a coherent governance framework with a specific policy-making logic that has been referred to by De Grauwe (2006, p. 724) as the ‘Brussels–Frankfurt Consensus’. In this arrangement member states are required to manage their economic adjustments by fostering the (price) competitiveness of domestic industries through flexibility in the labour market. A key contribution by critical scholars was to recognize the politics of labour that underlies this policy-making logic (Bieler, 2005). The focus on competitiveness and labour market flexibility is intended to foster the confrontation of workers by employers in order to drive up their productivity and to contain or reduce labour costs. As Bonefeld (2001) remarks: the ‘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’ (p. 89).

However, the dominant narrative of the recent process of integration avoids speaking of this supranational politics of labour.¹ My contribution presents therefore a dissenting voice that puts the EMU’s politics of labour at the centre of the analysis. For this purpose, the discussion focuses on how the NEG has reformed the policy-making logic of the EMU’s institutional design – to which I will refer to in the following as the *logic of competitiveness adjustment*. My argument is that the euro area has not simply been further integrated through a more developed framework for fiscal policy or for labour market policy in particular: it has been integrated by reinforcing the logic of competitiveness adjustment overall and consequently also the politics of labour underlying it. From this follows the fact that European working classes are increasingly subordinated to the more distant powers within the multilevel state.

Thus, my argument builds on and expands on the insights of industrial relations scholars who have recognized the NEG’s interventionism in industrial relations (Erne, 2018; Schulten and Mueller, 2015) by providing a holistic understanding of the European politics of labour. In my view this politics is manifest not only in the European

¹The concept ‘politics of labour’ is used here instead of a term like the ‘politics of class’ to highlight the relation between state and labour force in the triad between state, capital and labour. The EMU’s supranational governance framework does not only entail interventions in the capital–labour relationship but also the subordination of workers to the distant powers of the multilevel state.

labour market and social policy but it is immanent in the policy mix and policy-making logic of the EMU's governance framework overall, shaping the process of European monetary integration as a whole.

Furthermore, my argument does not contradict the common view that the EMU is following an export-led growth strategy (see Iversen *et al.*, 2016; Scharpf, 2016). However, my methodological approach is fundamentally different from the former. In an outstanding contribution, Scharpf (2016) describes the recent economic governance of the EMU as a 'gigantic, and indeed hubristic, gamble of technocratic social engineering whose visionary goal is the creation of an integrated European economy that is fit for competition in the ever more contested global markets' (p. 23). The notion that European economic governance amounts to a risky gamble appears to be apt given the apparent fallacy of composition inherent to such an export-led strategy for the euro area as a whole (Stockhammer and Onaran, 2012, p. 281; see Ryner, 2015). However, this circumstance also shows the limitations of such a view. It raises the question why policymakers would opt for such a faulty economic strategy. In other words, the problem of the growth model approach is its adherence to a 'rationalistic paradigm', which sees governance as an instrument for 'solving collective problems', with the consequences of 'downplaying the fact [...] that policies are rather part and a terrain of social struggles than a rational means' (Brand, 2013, p. 428) (for a similar argument see Bruff, 2011). In contrast, my argument presupposes that European economic governance is shaped by the contradictions and conflicts of the capital–labour relation.

My work draws, therefore, from critical approaches to European monetary integration that provide a dissident understanding of the process of integration based on the historical dynamics of capitalist social relations of production and reproduction (Bieler, 2005, p. 514). This refers to the neo-Gramscian and the Open Marxist approach. The neo-Gramscian tradition has contributed substantially to our understanding of the social forces driving the competitiveness-oriented mode of European integration by emphasizing the agency and contemporary influence of transnational capital in national and international political struggles (see Bieler, 2005, pp. 515–21; Bieling *et al.*, 2016; Ryner, 2015, pp. 281–87). However, there is a tendency to neglect the crucial role of the politics of labour in the process of monetary integration either by simply overlooking its significance (as for example in Gill's (1998) seminal work on new constitutionalism) or by holding onto a conception of that the design of the EMU's governance framework is deficient or irrational (Bieling *et al.*, 2016, p. 64).

In contrast, the Open Marxist tradition, in particular the work of Bonefeld (see 2001, 2015, 2017), has concentrated on uncovering the politics of labour inherent in the EMU's promotion of competitiveness adjustment. For Bonefeld (2010), this is ultimately an expression of the historically specific purpose of states in capitalist society to 'govern over the labour force' (p. 22). However, there is a lack of research on how the governance framework has changed with the emergence of the NEG. Thus, my own work continues here. I elaborate how the logic of competitiveness adjustment, and its underlying politics of labour, has been developed through a detailed assessment of the institutional innovations of the NEG. In this fashion, my argument contributes by showing what is actually new to the NEG. Hence, this article focuses on the question of how the governance framework has changed, rather than the drivers or actors behind this process. Sufficient work on the latter has been done in the above-mentioned

traditions of critical scholarship, meaning that it is important to address the themes that have been hitherto under-researched.

Today, the coronavirus pandemic is posing a new challenge, if not an existential threat, to the EMU. Whether the management of the pandemic and its economic consequences will lead to significant and permanent changes to the EMU's economic governance remains to be seen. In any case, the discussion in this article contributes to any such future debate by providing a dissident understanding of the EMU's development up to the pandemic and thus an alternative benchmark to assess the significance of any new action taken. The question is whether any such action will actually alter the policy-making logic of competitiveness adjustment and its underlying politics of labour. So far, no permanent alteration has been made to the EMU's economic governance framework (such as permanent Eurobonds) showing that key decision-makers are carefully protecting the framework adhering to the Brussels–Frankfurt consensus. In fact, the current emergency measures merely mimic the early response to the euro area crisis in 2008, so that no shift away from the EMU's politics of labour can be expected.

In the following, I first outline the original institutional design of the EMU, its policy-making logic of competitiveness adjustment and the underlying politics of labour. In a second step, I elaborate on the specific features of the precrisis framework for macroeconomic surveillance that were interpreted as key weaknesses during the crisis. This paves the way for the discussion of the NEG in the last section. Here I focus on the reinforcement of the logic of competitiveness adjustment, which is reflected in the creation of new EU-level competences for intervention in national labour market policy. European monetary integration, in other words, has been essentially a politics of labour.

I. Competitiveness Adjustment: The Politics of Labour of the ‘Brussels–Frankfurt Consensus’

The supranational governance framework of the EMU has institutionalized a specific policy mix for the euro area that has been referred to by De Grauwe as the ‘Brussels–Frankfurt Consensus’ (De Grauwe, 2006, p. 724; see Jones, 2013, p. 146). The policy mix encompasses the fields of monetary, fiscal and labour market policy and creates through its institutional design a euro-area-wide commitment towards price stability, fiscal discipline and labour market flexibility (Bonefeld, 2001, 2017, pp. 135–43; De Grauwe, 2006; Jones, 2013). The crux of the Brussels–Frankfurt consensus is that the implementation of labour market flexibility in order to foster competitiveness is turned into the main means of economic adjustment.

This policy-making logic for the economic management of member states arises from fact that the ‘EMU destroys existing governing capacities’, as Scharpf (2016, p. 2) put it (see De Grauwe, 2006, 2013). First, coordinated currency adjustments to intervene with current account imbalances naturally ceased to exist as a policy option for member states entering the currency union. Second, monetary policy was placed outside the control of member states and into the hands of the autonomous European Central Bank (ECB). The new monetary authority, however, was legally prohibited from acting as a lender of last resort and its mandate was limited to price stability. Hence, member states lost their power to support public finances, economic activity or employment through their own monetary policy.

Finally, national fiscal policy was further placed in a straitjacket of supranational rules and surveillance, committing member states to fiscal discipline.² This fiscal surveillance framework, and the loss of sovereignty over an own currency and central bank, together constrain member states' fiscal capacities to expand economic activity and employment by increasing aggregate domestic demand. Moreover, the loss of fiscal policy discretion at national level was not compensated with the creation of a similar fiscal capacity at EU level (such as a supranational fiscal authority or at least a mechanism for fiscal transfers). Thus, the creation of the EMU reduced member states' fiscal and monetary 'problem-solving capacity' (Scharpf, 2016, p. 2). The option that remains is to adjust through the labour market.

The underlying policy-making logic is an export-oriented strategy. Member states are supposed to counteract economic decline and imbalances by improving their export performance. In practice, this means to foster the price competitiveness of domestic industries by compressing unit labour costs (see Blanchard, 2007; Bonefeld, 2017, pp. 141–2; European Commission [EC], 2011, p. 4; Wigger, 2019). As Laslo Andor, the former European Commissioner for Employment and Social Affairs (2013) noted during the euro area crisis:

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)

The implementation of labour market flexibility is crucial to this adjustment process as it facilitates the reduction of unit labour costs (EC, 2009, p. 43, 2011, pp. 4, 10–16). Flexibility minimizes legal constraints and workers' capacity to resist the power of employers to push down wages (and contributions), dismiss workers or drive up their productivity. In other words, economic adjustment in the euro area depends vitally on the implementation of labour market reforms that facilitate the power of capital to enhance the exploitation of workers' productive capacities.

The crisis management in the euro area therefore amounted to a wholesale attack on workers' collective power, labour rights, working and living conditions including, inter alia, the decentralization of collective bargaining, cuts in the minimum wage, deregulation of employment protection legislation and the erosion of social security systems (Clauwaert and Schoenmann, 2012; Koukiadaki *et al.*, 2016; Lehndorff, 2015, pp. 11–14; Schulten and Mueller, 2015). In summary, the objective was to strengthen capitals' capacity to 'restore competitiveness [...] via a combination of wage adjustment and faster

²Note that the escape clause does not free member states from the objective of fiscal discipline. It only permits a temporary deviation from the 'adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term' (EC, 2020, p. 2). Thus, while the escape clause permits the temporary expansion of public deficits, it requires fiscal discipline in the medium term. In other words, its activation paves the way for fiscal austerity – as happened at the beginning of the euro area crisis in 2009. Moreover, the escape clause does not increase member states' fiscal policy discretion *per se*. It cannot be activated unilaterally but only by the Council and the Commission under extraordinary conditions (see Regulation 1466/97/EU, 1997, Article 5,9; Regulation 1467/97/EU, 1997, Article 3,5). Thus, it provides flexibility and leverage to EU-level fiscal surveillance, while the disciplinary pressures of financial markets continue to operate.

gains in labour productivity' (EC, 2010, pp. 40–1). It is this logic of economic adjustment inscribed in the institutional design of the EMU which I call the logic of 'competitiveness adjustment' (EC, 2009, pp. 39, 43).

Thus, the EMU's economic governance reflects a specific politics of labour. The destruction of national governing capacities constrains the monetary and fiscal policy options associated with Keynesianism that have been used in the past to ease the direct confrontation between capital and labour (Bonefeld, 2001, p. 96) and manage national economic development in a somewhat democratically accountable fashion (Scharpf, 2016, pp. 2–4). While Keynesian and post-functional commentators may interpret this governance framework as a 'design failure' (De Grauwe, 2013, p. 1, 2006, pp. 727–8; Verdun, 2015, pp. 224–5), this view fails to recognize its underlying logic. The EMU's original design, the recent reforms of the NEG and its crisis management are not simply continuous failures of policymakers. Rather, they institutionalize a specific strategy to 'govern over the labour force' (Bonefeld, 2010, p. 22), which fosters and facilitates employers' confrontation of workers to enhance the exploitation of their productive capacities.

The Enforcement Problem

When the 19 member states launched the euro they committed to the policy-making logic of competitiveness adjustment and therefore to its politics of labour. However, the general problem of the EMU's governance framework is whether the policy commitments of member states can be maintained, given changes in national governments, political sentiments and potential popular democratic resistance. Especially problematic for the EMU is that the implementation of its governance framework remains dependent to a significant part on member states' cooperation and compliance with its rules. Monetary and exchange rate policy is not within the policy-making discretion of member states. However, fiscal discipline depends on their compliance. Further, the implementation of competition-based labour market reforms was up to the euro area crisis a national prerogative. Thus, given the institutional design, the EMU's problem is how to enforce fiscal discipline and competitiveness adjustment if member states lack commitment; for example, for reasons of national resistance.

The governance framework of the EMU was therefore not left without enforcement mechanisms to ensure compliance by member states – at least with respect to fiscal policy. The key mechanism here is the discipline exerted by financial markets on member states' public finances, which operates in concert with supranational surveillance. Through the establishment of the no bail-out clauses that prohibit the ECB from acting as a lender of last resort and member states from covering each other's liabilities, the public finances of member states were made dependent on financial markets and the 'confidence' granted to them by private investors. The pressure exerted by financial markets is enhanced by the EU's supranational surveillance that publicly records, announces or may even sanction the failure, or potential failure, of member states to abide by the fiscal rules. As Buti and Carnot (2012) remark:

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, the EMU created legal provisions to enable the surveillance by financial markets in concert with EU-level technocrats of member states' commitment to fiscal discipline. However, while the 'constrained sovereignty approach' to fiscal policy (Buti and Carnot, 2012, p. 900) was well elaborated already before the crisis, the same cannot be said for labour market policy and, therefore, the enforcement of competitiveness adjustment. Consequently, in its strategic paper EMU@10 – published shortly before the onset of the financial crisis in 2008 – the Commission was already calling for a more comprehensive macroeconomic surveillance 'beyond fiscal policy' (EC, 2008, p. 8).

During the euro area crisis then, the enforcement problem came to the fore again. Key policymakers interpreted the crisis as a result of a lack of compliance to the original governance framework. The euro area crisis was largely seen as the result of member states failure to abide to the rules for fiscal discipline and to implement labour market reforms to achieve competitive unit labour costs (EC, 2012a, pp. 1–2; Juncker *et al.*, 2015, pp. 1–5). As the report of the four presidents³ of the EMU (Juncker *et al.*, 2015) states: '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). Moreover, the enforcement mechanisms did not operate as expected. Financial markets failed to discipline member states sufficiently, as prior to the crisis they treated the euro area as one and not by dealing with each member state according to its own development (Juncker *et al.*, 2015, p. 4).

The response to the crisis, and the central initiative running through the development of the NEG, was consequently twofold. First, policymakers agreed to develop a stricter framework for fiscal discipline (EC, 2012a, pp. 4–5; Task Force of the European Council, 2010, pp. 1–8). In a second step, a 'deeper and broader macroeconomic surveillance' beyond fiscal policy (EC, 2010, p. 4) was established in order to foster member states' commitment to competitiveness adjustment (EC, 2009, p. 4; Task Force of the European Council, 2010, pp. 8–10). The NEG was therefore created to strengthen the established policy-making logic of the EMU's governance framework and consequently also its politics of labour. Before elaborating this point, I discuss the perceived weaknesses of the original macroeconomic surveillance framework that provided a key rationale for this development.

II. The 'Weaknesses' of the Initial Governance Framework

Before the establishment of the NEG, there was no EU-level framework for economic surveillance concerned with competitiveness in the same systematic and binding manner as that set up for fiscal discipline. The Maastricht treaty established only soft and very limited legal instruments for the general coordination of economic policy at EU level that could be used to foster member states' commitment to competitiveness adjustment. The main legal provision was Article 121, which conferred the right on the Council of Ministers to monitor the economic performance of member states and to issue guidelines for

³The four presidents' reports are strategic papers written by the President of the European Council in close cooperation with the presidents of the EC, the euro group and the European Central Bank.

economic policy (see Consolidated Version of the Treaty of the Functioning of the European Union (TFEU), 2012). As guidelines are in legal terms non-binding, paragraph 4 of the Article included a procedure to put pressure on member states' commitment to these guidelines, including warnings and recommendations.

Nevertheless, Article 121 has several shortcomings regarding the EMU's objective to promote competitiveness. First, Article 121 did not establish a systematic framework for the surveillance of competitiveness developments in member states and potential policy intervention. According to the EC (2012a), this was seen as a 'major weakness' of the governance framework:

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)

Moreover, Article 121 only provided a few soft legal instruments – warnings and recommendations – as enforcement mechanisms that, according to the EC (2012a), were too weak to ensure member states' commitment to foster competitiveness:

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. 2–3)

Thus, the enforcement instruments of supranational surveillance remained underdeveloped in this policy area.

In addition – and this is crucial – Article 153.5 (TFEU, 2012) had explicitly ruled out the involvement of the EU in wage policy as well as in workers' rights of association. Hence, the intervention in wage regulations and collective bargaining institutions to increase labour market flexibility remained, in legal terms, the task of member states that were excluded from the competences of the Union. Hence, no EU-level framework existed for the surveillance and enforcement of competitiveness through labour market policy, akin to the framework that had been created for fiscal discipline.

Regarding the latter, Article 126.1 (TFEU, 2012) had explicitly set out the objective to 'avoid excessive government deficits' empowering the Commission to monitor compliance with the objective. Supplemented by the stability and growth pact – which consists of a resolution from 1997 and two regulations (Regulations 1466/97/EU and 1467/97/EU), which are in legal terms binding and directly applicable to the member states – Article 126 provides for a systematic surveillance process, including a preventive and a corrective arm to ensure compliance. Monitoring was based on clear numerical thresholds for public debts and deficits (60% for the debt-to-GDP ratio and 3% for the deficit-to-GDP ratio) and a preventive arm was set up requiring member states to issue stability programs (or convergence programs) setting out their medium-term budgetary objectives for the assessment by the Commission and Council (see Regulation 1466/97/EU (1997), Article 3.2).

Moreover, in the corrective arm – the excessive deficit procedure – the Council not only could issue recommendations to non-compliant member states but also impose financial sanctions on them. Thus, the implementation of fiscal discipline was backed by harder enforcement mechanisms through which a member state could in principle face financial consequences (TFEU, 2012, Article 126.11). In summary, while a governance framework was established for fiscal surveillance to hold member states' accountable for their achievement of fiscal discipline, no similar framework existed for macroeconomic surveillance beyond fiscal policy.

However, this was about to change with the euro area crisis. The interpretation that the crisis was caused by a failure of the governance framework to ensure member states' commitment to fostering competitiveness (Juncker *et al.*, 2015, pp. 3–5) paved the way for a radical change to revise the weaknesses of the old framework. Thus, alongside further provisions for fiscal discipline, a new, stronger macroeconomic surveillance – both systematic and more binding – was established to promote competitiveness and intervene in national labour market arrangements.

III. The NEG: Strengthening the Logic of Competitiveness Adjustment

The establishment of the NEG coherently reinforced the EMU's policy-making logic of competitiveness adjustment – and its underlying politics of labour – through the creation of a stricter framework for fiscal discipline, on one side, and a new surveillance framework for the promotion of competitiveness adjustment, on the other. Regarding the fiscal policy framework, the NEG simply introduced a stricter version of the stability and growth pact (see Buti and Carnot, 2012; EC, 2012a, p. 5) strengthening the 'constrained sovereignty approach' (Buti and Carnot, 2012, p. 900). As explained by Buti and 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' (p. 908).

The reforms did therefore not renounce the objective of fiscal discipline, nor was a new fiscal capacity created at the EU level, as continuously proposed by Keynesian-inclined commentators (De Grauwe, 2013; Verdun, 2015; see Scharpf, 2016, pp. 30–32). Such a fiscal capacity is controversial as its operation could substantially weaken the EMU's logic of competitiveness adjustment. 'Whatever form such proposals may take', as Scharpf (2016) put it, 'they all would increase aggregate domestic demand and reduce the pressures of structural adjustment' (p. 32). Thus, in terms of fiscal policy, the NEG did not introduce qualitative change. It simply maintained the logic of the Brussels–Frankfurt consensus: the possibility for member states to manage economic recovery by expanding aggregate domestic demand remain constrained and no fiscal capacity was created at the EU level to make up for this loss of policy discretion, which in turn increases the pressure to engage in competitiveness adjustment (see Bonefeld, 2015, p. 13, 2017, pp. 140–1).

However, competitiveness adjustment requires intervention with national labour market arrangements, which up to the crisis was a national prerogative. This changed with the construction of the new surveillance framework for the promotion of competitiveness adjustment. This is therefore the actual innovation of the NEG. This new framework encompasses the macroeconomic imbalance procedure (MIP) and the European stability mechanism (ESM). While the MIP functions as the ordinary surveillance procedure for

everyday policy-making, the ESM takes over in times of fiscal crisis to apply a ‘strongly reinforced’ surveillance process (Regulation 472/2013/EU (2013), para. 7).

In comparison with the coordination of economic policy prior to the crisis, the new surveillance framework focuses explicitly on international (price) competitiveness, establishing new capacities for EU-level executives (the Commission, the Council and the ECB) to intervene in national labour market arrangements including wage policy, as was documented by Schulten and Mueller (2015). For this purpose, it was set up to overcome the two key weaknesses of the old framework. The first was the lack of a systematic tool for analysing competitiveness developments and the issuing of consistent policy recommendations. Second, the lack of harder enforcement mechanisms. The new macroeconomic surveillance is therefore more systematic, more binding and more intrusive, and it goes beyond the limits of the EU competences defined in the treaties. Thus, it marks a key moment in European monetary integration in recent years. In the remainder of the article, I discuss this new macroeconomic surveillance, focusing first on the MIP and then on the ESM.

The New Surveillance Framework for Competitiveness Adjustment: The MIP

The MIP was established through Regulations 1176/2011/EU and 1174/2011/EU, which are in legal terms binding and directly applicable to member states. It was set up as the mirror image of the procedures for fiscal policy surveillance, including a preventive and a corrective arm, with the objective of fostering competitiveness among member states (see EC 2012a, p. 6; Regulation 1176/2011/EU, 2011). In tandem, the preventive and corrective surveillance procedures address the perceived weaknesses of the old macroeconomic surveillance framework, establishing a ‘formal instrument for their systematic analysis’ of competitiveness developments ‘and follow-up through concrete policy recommendations’ (EC, 2012a, p. 6), which are backed up by hard enforcement mechanisms.

In the preventive arm 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). The member states’ national economic performance is monitored and judged by the Commission on the basis of a scoreboard with clear numerical indicators that was explicitly designed to promote competitiveness (see Scharpf, 2016, p. 16). According to Article 4.4 of Regulation 1176/2011/EU (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’. For this purpose, it operates with unit labour costs as an indicator of price competitiveness, which is read in the context of the real effective exchange rate, current account balance and export market shares. This design follows therefore the criteria of the Euro plus pact to judge member states’ economic progress in terms of ‘*wage and productivity developments and competitiveness adjustment needs*’ (European Council, 2011, p. 16, emphasis in original) (see EC, 2012b, pp. 14–16).

In this manner, member states are held accountable by European institutions on a regular basis through established procedures supported by numerical data in their efforts to foster competitiveness. Thus, a formal instrument for systematic EU-level surveillance was introduced. Nevertheless, the preventive arm of the surveillance process still operates on the basis of soft enforcement instruments – naming and shaming and peer pressure. However, this is where the corrective arm comes into play.

The MIP contains a corrective arm – the excessive imbalance procedure (EIP) – which mirrors the hard enforcement mechanisms of fiscal policy surveillance. In fact, the EIP includes a sanctions regime that allows to punish member states with an annual fine (or an interest-bearing deposit) if they do not comply in providing, in the eyes of EU institutions, sufficient corrective action for imbalances and losses of competitiveness (EC, 2016, pp. 29–30). This can go as far as to cut member states off from the financial resources of the European structural and investment fund (EC, 2016, pp. 29–30). ‘As a consequence’, concluded Schulten and Mueller (2015), ‘the European policy recommendations for member states lose their purely voluntary character and reach a much higher degree of liability’ (p. 334). The MIP is, therefore, not only a systematic tool for macroeconomic surveillance but it also marks a turning point towards the ‘hardening of EU law’, as put by Bruff (2017).

However, what is crucial to the process of European integration is that the policy recommendations are not only more binding in the MIP but also more intrusive, as they empower the Commission to make interventions ‘over the full range of Member-State competences’ (Scharpf, 2016, p. 5). Hence, this new instrument of EU-level surveillance goes beyond the original limitations of the treaty supposed to protect key aspects of labour market policy from intervention of the Union, especially wage policy. Regulation 1176/2011/EU (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:

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. (para. 20)

Thus, through the MIP, the EMU’s objective of fostering competitiveness through labour market reforms entered into the field of Union competences. The Commission and the Council of Ministers hold member states accountable for their commitment to enhance competitiveness and issue policy recommendations that include labour markets and wages. 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 follows and strengthens, therefore, the policy-making logic of the Brussels–Frankfurt consensus. It provides surveillance procedures to promote and enforce competitiveness adjustment, even permitting intervention in national labour relations.⁴

The New Surveillance Framework for Competitiveness Adjustment: The ESM

The strongest new governance instrument for enforcing competitiveness adjustment, however, is the ESM, which superseded the previously established financial assistance facilities (the European financial stability facility and the European financial stabilization mechanism). The ESM complements the MIP by taking over the macroeconomic surveillance in times of crisis and radically tightening it (see Regulation 472/2013/EU, 2013,

⁴This new surveillance framework has been tightened further in recent years with the introduction of the national productivity boards (Wigger, 2019).

para. 7). When it comes into play, the ESM is a game changer for the enforcement capacity of EU policy objectives. 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 on condition of the implementation of macroeconomic adjustment programmes monitored by the troika (the Commission and the ECB in liaison with the International Monetary Fund [IMF]) on behalf of finance ministers. As recalled by Scharpf (2016, p. 25), the adjustment programmes during the euro area 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 entails, 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 being soft governance instruments.

The ESM has been established in consistency with the whole surveillance framework of the EMU through the Regulation 472/2013/EU (2013) of the two pack – including the MIP scoreboard (Article 11) to promote competitiveness. The macroeconomic adjustment programmes therefore include policy recommendations made under the regular macroeconomic surveillance, ‘while aiming at broadening, strengthening and deepening the required policy measures’ (Article 7.1). In short, financial assistance is turned into a stronger version of macroeconomic surveillance and enforcement with a view to fostering competitiveness. Possible interventions in wage policy for this purpose are also clearly set out in Regulation 472/2013/EU (2013). Article 7.1 states that ‘The draft macroeconomic adjustment programme shall take into account the practice and institutions for wage formation’. Thus, during the euro area crisis the adjustment programmes served to intervene strongly in national wage policies (see Schulten and Mueller, 2015, pp. 335–40).

In summary, by the establishment of the MIP and ESM, labour market policy, including wages, entered the field of EU-level competences, even though the treaty had originally ruled out the Union’s intervention in wages and workers’ rights of association. It follows that labour market policy can no longer be regarded as a national prerogative in the EMU. Rather, it has become a national competence that is shared with EU institutions. This is a significant new step in the process of European monetary integration – increasingly subordinating workers to the more distant powers of the multilevel state.

However, it is important to mention that transferring competences in labour market policy to the EU level in this specific way – that is, as part of a new surveillance framework for the promotion of competitiveness – was not a necessity. An alternative European governance framework in the area of labour relations, which would have broken with the prevailing policy-making logic of competitiveness adjustment, could have been arranged. Some scholars (Flassbeck and Lapavistas, 2015; see Scharpf, 2016, pp. 35–6; Stockhammer and Onaran, 2012) have proposed, for example, redesigning the EMU’s governance framework by creating a system for the international co-ordination of wages, which would make symmetrical adjustment in the euro area possible. In such a system the pressure to reduce unit labour costs and enhance competitiveness in some member states would be counterbalanced by raising unit labour costs and reducing competitiveness in others. However, a balanced approach to competitiveness developments was never pursued during the euro area crisis. Instead, the aim was always to foster competitiveness, especially in member states with current account deficits, as agreed upon by the heads

of state and government in the euro plus pact (European Council, 2011, pp. 13–17) and recommended by the Directorate-General for Financial and Economic Affairs of the EC (EC, 2010, pp. 40–1). Thus, the central theme running throughout the politics of crisis and the development of the NEG was to enforce and strengthen the logic of competitiveness adjustment of the EMU's economic governance framework.

This is then the specific political direction of the recent process of integration, encompassing both a stricter framework for fiscal discipline and more intrusive macro-economic surveillance. The trajectory was therefore to reinforce the pre-existing policy-making logic of the EMU's institutional design (the Brussels–Frankfurt consensus) in a coherent manner. On one side, national governing capacities are constrained to prevent alternative forms of economic adjustment, while on the other competitiveness adjustment is promoted. The consequence is a reorganization of the relationship between capital and labour through intervention in labour market arrangements. Member states are supposed to foster and facilitate capital's drive to confront workers in order to boost their productivity or to cut their distributional share in the name of international competitiveness. In other words, the process of integration during the euro area crisis has been essentially a politics of labour.

Conclusion

The general tenor in the European integration literature is to depict the recent development of the NEG as another step to integration in the field of fiscal policy with the objective of stabilizing the EMU. I offer a dissenting voice to this account, as the dominant narrative neglects the politics of labour underlying the process of European monetary integration. In the EMU member states are supposed to manage economic adjustments by fostering competitiveness (and consequently exports). In practice, this entails intervention in national labour market arrangements to facilitate the reduction (or containment) of unit labour costs. Thus, I show the EMU follows a politics of fostering and facilitating employers' confrontation of workers with a view to reduce workers' distributional share and drive up the exploitation of their productive capacities. The removal of monetary and fiscal policy options through construction of the EMU is instrumental to this logic of competitiveness adjustment.

However, the euro area crisis emerging in 2008 was interpreted as the failure of member states to comply with the EMU's economic governance framework. The NEG was therefore established to strengthen member states' commitment to this framework and its logic of competitiveness adjustment in a coherent and encompassing fashion. On one side, the procedures for fiscal discipline were tightened. On the other, a new surveillance framework for promoting competitiveness was introduced, including the MIP and the ESM. This new framework is more systematic, binding and intrusive than the old framework for economic policy coordination, creating new competences at the EU level to intervene in national labour market policies, including collective bargaining systems and wage policies. As a result, labour market policy can no longer be regarded as a national prerogative in the EMU but has been turned into a competence shared between member states and the Union. Hence, integration has not only taken place in the field of fiscal policy but also in the field of labour market policy. This is what is actually new about the NEG.

The NEG has therefore reinforced the politics of labour that underlies European monetary integration. The euro area crisis was subsequently managed by weakening trade unions, reductions in minimum wages, relaxing the conditions for dismissals and cuts in social services. The NEG, in other words, was not simply about ‘stabilizing’ the euro area. Rather, it empowers capital and the multilevel state over the working class. While this was the outcome of the euro area crisis between 2008 and 2015, today a new confrontation over the course of European integration has just begun as a result of the coronavirus pandemic. Thus, now is the time for reviving the massive democratic and labour-related protests of the last decade to demand another Europe.

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