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### Ten years of crisis : european economic integration between silent revolution and breakup

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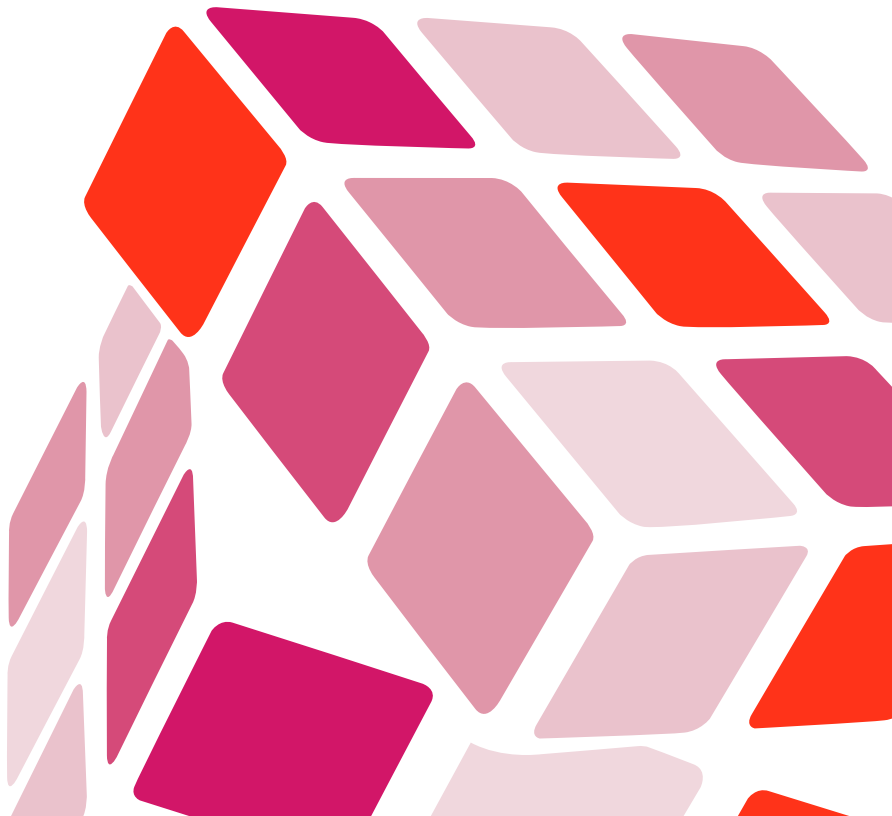
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**GESELLSCHAFT**

# **TEN YEARS OF CRISIS**

**EUROPEAN ECONOMIC INTEGRATION BETWEEN  
SILENT REVOLUTION AND BREAKUP**

**FELIX SYROVATKA, ETIENNE SCHNEIDER  
AND THOMAS SABLowski**



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By the autumn of 2008, the global financial system was in complete meltdown. The ruling classes seemed to have learned the lesson of the 1930s: they were able to avert the total collapse of the financial system and the global economy through coordinated central bank interventions, bank rescue packages and economic stimulus packages totalling many hundreds of millions of dollars. But it came at a cost: racking up even higher budget deficits and public debt that were already escalating due to spiralling unemployment, falling tax revenue and increasing welfare spending caused by the crisis. As a result, investors lost confidence in the solvency of states with weak production structures such as Greece, and the interest rates these countries had to pay on their sovereign debt shot up.

The global financial and economic crisis ruthlessly exposed the internal contradictions of the European Union in general and the Economic and Monetary Union (EMU) in particular. The asymmetrical financial and trade relations within the hierarchical international division of labour gave rise to a situation in the EU where there were a few countries with large current account surpluses – most notably Germany – and several states with current account deficits. The macroeconomic imbalances were reinforced by the EMU as countries with above-average inflation rates suffered a loss in price competitiveness and were unable to regain an advantage by devaluing their currency. Borrowing was also encouraged through relatively low real interest rates, which pulled more imports into the deficit countries.

To ensure debt could be refinanced and to prevent the EMU from collapsing, the eurozone countries gradually increased debt mutualisation and common liability for credit risks through the European Central Bank (ECB), the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM). However, new loans and guarantees were only granted in exchange for the implementation of strict fiscal restraints. The austerity measures imposed by national governments, the European Commission, the ECB and the IMF led to a slump in effective demand, thereby prolonging the crisis. In 2012/13, the feared “double dip” recession hit the EU, affecting a number of member states. However, from the perspective of the neoliberal economic mainstream, austerity policies were necessary to structurally boost competitiveness in the affected states.

Now, ten years since the crisis began, the question arises: what are the main impacts and long-term consequences of the EU’s crisis management strategy that we have been witnessing so far? Although the unequal development between EU member states is not primarily a consequence of excessively high or excessively low wages (Section 1), what is clear is that the “Europeanisation” of wage relations formed a cornerstone of the European crisis management approach. Under neoliberal-authoritarian conditions, it brought about a marked shift in labour market and wage policy competencies at a European level (Section 2). We argue that the European debt crisis has been temporarily defused by authoritarian management, which has particularly

come at the expense of workers in southern Europe (Section 3); however, by disproportionately concentrating on wage development, those aiming to solve the crisis have largely ignored its underlying causes: the divergences between the EU member states have not decreased – in some instances, they have even become more pronounced (Section 4). The inherent contradictions of European integration and, most notably, the Economic and Monetary Union persist and are emerging in other areas as well: we need only look to Italy (Section 5) or to the emerging

crisis related to Germany's neomercantilist export strategy. Overall, the crisis management strategy is characterised by a contradictory development: while, on the one hand, the crisis has furthered integration in terms of the regulation of wage relations, on the other, it has exacerbated unequal development between EU states, which has brought about a tendency towards disintegration. Although these two developments are intertwined, in this paper, we initially examine them separately before carrying out an overall evaluation of these trends in the conclusion.

<sup>1</sup> This is a revised and extended version of a text published in the 3/2018 edition of the journal PROKLA.

## **1 IS THE UNEQUAL DEVELOPMENT IN THE EU A CONSEQUENCE OF EXCESSIVELY HIGH OR EXCESSIVELY LOW WAGES?**

Unlike conventional interpretations of the eurozone crisis, we do not assume that the balance of payments disequilibria are primarily caused by excessively high wages in the deficit countries (as per neoliberal theorists) or by excessively low wages in the surplus countries (as per many Keynesian approaches). Rather, the disparity in the balance of payments is brought about by an unequal division of labour internationally, which is only partially determined by wage development; the latter is a secondary factor in comparison to the structural differences that exist between the production systems of the different countries (vgl. Storm/Naastepad 2015). According to the Marxist discussion on internationalisation (Deubner u.a. 1979), these differences within the hierarchical international division of labour are not primarily caused by comparative cost advantages or price competitiveness, but, first and foremost, by the sectoral composition of a production system. A superior or dominant position in the international division of labour stems from the ability of a few coherent production systems to independently create complex production goods and, in particular, the production goods to create other production goods. These include, most notably, the manufacturing of machinery, electrical and electronic equipment and chemical products. By exporting these production goods, the dominant production systems are in a position to set the “terms of production” (Schlupp 1979: 18) in all other sectors, which are made up of less coherent or

disintegrated – and therefore peripheral – production systems. This is the reason for structural dependencies on imports and technology. Similarly, the current discussion in heterodox economics and evolutionary economics emphasises the importance of technological development and product complexity as opposed to factors concerning price competitiveness (Tacchella u.a. 2012; Dosi u.a. 2015). Production systems are also characterised by their widely varying abilities to generate product innovations and control product life cycles, as well as by different developments in labour productivity.

Based on these basic assumptions, we locate the causes of the European debt crisis predominantly in the unequal development of the European division of labour and production systems, and not in wage development. Still, the European division of labour has been shaped not only by the structural dominance of the German production system, but also by the transformations in Eastern Europe, China and other industrialising countries. These processes have significantly intensified the competition in the capitalist periphery in medium and low-tech product segments and over participation in transnational production systems. In this specific regard, wage differentiation between the different countries on the periphery with subordinate production systems does play a considerable role. But here too, wage costs are far from being the only factor determining the profitability of production and location decisions. For instance, the capital

turnover time is crucial where the geographical proximity, for example of the countries known as the Visegrád Group – that is, Poland, Hungary, the Czech Republic and Slovakia – to Germany, fosters internationalised production along regional value and production chains.

The Southern European periphery sustained a considerable loss of importance as a result of these processes (vgl. Heine/Sablowski 2015; Celi u. a. 2018). Prior to the recent financial and economic crisis, Southern Europe's downgrading in the international and intra-European division of labour was concealed by a debt-financed boom in demand, which was accompanied by high domestic product growth rates and high profitability of capital in Southern Europe compared to the old industrial centres

(vgl. Milios/Sotiropoulos 2010). The EMU was a major contributory factor to this, as it caused real interest rates to plummet in Southern Europe before the crisis, which, in turn, made borrowing more attractive. The drawbacks of this debt-financed boom were high capital inflows from abroad and a surge in imports, which led to growing current account deficits.

The matrix of factors mentioned are largely ignored in the prevailing crisis management strategy, which disproportionately focuses on adjusting pay rates to increase price competitiveness. As the austerity and structural adjustment policies based on this have been in effect in the EU since 2010, we will first look at the impacts of these policies, before turning to the unequal development of the European division of labour since the crisis.

## 2 EUROPEANISATION OF WAGE RELATIONS?

The development of European integration has never been a linear process; instead, crises and phases of stagnation have been followed by new pushes for integration initiated by political projects (Bieling 2013: 90–93). As a result of austerity policy-based crisis management, an increased deepening of European integration can be observed since the onset of the recent crisis, particularly in the area of economic integration. An “integrated macroeconomic steering structure” (Seikel 2017; Leschke u. a. 2015) was implemented in the form of a modular system, which – alongside the focus on austerity-driven fiscal consolidation with corresponding implications for gender relations (Hajek/

Opratko 2016; Klatzer/Schlager 2012) – focused primarily on the different forms of labour market regulation and wage structures in the member states. Accordingly, it led to a substantial expansion of European competencies, principally in the area of labour market policy.

The crisis narrative underpinning the politics of austerity was based on the assumption that increasing price competitiveness and greater convergence in labour market regulation would tackle the causes of the crisis. As a result, the regulation of wage relations became

<sup>2</sup> The scope of this article unfortunately cannot include other areas of the European crisis management strategy, such as financial market regulation. For more on this topic, see Kader (2018), Ötsch/Troost (2018) or Guntrum (2019).

one of the key focal points of the crisis management strategy<sup>2</sup> (Degryse u. a. 2013: 37). Here, trade unions were depicted as obstacles to market coordination and potential economic and employment growth (COM 2012; Keune 2016). From then on, the aim was to diminish their wage-setting power and weaken their organisational strength (Schulten/Müller 2013).

At the heart of the new European economic and labour market policy is the policy cycle of the European Semester, which intends to ensure the coordination and supervision of national economic, fiscal, labour and social policies (Rödl 2012). It was reformed in 2011 and 2013 by two legislative packages set out by the European Commission, which also strengthened its focus on employment policy. At the time, José Manuel Barroso, then President of the Commission, referred to the measures as a “silent revolution”. Known as the “Six Pack”, a system of budgetary and macroeconomic surveillance measures was introduced in an attempt to identify and correct macroeconomic imbalances at an early stage using pre-defined indicators. This stipulates that wage growth may not exceed the threshold value of 9% within a period of three years. This surveillance system is connected to a penalty mechanism: if policy recommendations made by the Commission are not implemented, it can call for a comprehensive corrective action plan and impose financial penalties. It is not uncommon for the policy recommendations given as part of the “Excessive Imbalance Procedure” to include guidelines for labour market and wage policy (Rödl/Callsen 2015).

In contrast to labour market policy coordination before the crisis, which was based

on member states’ voluntary commitment to implement policy recommendations, the introduction of financial penalties saw a severe sanction apparatus established for the first time (Schulten/Müller 2013). While the recommendations of the European Semester are legally non-binding at first, they can be made binding in the context of the Excessive Deficit Procedure or the Macroeconomic Imbalance Procedure, and non-compliance can lead to sanctions. This binding nature was once again reinforced in 2014 through a regional and structural policy reform. With the funding period from 2014 to 2020, the successful implementation of the respective country-specific recommendations became a condition for the allocation of structural funds (COM 2015). It is now possible for the European Commission to use legally binding guidelines and recommendations to permeate every area of labour policy, despite the fact that the Commission has no right to govern such areas according to European primary legislation (Schulten/Müller 2013; Müller/Schulten 2018).

The European Semester is flanked by two further crisis management mechanisms that are linked to its reporting system. Firstly, there is the Troika, made up of the IMF, the ECB and the European Commission, and (as of 2015) the ESM. Its task is to stipulate the conditions for awarding loans to states affected by insolvency and to monitor their implementation and compliance. Through guidelines described as “structural reforms”, the Troika set out to substantially change the labour market and wage structures of the member states concerned. Their governments are required to coordinate all economic, labour market and socio-political measures in advance with the Troika, such that the



“programme countries” are largely obstructed from engaging in independent, sovereign politics. All member states that apply for funding from the European “aid packages” are subject to this form of intervention (Keune 2016; Müller 2015).

Secondly, attention must be drawn to the political role of the ECB. Over the course of the crisis, the ECB repeatedly used its monetary strength to impose political demands against the will of democratically elected governments (Schneider 2017). Here, the ECB also pushed for structural reforms in the areas of labour market policies and collective bargaining in particular. Perhaps the most prominent case of direct political influence is documented in a letter to Italy dated 5 August 2011, in which the ECB threatened to halt the purchase of Italian sovereign debt unless the Italian government implemented the requested structural reforms within two months. These included the downscaling of collective bargaining from the industry to the company level, public sector pay cuts, and the scaling back of dismissal protection legislation, among other reforms (Weissenbacher 2012). The ECB also addressed a similar letter to the Spanish government.<sup>3</sup> Here, nation states were pressured into conforming by the interplay of market mechanisms and the direct threat of a loss of liquidity. The ECB’s move to withhold vital liquidity from the Greek banking system in 2015 was a decisive factor in the Greek government’s ultimate decision to submit to the demands of a third memorandum. While the ECB used this tactic informally at first, it has been official Central Bank policy since 2012, when the ECB announced its intention to purchase unlimited sovereign debt in case of emergency, as long as the

country concerned agrees to implement structural reforms (Silva u.a. 2017).

The European labour market policy has become more binding and more authoritarian. A comprehensive monitoring, surveillance and penalty system was created from ad hoc measures, which presented European institutions with the opportunity to directly influence the structuring of labour market and wage policy reform and call for member states to take specific actions (Erne 2015; Syrovatka 2018). This resulted not only in a major shift of steering competencies from the national to the European level and a general curtailment of national sovereignty, but considerable limitations were also placed on the opportunities for trade union action (Müller/Platzer 2016). Drawing on Müller/Schulten (2018), we can thus refer to this as “European interventionism”, which addresses the labour market, wage and social policy (Lux/Komsopopoulos 2019). Its assertive power depends on the forces within the nation states that have to support and implement the European guidelines (Syrovatka 2018).

European interventionism sees wage development as a central macroeconomic adjustment factor in its approach. The European Commission (2012) reified this view in a much-quoted report on labour market developments. In this document, the Commission puts forth numerous suggestions for “employment-friendly reforms” (ibid.: 71), which include the scaling back of dismissal

<sup>3</sup> Thus far, only the letters to Spain and Italy are publicly accessible. As these are confidential letters, it is not known how many countries to date have received “threatening letters” from the ECB. The former President of the ECB, Jean-Claude Trichet, emphasised in an interview that the ECB regularly sends such letters to individual governments in the euro area.

protection, cuts to unemployment benefits and the minimum wage, actions to make collective agreements less binding and the decentralisation of the collective agreement system, among others. All suggestions for labour market policy should serve the aim of creating a “business-friendly environment” (ebd.: 12) and reducing the “wage-setting power of trade unions” (ebd.: 104). Accordingly, the recommendations and guidelines of the new European labour market policy aim primarily to instigate a flexibilisation or reduction in wages, which, in concrete terms, means instigating a decentralisation of wage formation and a downscaling of collective bargaining, the structural weakening of trade unions and a reduction in protection against dismissal as well as

reductions to social security (van Gyes/Vandekerckhove 2016).

In almost all European member states, the labour market reforms of recent years have been set in motion by recommendations made by the European Commission or guidelines from the Troika or the European Semester. For example, the labour market policy reforms implemented in France and Italy can be traced back to pressure and interventions by the European Commission (Syrovatka 2016; Meardi 2014). The so-called Competitiveness Pact, which was passed in 2016 and stipulated a wage freeze and an extension in working hours, was also influenced by country-specific recommendations made by the European Commission (Müller/Schulten 2018).

### 3 CRISIS RESOLUTION AT THE EXPENSE OF WORKERS<sup>4</sup>

Although the European level is just one factor in the development of national labour markets, the amended regulations and steering structures have had a substantial effect on wage development in the EU (Lübker/Schulten 2017). In spite of the economic recovery in most EU countries and rising employment, wage development remains subdued. Various studies draw the conclusion that the three classic variables – unemployment, inflation and productivity – now have less influence on wage development than before the crisis, which indicates the effectiveness of the European interventionism in wage policy (Hong u. a. 2018; Deutsche Bundesbank 2018). The reduced binding effect of collective agreements, the decentralisation of wage formation, the surge in precarious employment and an involuntary shift towards part-time work have brought about a structural deceleration in wage growth. Although these developments were already in motion before the crisis, they have been accelerated and given greater impetus by European interventionism.

This is evidenced by labour policy indicators. The unemployment rate in the EU and the eurozone fell to 7.6% and 9.1% in 2017 respectively – only slightly higher than before the crisis. However, there is still considerable variation between the member states. While Germany (3.8%), the Netherlands (4.9%) and other Central and Eastern Europe countries such as the Czech Republic (2.9%), Hungary (4.3%) and Poland (4.9%) are recording low unemployment rates, countries in the Southern European periphery such

as Greece (21.5%) and Spain (17.2%) are facing unemployment rates that remain much higher than before the crisis. Even in these countries, however, unemployment has decreased overall since 2013.

Nonetheless, youth unemployment remains high at 15.6% in the EU and 17.3% in the eurozone. With the exception of Germany, the Netherlands, Austria and the Czech Republic, youth unemployment is often considerably higher than 10%. Youth unemployment is particularly high in the Southern European periphery: 43% of young people under 24 years of age are unemployed in Greece, while the figure stands at 31.7% in Italy and 35% in Spain.

This has led to increased emigration from the countries most severely affected by austerity and the economic crisis. Without this, the unemployment rates would be even higher. The number of people emigrating from Greece rose to over 100,000 per year from 2010 onwards, considerably higher than the 40,000 per year who were leaving before the crisis. It was not until 2016 that return migration numbers began to increase. This amounts to a net population loss of around 270,000 between 2009 and 2016 owing to migration. In Spain, the population loss totalled over 470,000 in the same time frame, and over 120,000 in Portugal. As it can be assumed that it is predominantly the young and the well-educated who emigrate in search of better living conditions, this implies an unfavourable development for the demo-

<sup>4</sup> If no other source is given, the figures in this section refer to data from Eurostat, the AMECO database and Eurostat's 2018 Labour Force Survey database.

graphic composition of the population with all its resultant problems (population ageing, increasing difficulties financing the welfare state).

Considerable differences emerge if the development of the labour market participation is differentiated according to educational qualifications and gender. The number of women in employment in the EU has, on average, increased at the same rate as before the onset of the crisis. However, this is true only for women with medium and higher education qualifications (higher school-leaving certificate or a university degree), and the labour market participation of women with lower education qualifications (up to lower secondary education) has stagnated or decreased as a result of the crisis. Of the women with a tertiary level education in the EU, the share of employed women increased from 78.9% in 2002 to 80.7% in 2017. Of the women with medium education qualifications (upper secondary education and post-secondary non-tertiary education), the share of employed women rose from 61.2% to 65%. However, of the women with lower qualifications, the share of women in employment was just 37.7% in 2002 and increased to 39.1% in 2007 before falling to 37.2% in 2017. The labour market participation of men holding intermediate and higher education qualifications has remained almost constant, though it has decreased significantly for men with lower qualifications: while 58% of the working age men with lower qualifications were employed in 2002, this fell to just 53.3% in 2017. If we assume that the level of education is closely correlated to class position, it indicates substantial variation in labour market participation

between the different social classes (or class fractions). On average in the EU, the upper strata of wage earners seem to have largely ridden out the drop in employment that resulted from the crisis, and women in this group continue to show increasing labour market participation. However, the employment rate among the lower strata of wage earners is stagnating.

Differentiating employment trends by country once again reveals striking differences. In some countries (including France, Italy, Spain and Greece), the employment rate is not only declining for men with lower and intermediate educational qualifications, but also for women with similar educational backgrounds.

Despite increases in the number of women in employment in some areas, the average unemployment rate for women in the EU was just as high in 2017 as it was in 2007 before the outbreak of the crisis, namely 7.9%, after temporarily rising to over 10%. At 7.4%, the unemployment rate for men in 2017 was considerably higher than in 2007 (6.6%). The labour market has therefore failed to offer adequate employment opportunities for either women or men in spite of the upturn in recent years. In some countries such as Italy, Spain, Greece, the Baltic states, but also Denmark and Finland, women's unemployment remained higher in 2017 than it was before the onset of the crisis.

Moreover, a large proportion of the newly created jobs can be classified as non-standard employment, meaning they do not conform to the traditional, standard employment relationship, which is permanent and includes social security coverage. Overall, almost one in two employees in the EU works in a

non-standard employment relationship (Eichhorst/Tobsch 2017). While the share of this form of employment declined at the start of the crisis (as employees in atypical employment relationships were generally the first to be let go), it increased again with the employment upturn that started in 2014. The correlation between non-standard employment and unemployment is clearly illustrated in the example of fixed-term employment contracts: as unemployment rose, the percentage of fixed-term contracts decreased in all European member states as companies stopped creating new positions and allowed fixed-term contracts to expire. With the economic upturn since 2014, an increasing number of fixed-term employment relationships can be observed. Overall in the EU in 2017, one in six employment contracts was fixed-term, though there is considerable variation across EU member states. The Netherlands (21.8%), Spain (26.8%) and France (16.8%) stand out due to their high proportion of fixed-term contracts. An extremely low proportion of fixed-term contracts can be seen in states in Eastern Europe, most notably Romania (1.2%) and Lithuania (1.4%), where labour law was strictly regulated and fixed-term contracts have only been permitted since their accession to the EU in 2007 (Schrag-Slavu 2017: 342).

A similar picture emerges for temporary agency work. After dropping off at the start of the crisis, the percentage of temporary agency work as a share of total employment has risen since 2010, encouraged by reforms in many EU states (Voss/Vitols 2013). The 2008 EU Directive on temporary agency work did little to change this, defining minimum standards and introducing the principle

of equal treatment of the core workforce and temporary agency workers (Ulber 2010). Consequently, the proportion of temporary agency work as a share of total employment rose from 1.7% (2008) to 1.9% (2017) in the EU and from 2.2% to 2.5% in the eurozone. Temporary agency work is especially widespread where fixed-term employment is also common. As a percentage of overall employment, temporary agency work experienced above-average growth in Ireland (+1.5%), France (+0.9%) and Germany (+0.7%). In Ireland and France, this increase can be traced back to labour market reforms that were demanded by the Troika or by the European Commission as country-specific recommendations in the course of the European Semester (Komsopoulou 2015; Syrovatka 2018).

Women are far more likely to be in non-standard employment relationships than men, which becomes particularly apparent if we examine part-time work. Of the total men in employment, the share of men in part-time work rose on average in the EU from 5.9% in 2002, to 6.9% in 2007, and to 8.8% in 2017. The number of women in part-time work as a share of the total women in employment rose on average in the EU from 28% in 2002, to 30.5% in 2007, and to 31.7% in 2017.

In many countries, reforms have led to an erosion of the collective bargaining system and to widespread changes in wage formation, and the way industrial relations have evolved has been to the detriment of the trade unions (Bieling/Buhr 2015). The existing collective bargaining and wage formation structures have been destroyed completely in countries that received loans from the European "aid packages" and were placed under the supervision of the

Troika (Müller/Schulten 2018). A trend towards the decentralisation of collective bargaining, as well as a reduction in the binding effect of collective agreements, can be observed in almost all EU member states (Müller/Platzer 2016). The two processes are closely linked as the decentralisation of collective bargaining often results in companies' withdrawal from employer organisations (Schulten 2012). It therefore instigates a shift in the balance of power to the detriment of trade unions and workers.

According to Marginson/Welz (2015: 436), a decentralisation of the collective bargaining system has taken place in at least ten EU countries: France, Bulgaria, Greece, Ireland, Italy, Austria, Romania, Slovakia, Spain and Cyprus. Portugal and Hungary should also be included as here the decentralisation was brought about by limitations on the scope and operating mechanisms of collective bargaining (*ibid.*). For example, due to reforms in France, Greece and Spain, company agreements now generally take precedence over sectoral collective agreements (Syrovatka 2018). The legal possibilities to make sectoral collective bargaining agreements generally binding have been restricted (Keune 2016) and the favourability principle has been abolished or reversed. The decentralisation of the collective bargaining system that took place in Ireland, Romania and Greece is considered the most radical. In all three countries, the established wage formation mechanisms were completely demolished, and collective bargaining was abolished at industry level and downscaled to the company level (Chasoglou 2015; Kompapoulos 2015). The assaults on trade unions and existing collective bargaining structures are

also reflected in decreasing collective bargaining coverage.<sup>5</sup> It decreased across the EU by 7.9% between 2009 and 2017; on average, it was 57% in 2012. While more recent data for the EU are not available, a negative trend can be observed since 2012. In Romania, for example, which was under the Troika's supervision, collective bargaining coverage fell by 63% between 2007 and 2017, which is tantamount to the abolition of collective bargaining. While 98% of all workers were employed under a collective agreement in 2007, this number had fallen to just 35% ten years later.

The situation is similar in Greece, where there was a dramatic decline in collective bargaining coverage from 83% to 40% of all workers. Since then, the Greek state has not collected any further data on the status of collective agreements. According to information provided by the research institute INE (2017: 114) from the Greek confederation of trade unions, GSEE, only 6.6% of all collective agreements were exceeding the company level; the majority of all wage negotiations take place between the individual workers and the employers.<sup>6</sup> In Portugal, the number of employees on collective agreements nosedived from 1.9 million to 240,000 in 2013 following a collective bargaining reform in 2011, which came

<sup>5</sup> There are no harmonised and comparable data available on the collective bargaining coverage in the EU. The data used here are based on figures from the OECD and the ICTWSS database. As a consequence, it was only possible to analyse data from 27 of the 28 EU member states, and there was also variation in the age of the data. For the methodological difficulties in generating collective bargaining statistics in Europe, please see van Gyes/Vandekerckhove (2016). <sup>6</sup> We would like to thank Ioannis Kompapoulos for this pointer and the translation from the Greek.

close to abolishing sectoral collective agreements (Coelho 2018: 5).

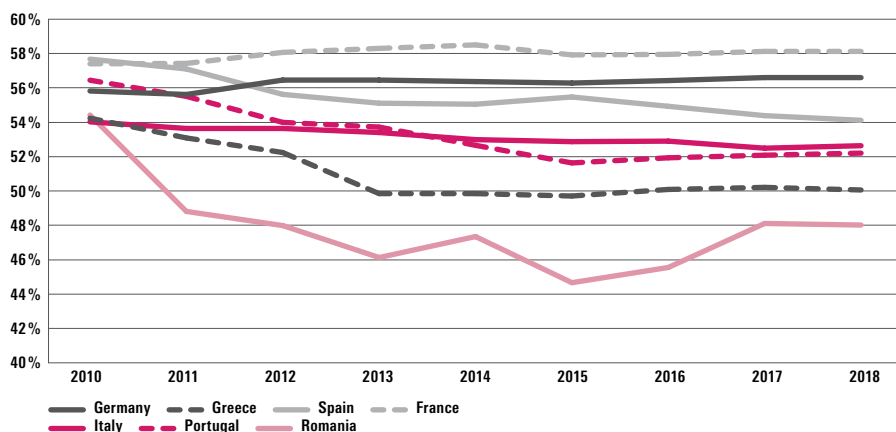
The decentralisation of collective bargaining and the decrease in the binding effect of collective agreements have had a negative effect on the development of collectively-agreed wages. As a result, the trade unions in the euro area were only able to negotiate a modest increase of 1.6% in collectively-agreed wages between 2013 and 2017. In comparison to the early 2000s, the collectively-agreed wage growth fell by more than 1% during the crisis and is currently stagnating at around 1%. This may be surprising because economic development in the eurozone has clearly gained momentum since 2013, and the leeway of distribution has increased significantly (Lübker/Schulten 2017: 421). The decline and stagnation of

collectively-agreed wages, also in times of economic recovery, are an expression of the structural, long-term weakening of trade unions by labour market reforms during the crisis years (Müller/Schulten 2018).

A closer look at real wage development also reveals the structural weakening of trade unions. In the crisis, there was a considerable drop in real wages and the recovery since 2013 has only been moderate. In nine European member states, the real wage level was still lower in 2017 than 2008. Greece (–26.0%), Croatia (–13.3%), Cyprus (–7.5%), Portugal (–4.8%), Spain (–1.0%), Italy (–2.0%), the United Kingdom (–1.5%), Hungary (–4.7%) and Belgium (–0.6%) saw a decrease in real wages between 2009 and 2017.

<sup>7</sup> However, it is important to emphasise that the wage share in Germany declined rapidly from 2000 to 2007 as a result of the deflationary wage policy of the coalition between the Social Democratic Party and The Greens.

**Figure 1: Wage share development in selected countries**



Source: AMECO and own calculations.

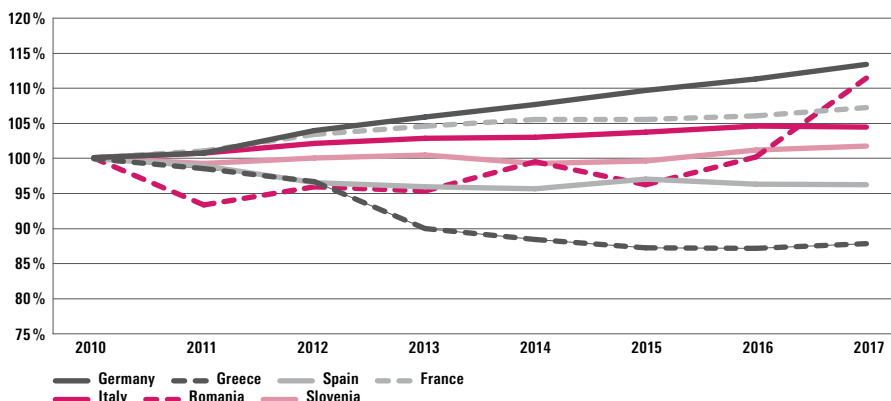
The decline in the wage share offers a basis to presume an increased profitability of capital by implication. Another indicator for this is the development of unit labour costs. If wages grow faster than productivity, then the unit labour costs also increase. However, the converse situation causes the unit labour costs to sink. In a simplified representation, the gap between productivity and wage development can be understood as the profit share per product unit. As a result, the development of unit labour costs indicates the distribution of the newly created value product and also the balance of power between capital and labour (Altvater 1978: 55). There is considerable variation in unit labour cost development across the EU. While countries in northern Europe have seen relative growth in unit labour costs after

years of stagnation, unit labour costs have fallen in the Southern European programme countries, sometimes dramatically. For example, unit labour costs increased by over 14% in Germany between 2012 and 2017, while they fell by 12% in Greece and 4% in Spain over the same period. In other countries such as Italy (+5%) or France (+7%), there was only a slight increase in unit labour costs. Interestingly, these countries recorded negative productivity development during the crisis. Real labour productivity dropped by 2.3% in France between 2009 and 2016, and by over 17% in Greece.<sup>8</sup> The fact that the unit labour costs did not increase in Greece, for example, in spite of the collapse in productivity, is due to the fact that wages fell even more steeply than productivity.

<sup>8</sup> Eurostat: Labour productivity per person employed and hour worked



**Figure 2: Development of unit labour costs since 2010 for selected countries**



Source: AMECO and own calculations.

On average, the gender pay gap has remained almost constant in the EU since the start of the crisis: in the areas of industry, construction and services (excluding public administration), the gender pay gap averaged 17.3% in 2008 and 16.3% in 2016 according to data from the Structure of Earnings Survey. However, these average values say little about the significant differences between countries. The gender pay gap has undergone a significant decline in some countries, but has nonetheless seen considerable growth in others. For example, the gender pay gap in Portugal was just 8.5% in 2007 but rose to 17.5% in 2016. To explain these figures, the developments would have to be examined in closer detail for each individual country.

The gender overall earnings gap in the EU, which stems from women having lower average wages, fewer paid hours of work and lower labour market participation, amounted, on average, to 44.2% in 2006 and 39.6% in 2014. Again, there are considerable differences between individual countries. For example, the gender overall earnings gap in Germany (2014: 45.2%) and Austria (2014: 44.9%) is still significantly higher than the average.

Since the onset of the recent crisis, the EU average rate of men and women considered “at risk of poverty” has increased in most member states. At the same time, the risk of poverty remains higher for women than for men (Table 1).

**Table 1: Rates, as a percentage, of men and women at risk of poverty in 2007 and 2016**

	2007		2016	
	Men	Women	Men	Women
EU 27 (before Croatia's accession)	23.1	25.7	23.9	26.2
Germany	21.1	24.4	22.5	26.1
France	20.1	21.5	20.0	22.7
United Kingdom	24.7	28.0	23.4	25.8
Italy	25.4	29.1	27.2	29.3
Spain	26.4	29.4	29.6	30.2
Portugal	24.5	26.7	25.4	27.3
Greece	27.1	29.0	28.0	28.2

source: Eurostat. Note: here people are considered at risk of poverty if their income is lower than 70 % of the median equivalised income.

The erosion of collective bargaining structures and the weakening of trade unions have had a massive impact on the macroeconomic steering capacity of the eurozone. As Keune (2016: 213ff.) explains, widespread distribution of collective bargaining opens up centralised possibilities for economic governance. However, strong trade unions and state interventions in wage policy, for example in the coverage of collective bargaining agreements, are also necessary. A look at the organisational level of the trade unions and the options available in state wage policy reveals, however, that governance of this kind would be

feasible in only a handful of European member states. Under European interventionism, instruments for limiting wage growth have been implemented exclusively, while instruments for effective, macroeconomic governance have been weakened. Correspondingly, it was not possible to achieve convergence in wage development. On the contrary, the divergences between member states have been consolidated and, in certain cases, even widened. In 2008 the average wages and salaries in the manufacturing industry in Greece were roughly 48 % of those in Germany; by 2017, this figure had fallen to just 35 %.

As highlighted in the previous sections, crisis management strategies of the EU have predominantly focused on policy adjustments to the wage and labour market to the detriment of Southern Europe's workers. But to what extent were they successful in contributing to a sustainable recovery and in reducing macroeconomic imbalances within the eurozone and the EU as a whole?<sup>9</sup>

An initial glance at the development of the current account disequilibria, which are often used as indicators of the overall development of macroeconomic imbalances, suggests that the dominant crisis management strategy has been extremely successful. While the current account of the euro area was initially negative during the crisis, it has been recording increasing surpluses since 2012. Although these are decreasing again slightly, they still far exceed the pre-crisis level. These current account surpluses of the euro area are due, on the one hand, to the reductions in the current account deficits of the Southern European periphery, and, on the other, to Germany's growing current account surpluses (EZB 2017).

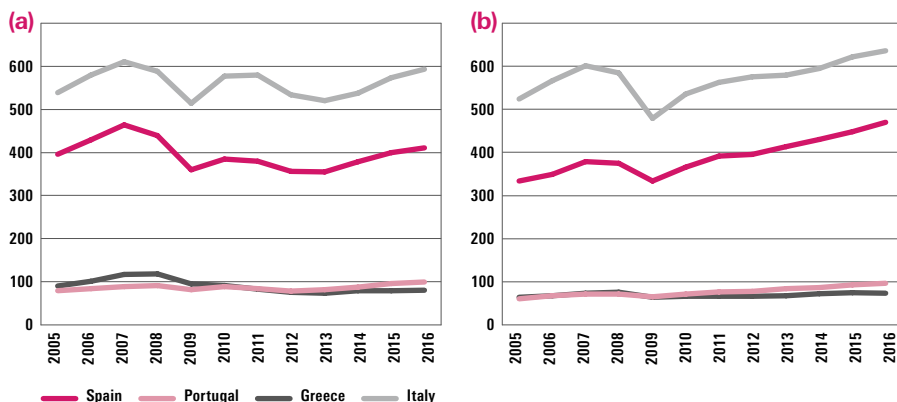
This overall current account trend is, however, based on specific development tendencies that are more important for assessing how effective the crisis management strategy has been in comparison to aggregated current account data. First of all, it is essential to note that the reduction in the current

account deficits has been aided by oil prices, which have been falling since 2012: between 2013 and 2017, oil imports as a share of the eurozone GDP sank from around 3.5% to 1.5% (ECB 2017). Moreover, the Southern European periphery's ability to reduce its current account deficits does not necessarily imply an increase in their international competitiveness. Both the crisis and subsequent austerity policies led to a decrease in effective purchasing power and, consequently, imports into the southern periphery of the eurozone, thus significantly contributing to these countries' ability to balance their books (vgl. u. a. Lindner 2017; Gräbner u. a. 2017; Heine/Sablowski 2015: 579). While all this was taking place, Germany's export surpluses shifted: since 2012 Germany has recorded a higher trade surplus with the rest of the world than with the euro area; in 2016, the former was already twice as high as the latter (Deutsche Bundesbank 2017: 21).

However, a comparison of the growth of imports and exports in the Southern European periphery reveals an ambivalent picture: imports into the Southern European periphery plummeted in 2008/09 because of the crisis and again in 2012/13, primarily as a result of austerity measures; at the same time, exports have increased since 2013 (with the exception of Greece) (Fig. 3). They now exceed pre-crisis levels and therefore help balance the current accounts.

<sup>9</sup> We would like to thank Jakob Hafele for his valuable contributions to this section.

**Figure 3: Imports (a) and exports (b) of selected crisis countries in USD billions, constant prices (2010)**



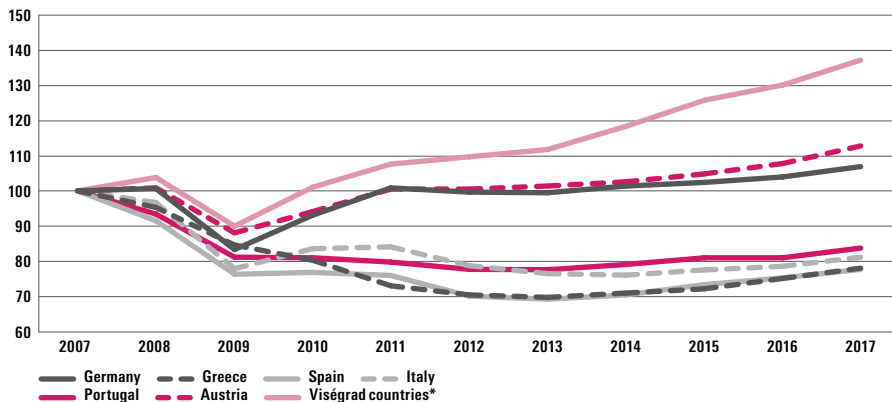
Source: World Bank, compiled by the authors.

Nonetheless, there are several indicators that the subjacent imbalances have not been redressed since the crisis. Instead, there has been further erosion of production structures in the periphery and greater polarisation within the euro area (vgl. auch: Gräbner u. a. 2017; grundlegend: Becker u. a. 2015; Schneider 2017: 28 ff.). The development of industrial production is indicative of this. While it did not take long for Germany and Austria to return to (and even better) pre-crisis levels (2007), industrial production took a serious and persistent nosedive in the Southern European periphery. In Spain and Greece, the figure has yet to even reach 80% of its pre-crisis levels. In both Portugal and Italy, industrial production is also far below its pre-crisis levels (Fig. 4). Given the persistent nature of the collapse, it can be assumed that production capacities in the periphery have not merely remained underused, but have also been permanently downscaled.

A further indicator of the increasing erosion of production structures in the Southern European periphery is the development of the sectoral export structure. In Germany and Austria, machinery and automotive, electrical engineering and chemical industries<sup>10</sup> made up 61.4% and 50.1% of the total exports in 2007 (i.e. pre-crisis), and their share continued to increase (to 63.1% and 51.8%) until 2016. In the Southern European periphery, by contrast, the share of these industries in the export structure declined – though to varying degrees. As a percentage of total exports, these industries' share fell from 37.9% to 35.5% in Portugal over the same period, and from 50.5% to 48.3% in Spain, and continued to drop in the already heavily de-industrialised Greece from 24.3% to 19.6% (UN 2018).

<sup>10</sup> Code 5 ("Chemicals") and 7 ("Machinery & Transport Equipment") according to the Standard International Trade Classification (SITC1).

**Figure 4: Industrial production (excluding construction), 2007 = 100, \*average**



Source: OECD and own calculations.

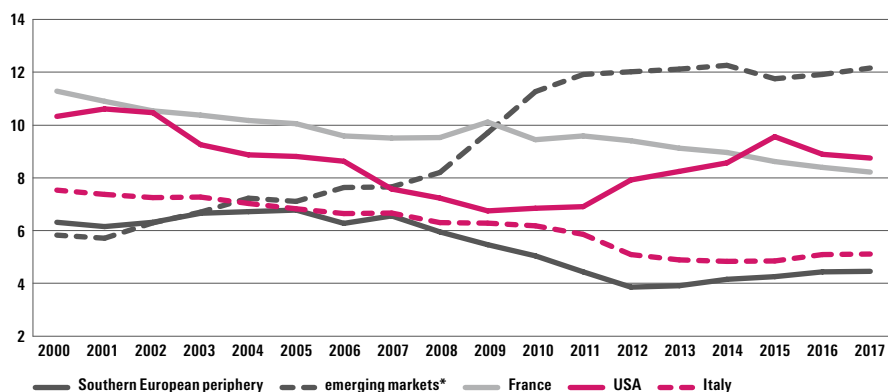
According to the so-called Economic Complexity Indicator<sup>11</sup> (ECI) and the Product Complexity Indicator (PCI), the Southern European production structures have also become less technologically complex. Gräbner u. a. (2017: 16 ff.) use the PCI to show that the German share of EU exports features a higher than average percentage of products with high technological complexity. In contrast, the Spanish and Portuguese share of EU exports comprises a lower than average percentage of complex products. In line with this, from 2000 to 2016, Portugal slipped down from position 32 to position 36 in the international ranking based on the ECI, Spain from position 20 to 33 and Greece from position 47 to 58 (CID 2018). Not only does this indicate the Southern European periphery's decline within the international division of labour; it is also an indicator of the polarisation within the European division of labour, as countries such as Germany, Austria,

Sweden and Finland continue to boast the most complex production systems in the world alongside Japan, South Korea and the US.

The opposite trend can be observed in the Visegrád Group of countries. Here industrial production developed even faster than in Germany and Austria and has overtaken pre-crisis levels by more than a third (Fig. 4), even if this growth has gone hand in hand with increasing internal polarisation and structural heterogeneity (Hürtgen 2015). In the ranking based on the ECI, the Visegrád states maintained the same positions or even moved up slightly. The percentage accounted for by mechanical and automotive, electrical engineering and chemical industries also increased from 57 % to 59.6 % on average, and even from 57 % to 64.7 % in the case of Slovakia (UN 2018). However,

<sup>11</sup> The Economic Complexity Indicator from the Harvard Center for International Development consists of the level of diversity of a country's exports and the level of their rarity or uniqueness (CID 2018).

**Figure 5: Shares of different countries (and country groups) as a percentage of total German exports; emerging markets\* = China (incl. Hong Kong), India, Brazil, Indonesia, South Korea, Turkey**



Source: IWF Direction of Trade Data, own calculations.

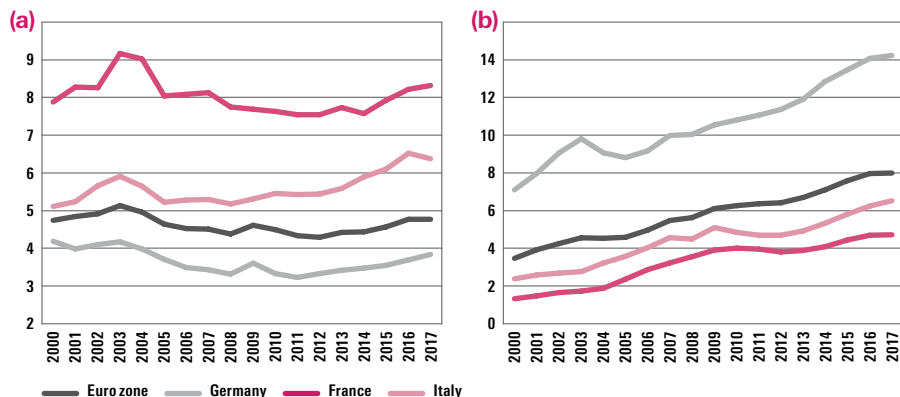
as this predominantly concerns the export of intermediate goods within production chains, these indicators do not suggest a dominant position in the European division of labour but rather an even closer subordinate integration into the German production system and export model.

This development is consistent with the profound upheavals in the regional structure of foreign trade within the euro area. The Southern European periphery has lost its relative and absolute significance as a market for German exports, even if the Southern European periphery's share in German exports is currently showing slight growth once again. At the same time, German exports have shifted increasingly towards the emerging markets of newly industrialised countries – a development that started before the crisis and was further reinforced by the slump in demand in the euro area brought about by the crisis and

austerity policies (Fig. 5). The Central and Eastern European periphery has benefited from this development as it is integrated in the German production system and export model through Foreign Direct Investments and offshoring (Simonazzi u. a. 2013; vgl. Gräbner u. a. 2017).

If we also compare the development of the Southern European periphery's and the Visegrád Group's share of the imports of the largest economies in the eurozone and the total eurozone since 2000 (Fig. 6), it is clear that the Visegrád Group (with the exception of Poland) has become even more deeply integrated into the German production system since the onset of the crisis and that its economic clout has grown across the entire eurozone (Becker 2018). In contrast, the percentage of imports from the Southern European periphery has increased only in Italy and – to varying degrees – France, while their share in the imports of the entire eurozone stagnated

**Figure 6: Imports from the Southern periphery (a) and the Viségrad group (b) as a percentage of total imports**



Source: IWF Direction of Trade Data, own calculations.

and their share of German imports – despite the slightly increasing trend at the moment – have remained comparatively low.

As a result, from the perspective of the dominant German production system, the Southern European periphery remains marginal in terms of imports and is increasingly marginalised in terms of its significance as an outlet for German exports. At the same time, a deepening of the long-standing dualisation between Northern and Southern Europe can be observed: while the trade relationships within the Southern European block (including France) as well as within the bloc comprising the German production system and its supplier economies are consolidated, the economic relations between these blocs diminish in relative importance.

On a political level, first and foremost, this contributes to a relative weakening of Southern Europe and, consequently,

also a growing asymmetry in the Franco-German axis, which, until now, has been the essential pillar for the European integration process (Heine/Sablowski 2015; Schneider/Syrovatka 2017). In addition, the increase in political significance of the Viségrad Group is also due to a shift in economic significance from south to east, which has received much less attention from the media. However, this growth in significance is dependent on the development pattern of the German production system, which, in turn, limits the Viségrad Group's political scope for action – particularly in the case of the more strongly foreign-trade oriented countries of Slovakia, Hungary and the Czech Republic. This led the Orban administration, for example, to take on foreign bank capital and the IMF, while the overpowering dominance of foreign direct investment, in particular from Germany, has not been challenged (Becker 2018).

## 5 ITALY: THE NEW LOCUS OF THE CONDENSATION OF THE EURO AREA'S CONTRADICTIONS?

In spite of decreasing current account disparities, the more fundamental patterns of unequal development persist in the euro area. The North-South division – a crucial factor in the process of European economic integration – is widening. While the crises in Greece, Portugal and Spain have, to some extent, been defused, contradictions of this unequal development are now primarily condensing in Italy. In contrast to Portugal, Spain and Greece, at first glance, Italy does not appear to have suffered a significant decline within the international division of labour. In the ECI ranking, Italy came 13th in 2000 and 16th in 2016. The combined share of mechanical engineering and the chemical and automotive industries as a percentage of Italy's exports has even risen slightly since the start of the recent crisis – from 47.1 % in 2007 to 48.7 % in 2016. Nonetheless, the drop in industrial production indicates that Italy is currently also experiencing an erosion of its industrial production system.

In the hierarchy of the European division of labour, Italy is situated between Germany and the periphery countries in Eastern and Southern Europe. It has a production apparatus that is almost as diverse as Germany's; however, there is a greater emphasis on "traditional" sectors of consumer good production such as clothing, shoes, leather goods, furniture, and food products. The mechanical engineering industry is also strong, though it is not as diverse as in Germany and has closer links to the light industry sectors, which are traditionally strong in Italy. In automobile production, mechanical engi-

neering, and the chemical and pharmaceutical industries, Italy competes with countries such as Germany, France, Japan and the US, while facing growing competition from the more peripheral, newly industrialising countries in its "traditional" sectors of light industry. Using a range of methods, Italian producers were able to defend their competitive edge for a long time in spite of being under pressure from both sides. Firstly, it is important to note the specific forms of industrial organisation in Italy: for instance, industrial districts emerged in a range of industries, i.e. local networks of flexible specialised small and medium-sized enterprises that developed intense cooperative relations along commodity chains and a high level of adaptability to changing market conditions. Secondly, prior to the formation of the European monetary union, Italy was able to maintain the competitiveness of its domestic industry by repeatedly devaluing its own currency.

However, the conditions for competition have changed drastically since the 1990s owing to the transformations taking place in Eastern Europe and China, as well as the European monetary union. While German exporters demonstrated as early as the 1980s that they could live with currency revaluations under the European Monetary System, Italian producers came under increasing pressure after losing the option of devaluing their currency. The differences in the specialisation profiles of the German and Italian producers in the monetary union are particularly beneficial for German producers because, for them, the euro is relatively undervalued,



while Italian producers grapple with a relative overvaluation of the euro. This increases the pressure to reduce costs. The reaction not only from large but also small and medium-sized enterprises in Italy has been to move manufacturing facilities abroad, primarily to Eastern Europe. While the growth rates of Italian direct investments abroad did fall in the crisis-stricken years between 2008 and 2012 compared with the period from 2003 to 2008, they were higher than those of Germany, France and the United Kingdom throughout this entire period (Heine 2015: 40 ff.).<sup>12</sup> While low-wage countries such as Algeria, Egypt and Poland have been key recipients of Italian direct investment for some time, there has been significant growth in Italian direct investment into countries such as Albania, Bulgaria, Croatia, Romania, Serbia, Hungary, Czech Republic and Turkey in recent years (Banca d'Italia 2017). For example, measured on the basis of the number of investment projects and the value of foreign direct investment, the largest investors in Serbia are Italian enterprises (RAS 2017: 4). In addition to Fiat Chrysler's joint venture in automotive production as well as banks and insurance, investments in Serbia have predominantly come from companies in the textile and clothing industry (Radenković 2016: 33). The significant extent to which foreign production sites are being integrated into the production chains of Italian enterprises and their suppliers is opening up gaps in the production networks in Italy. While Italy, similarly to Germany, was able to maintain an unusually high level of industrial employment for a long time, it is now showing a trend towards partial deindustrialisation.

Almost one million jobs were lost in the manufacturing sector between 2001 and 2011 (from 4.8 million down to almost 3.9 million). From a total of approximately 527,000 enterprises, over 100,000 enterprises disappeared during this time. The job losses were particularly pronounced in the textile and clothing industry (from over 600,000 jobs down to fewer than 370,000). Overall, the "traditional" light industry sectors suffered greater job losses than vehicle manufacturing or mechanical engineering, for example (Istat 2011).

These economic transformations provide the backdrop for the political crisis and the upheavals in the Italian party system, as well as for the political rise of players who wish to see Italy out of the EMU. Italy is not just the place where the contradictions inherent to the European crisis management strategy condense; at present, this is where they escalate. Unlike the centre of the euro area, relevant capital fractions in Italy are turning away from the euro. At the same time, an exit from the eurozone would – unlike the case of "Grexit" – put the continued existence of the EMU as a whole into doubt, if only due to the size of the Italian economy. For now the current coalition government, comprising Lega and Cinque Stelle, has taken a step back from their initial aim of leaving the monetary union, but the government's announcement to breach the EMU

<sup>12</sup> Foreign direct investments are realised for a variety of reasons. A large proportion of foreign direct investments aim to open up markets or are carried out as part of mergers and acquisitions, so it is primarily played out between the centres of capitalism. Only a smaller proportion are made to reduce costs or involve the construction of new production facilities ("greenfield investments"). In this respect, the figures on foreign direct investment are of only limited significance for the problem examined here.

deficit regulations to make essential investments or introduce new social benefits has already caused foreign

investors to move even more of their funds out of Italian government bonds (Financial Times 2018).

## 6 CONCLUSION

Without any doubt, the crisis has moved European integration forward, as demonstrated in the second section of this text with regard to the Europeanisation of the economic and labour market policy. Policy fields that are explicitly the subject of national and not European regulation are being brought under the EU-level coordination mechanisms underpinned by sanctions. In general, there has been little substantial change to the neoliberal mode of integration throughout the course of these developments; rather, neoliberal policies have been radicalised and implemented with an increasingly authoritarian manner. This form of crisis management aims to establish austerity policies on a permanent basis – not only in countries dependent on European loans but increasingly in all EU member states.

But austerity policies cannot be solely attributed to the EU as they are inevitable to a certain extent as part of the capitalist crisis management. For the capitalist classes and their intellectual and political representatives, resorting to austerity to limit spiralling national debt at the cost of wage-dependent workers and recovering the profitability of capital is an obvious step. Every major crisis so far leads to similar processes. Take, for example, the deflation policy implemented by German politician Heinrich Brüning in the 1930s. And in the 1970s, similar to the recent crisis, the first “Keynesian” crisis

management phase was followed by a transition to austerity policies, leading to the “monetarist shock” in the early 1980s. In this respect, the European crisis policy must be understood as one version of a more universal process. Isabel Ortiz u. a. (2015) show that measures such as wage freezing or decreases, and increases to consumption tax, pension reform, labour market reform, health-care reform and privatisation have been implemented or planned in numerous countries around the world after the most recent crisis. However, EU austerity policy is more than just crisis policy; it has effectively assumed constitutional status. It also reflects the generalisation of the neomercantilist growth model previously demonstrated by the ruling classes in Germany. To a certain degree, the crisis management strategies have shifted this from a national to an EU level.

The deepening of European integration, apparent not only in the economic and labour market policy but also in border protection, cooperation between police forces and intelligence services and in defence policy, is, however, only one side of the coin. While European integration advances in its authoritarian and repressive form, crisis management has ultimately failed to redress the internal contradictions and disintegration tendencies within the EU, and has instead merely displaced and reproduced them in other forms. As a consequence, the

balance of payments disequilibria have been partially reduced and numerous countries that showed current account deficits a few years ago are now recording current account surpluses. But below the surface of current account statistics, the hierarchical division of labour within the EU has been consolidated. Subsequently, the trends that paved the way for the European debt crisis continue – and, in some cases, do so in an even more acute form. The peripheral integration of Eastern Europe into the European division of labour is certainly linked to the Visegrád Group playing catch-up and their – albeit in many ways problematic – increasing confidence in the articulation of their own interests. This corresponds to a continuation of the general decline of the Southern European periphery and a widening of the North-South divide in the euro area. This division is also reflected in increasing wage gaps and differences in living conditions between the Southern European crisis countries and the north of the EU. Overall, there is no evidence of a convergence process; the divergences have merely shifted in form and are now evident in other ways.

On a political level, this is connected to a profound erosion of the traditional party system in Southern Europe. Until now, the ruling classes have been able to curtail these political disruptions to some extent, as is the case in Greece. However, given its size and status, Italy's current upheavals have the potential to impact the entire EMU and throw the continued existence of the eurozone as a whole into doubt. But even the neomercantilist strategy used by the bloc of export-oriented central economies around Germany, which has enjoyed success until now, is increasingly reaching its

limits. The dependency on a stable, US-sanctioned, free trade regulation and an automotive industry specialised in combustion engines has continued to grow over the last decade, and is now proving to be the Achilles heel of the German export model. The looming trade war with the US shows that such neomercantilist policies do not work in the long run as powerful trade partners will not stand by while their trade deficit grows and Germany continues to notch up trade surpluses. This also has the potential to exacerbate tensions and contradictions within the EMU. On the one hand, the European Single Market would grow in significance for Germany again after a steady decrease since the 1990s. On the other hand, there is a lack of effective demand due to the austerity policy-driven crisis management – and expanding demand through increased credit creation and capital inflows from abroad would again bring about a situation with balance of payments disequilibria that are not viable in the long term. At the moment it is unclear whether the renewed growth in importance of the European Single Market will increase the German power bloc's willingness to meet France in the middle and agree to shared transfer and liability mechanisms as part of a deepening of the EMU in order to stabilise the economic development in Southern Europe (Schneider/Syrovatka 2017). At present, the political contradictions within the EMU do appear to be exacerbating growing tensions in Franco-German relations. While Germany relies on France to keep the EU together and to be able to negotiate on a par with the US, France, just like the US, has a high current account deficit with Germany.

In brief, then, the economic crisis has been resolved in the short term, in particular at the expense of the workers in Southern Europe, and has led to a deepening of European integration along authoritarian and interventionist lines. However, the underlying contradictions have merely been displaced and are currently intensifying again, especially in Italy. Thus, in spite of and because of its crisis-induced deepening, the dominant form of European economic integration is becoming ever more fragile.

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**'In brief, then, the economic crisis has been resolved in the short term, in particular at the expense of the workers in Southern Europe, and has led to a deepening of European integration along authoritarian and interventionist lines. However, the underlying contradictions have merely been displaced and are currently intensifying again, especially in Italy. Thus, in spite of and because of its crisis-induced deepening, the dominant form of European economic integration is becoming ever more fragile.'**

