BusinessEurope and Economic Governance: For austerity, against the welfare state!

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Since the outbreak of the crisis, major reforms of the EU's economic governance have been introduced. These reforms are designed to lock in fiscal policy at a national level and enforce austerity at the European level.

The politics of austerity and neoliberal economic governance aren't simply the result of a false or mistaken economic theory; they have been deliberately promoted by and serve powerful interests. Big business has used the crisis as an opportunity to put its long--term goals onto Europe's political agenda. While European policymakers discuss further steps to deepen economic and monetary union, we take a look back to understand how Europe was set on a course towards a permanent system of neoliberal economic governance. This cannot be fully appreciated without examining the major players in the business community.

The most important business lobby

One of the main driving forces behind the reform of economic governance in recent years has been BusinessEurope (BE). BE is Europe's largest business association and organizes employers at the European level. It is made up of 41 national employers and industry federations and, in its own words, plays "a crucial role" in ensuring "that companies' interests are represented and defended vis-à-vis the European institutions with the principal aim of preserving and strengthening corporate competitiveness."[1] While BE is a broad alliance of business across Europe its inner structure reveals it is dominated by the interest of multinational corporations. The Corporate Advisory and Support Group which consists of 60 representatives of multinational corporations plays an important role not only within BE, but in ensuring BE's contacts with high-level EU officials.

1 http://www.businesseurope.eu/content/default.asp?PageID=582

BE is one of the most powerful lobby groups at the EU level and is therefore one of the main groups in contact with the Commission. Due to privileged access to the European Commission it is well-placed to ensure that corporate interests are thoroughly represented in EU policy-making.

Opportunity of a lifetime

If it was ever true that a crisis also brings opportunity this has definitely been the case for BE. Since the sovereign debt crisis first hit Greece in late 2009 and then spread through the whole eurozone BE has used the urgency of the situation to push its political-economic agenda. It has been one of the loudest and most forceful voices on the issue of economic governance in Brussels. From late 2009 to the end of last year BE intervened in the ongoing debate with more than 20 publicly available policy papers and letters to European institutions and individual decision makers. As we will see, many of their demands and proposals have already materialized in the economic governance reforms, and we are likely to see many more in the next few years.

BE has a strong interest in the current European politics of crisis being both consistent with and offering opportunities to further pursue their economic self-interest. First, the coercion of austerity measures increases the pressure on the welfare state and therefore opens up new sectors for private profit as public services and companies are privatized to raise money for the budget. Meanwhile social expenditure cuts weaken the protection of workers against worsening labor conditions. Second, enforced austerity is accompanied by the promotion of structural reforms, a term meaning, not a change of the economic structure, but the deepening of neoliberal economic policies through privatization, liberalization and in particular the weakening of labor rights. Lastly, BusinessEurope is in favour of these economic governance reforms mainly because it limits the scope of democracy on the national level by forcing those countries to implement austerity measures and structural reforms. It means a further strengthening of the European Commission – an institution which tends to be very favourable to business interests – while national parliaments lose much of their power to decide the direction of their fiscal and economic policies.

BusinessEurope: setting the agenda

In late 2009 BE started to develop their agenda for the crisis with the policy paper "Putting Europe back on Track"[2] which outlined its main demands for post-crisis Europe. At the heart of BE's program lies the call for fiscal consolidation, the deepening of the single market, de-regularization of labor markets and the fostering of free trade, or in short, austerity and neoliberal structural reforms. It is also noteworthy that BE was among the first to push for a reform of Europe's economic governance model in the context of the current crisis. While BE developed more concrete proposals later, in the aforementioned paper BE had already indicated the general direction in which they wanted the EU to go:

> "To increase its benefits, current and future members of the euro area will need to strengthen their collective responsibility [...] to fiscal discipline, structural reforms, sound and sustainable competitiveness [...]. Reinforce governance of the euro area will help to foster deeper market integration in the wider EU [...]."[3]

Some months later in early 2010, when the severity of the sovereign debt crisis was clear BE's program to transform Europe became even more concrete. They published an action plan, "Combining fiscal sustainability and growth"[4]. While the overall direction was the same, in this plan BE's proposals go into detail about exactly what should happen and how.

Noteworthy among their demands is the call for binding fiscal rules on a European and a national level, taking into account the national deficit and sovereign debt in relation to the GDP.[5] BE's aim for such binding rules is clear, as they state themselves: to reduce the scope of "political bargaining"[6] on fiscal policy, as the chief economist of BE puts it. This means nothing less than a reduction of democracy; instead of "political bargaining" between elected governments, political parties, and visible social interests, budgetary matters should be primarily the outcome of inflexible and democratically immutable rules.

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2 BusinessEurope; Putting Europe back on Track, September 2009, http://www.businesseurope.eu/content/default.asp?PageID=568&DocID=24599

3 ibid., p.8

4 BusinessEurope; "Combining fiscal sustainability and growth: A European Action Plan", March 2010, http://www.businesseurope.eu/content/default.asp?PageID=568&DocID=25979

5 ibid., p. 3

6 James Watson; Policy Making at EU-Level - Economic Governance. Address by James Watson, June 2011, p. 3 http://www.businesseurope.eu/content/default.asp?PageID=568&DocID=28845

To BusinessEurope, the European level and namely the European Commission provide the perfect framework to lock in national economic and budgetary policies, because this level is neither transparent, nor very accountable to the public. To strengthen the Commission means to strengthen an institution which is not particularly accountable to democratic procedures and whose personnel are – as has been reported in dozens of revolving door cases[7] – closely intertwined with the economic elites and one of the main targets of corporate lobbying.

Furthermore asking for more power for the Commission in this regard means strengthening the Directorate General on Economic and Financial Affairs in particular, which can be considered part of the neoliberal vanguard in Europe. The project pursued by BE is therefore not only for austerity (and neoliberal structural reforms) but a project to limit democracy itself, especially where it touches the interests of business.

With these proposals BE was one of the first political actors to propose binding fiscal rules, months before the European Commission brought up "binding instruments" to ensure compliance with the Stability and Growth Pact.[8] We can therefore conclude that BE was extremely successful in setting the agenda for economic governance reform. Today, both European and national fiscal rules are a reality with the implementation of the so called Six Pack and the Fiscal Compact.[9]

The key objective: structural reforms BE is not simply interested in fiscal consolidation, however. They link their demand for austerity with a broad political-economic program of "structural reforms" set forth in the aforementioned action plan[10]:

- Consideration of internal imbalances and external competitiveness – mainly a euphemism for business-friendly laws and low wages – in economic governance reform.

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7 For more information on revolving door cases see: http://corporateeurope.org/revolving-doors

8 European Commission; "Reinforcing Economic Governance", COM(2010) 250 final, May 2010, p. 5http://ec.europa.eu/economy_finance/articles/euro/documents/2010-05-12-com(2010)250_final.pdf

9 The Fiscal Compact is an intitiative launched by the German government. Like the six pack it sets rules for budgetary deficits and the sovereign debt. While the six pack is mainly enforced from the European level, the Fiscal Compact obliges member states to have 'debt brakes' within their national legislation or even their constitution. For a more detailed examination see: http://corporateeurope.org/publications/automatic-austerity

10 BusinessEurope; "Combining fiscal sustainability and growth: A European Action Plan", March 2010, http://www.businesseurope.eu/content/default.asp?PageID=568&DocID=25979

- Downsizing of the public sector: "Recourse to the market by the public sector should be generalised whenever a competitive market exists for services provided to citizens or for ancillary activities to state administration."[11]
- Increased scope for public-private partnerships.
- Reforms of the pension systems: linking life expectancy and retirement age and promoting private pension schemes.
- Healthcare: "Increase the degree of competition among providers of care and health insurance companies in order to make the system more efficient and innovative."
- Tax system: reduction of corporate taxes, "fair and transparent tax competition", make work more attractive through tax reductions on labor.[12]

The policy paper from 2010 and the action plan show a clear agenda: BE is pushing for a strict consolidation of public finances. This is combined with an agenda to, in summary, privatize public services and shift tax burdens away from business towards consumption taxes which affect the poorest most.

BE's interest in these kind of policies is logical. Although the politics of austerity worsen the economic crisis, they are still in the interest of big business. The attacks on the welfare state, accompanied by the promoted structural reforms in the labor market weaken labor and thereby, in a shrinking economy, help to raise business' share of profits, which also supports the project to reorient the European economies towards export-led growth instead of internal demand. Another reason why BE is promoting this agenda is privatization. The growing pressure on national budgets makes it tempting for governments to consolidate their finances through the privatization of public enterprises and services. This agenda is further promoted by several initiatives of the Commission to liberalize sectors traditionally in the public domain. The privatization of those sectors means that new areas are open for profitable business in times of crisis. The overall aim of BE's agenda can therefore be described as a general attack on labor and the welfare state to gain more profits out of their investments.

BE's political-economic program is underpinned by an ideological explanation of the crisis that justifies their demands. In their view, the sovereign debt crisis has nothing to do with

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11 BusinessEurope; "Combining fiscal sustainability and growth: A European Action Plan", March 2010, p. 3 http://www.businesseurope.eu/content/default.asp?PageID=568&DocID=25979,

12 ibid. p. 3 and p. 11-12

the socialization of private losses but rather “has its origin in years of indulgence and poor economic governance, long before the financial crisis broke out.”[13] This happened, according to BE, because financial markets didn’t distinguish between the different eurozone countries and provided them all with cheap credit. Therefore they are suspicious about Eurobonds or other means of debt mutualisation in particular as sharing the debt burden across the EU would ease financial markets' pressure on national governments to implement austerity measures and structural reforms.

BusinessEurope and the Task Force - “A structured dialogue”?

In March 2010, at the same time as BE published its action plan, the European Council established the Task Force on Economic Governance which was supposed to work out a new framework for economic governance in the EU and in the eurozone in particular. It was chaired by the European Council’s President Herman Van Rompuy and was composed of the national finance ministers, the Commissioner for Economic and Monetary Affairs Olli Rehn and the Head of the ECB Jean-Claude Trichet. The Task Force had a total lack of the transparency rules that would normally apply to European institutions, as such a body had not been foreseen in the EU’s legal framework. Therefore we don’t know much about how the business lobby influenced the work of the Task Force. But what we do know is that BE was very interested in gaining influence over it. In a letter, BE’s Director-General Phillipe De Buck asked Van Rompuy for a “structured dialogue”[14] with the Task Force and its participants.

We don’t know if this “structured dialogue” happened but the publicly available documents BE directed towards the Task Force reveal a further radicalisation and specification of their agenda. Especially noteworthy is their agenda of labor market reforms within a stricter economic governance framework:

> “Modernising wage-setting mechanisms, including removal of price indexation schemes, restricting indirect labour costs and reforming social benefit systems are all important priorities in this respect.

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13 BusinessEurope; IMPROVING EURO-AREA GOVERNANCE, SECURING THE LONG-TERM SUCCESS OF THE EURO, June 2010, p. 3, http://www.businesseurope.eu/content/default.asp?PageID=568&DocID=26627

14 Phillip De Buck, Letter to Van Rompuy, July 2010, p. 2, http://www.businesseurope.eu/content/default.asp?PageID=568&DocID=26807

> Public sector wages must also be set bearing in mind their effect on wage formation in the rest of the economy, their contribution to price stability and impact on global competitiveness."[15]

Defining Imbalances

BE is asking here for nothing less than the dismantling of labor rights gained over the last century. Once more it becomes obvious that BE is not so much interested in fiscal consolidation itself but in austerity as a mean to attack labor and the welfare state.

This call for competitiveness through structural reforms is also reflected in the indicators proposed by BE for a macroeconomic surveillance and imbalance procedure. The idea for instruments to deal with the enormous macroeconomic imbalances within the eurozone wasn't originally proposed by BE. Keynesian and leftwing economists have criticized the architecture of the eurozone since its inception for the way it created ever bigger imbalances between different national economies. In particular Germany was attacked for weakening internal demand, especially with the neoliberal labor reforms of the Schröder Government and its successors which based the strong and highly productive German economy on exports instead of internal demand. Without the option to devalue national currencies, decreasing wage levels and labor rights have become one of the few means member states can use to improve their competitiveness in a free trade single market with a shared currency. Before the outbreak of the crisis this critique was rather marginalized, but in its wake even Christine Lagarde, French Finance Minister at that time and the former Head of the IMF Dominique Strauss-Kahn made a similar argument in early 2010 when they urged the German government to boost internal demand and tackle the macroeconomic imbalances within the eurozone.[16]

Redefining imbalances

While these imbalances were put on the agenda of the Task Force, they were successfully reinterpreted by the Commission and Germany, while the French Government soon changed its position and promoted German-like labor market reforms. They were strongly supported in these efforts by BE. BE explained the macroeconomic imbalances as an issue of competitiveness and accordingly, proposed several indicators to measure a

15 Phillip De Buck, Letter to Van Rompuy, March 2011, p. 2, http://www.businesseurope.eu/content/default.asp?PageID=568&DocID=28181

16 Spiegel Online International; Tension in the Euro Zone: France, Germany Bicker over Export Surplus, http://www.spiegel.de/international/europe/tension-in-the-euro-zone-france-germany-bicker-over-export-surplus-a-684185.html

country's economic performance not only by the development of unit labor costs, but directly by the development of wages in the private and public sector.[17] While unit labor costs also take productivity into account BE's proposal directly targets wages to raise "competitiveness". In addition the fact that BE doesn't only want to make private sector wages a benchmark shows that they want also to dismantle the public sector because it sets standards for the whole economy. And it is pretty clear that BE doesn't want to penalize stagnant or decreasing wages. Another proposed indicator is also very revealing in terms of BE's political-economic agenda: "trade openness and export performance".[18] Summed up, BE's proposals focus on growth and profit through export orientation based on low wages.

Similarly, BE's agenda towards structural reforms is revealed in another proposal. While BE is on the one hand demanding strict and binding rules, they ask for exceptions from stricter fiscal rules in the case that a country is implementing structural reforms in areas such as labor, health care or social security.[19]

The Six Pack - Stricter Fiscal Rules and Structural Reforms

By late 2010 the Task Force had finished its work and, together with the Commission, presented the "Six Pack" (so called because it consists of six pieces of legislation) as the outcome of the process the month before. If we compare the implemented economic governance reform and the proposals of BE it shouldn't be surprising that BE was "glad to see a large number of these [their] recommendations reflected in the legislative package."[20] The Six Pack, which was finally adopted by the Council and the European Parliament in 2011, increases the pressure to implement austerity policies by other means.

First and foremost, countries that miss certain budgetary thresholds or don't reduce their overall debt burden (fast enough) can now easily be placed in a procedure – the excessive deficit procedure – which fines them for missing those targets. It increases the power of

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17 Phillip De Buck, Letter to Van Rompuy, July 2010, p. 2, http://www.businesseurope.eu/content/default.asp?PageID=568&DocID=26807

18 ibid.

19 BusinessEurope; IMPROVING EURO-AREA GOVERNANCE, SECURING THE LONG-TERM SUCCESS OF THE EURO, June 2010, p. 6, http://www.businesseurope.eu/content/default.asp?PageID=568&DocID=26627

20 BusinessEurope; "DECLARATION ON ECONOMIC GOVERNANCE", October 2010, p. 2 http://www.businesseurope.eu/content/default.asp?PageID=568&DocID=27393

the European Commission and in particular of the Directorate-General for Economic and Monetary Affairs. If the Commission concludes that a member state is not in compliance with the budget and debt rules it can put a member state under such a procedure. In contrast to the previously existing model – and also in contradiction to simple democratic process – the European Council can only stop the Commission if a (qualified) majority votes within ten days against it. This so called "reverse majority rule" achieves the desired goal of locking in democratic decisions on budgetary matters and therefore to some extent on economic policy in general. The Commission is now – warmly welcomed by BE – in a position to enforce the rules of austerity, through sanctions if necessary

Another demand which was embraced by the Task Force and the Commission was a list of proposed exceptions for the budgetary targets in the case of comprehensive structural reforms. The regulation on the surveillance of budgetary positions reads in this regard:

> "the Council and the Commission shall take into account the implementation of major structural reforms which have direct long-term positive budgetary effects, including by raising potential sustainable growth, and therefore a verifiable impact on the long-term sustainability of public finances."[21]

This exception from the budgetary rules is very revealing and interesting. The whole budgetary surveillance under the Six Pack is about austerity and how to enforce it except if a country delivers neoliberal structural reforms on the wish-list of big business. So if a country invests in social progress without visible economic value to the Commission, there is no space for exceptions but if for example it privatizes its pension system or abolishes labor protections the new framework is very sympathetic.

Matching agendas

The Six Pack not only delivers the binding fiscal rules BE demanded, thereby enforcing austerity, it also promotes the structural reforms BE wished for. Implementation of the excessive imbalance procedure (EIP) puts all EU countries under a close surveillance regime in terms of their "competitiveness". Countries losing competitiveness in the view of the Commission (which supervises this procedure), are put under the "corrective arm" where the concerned country can not only be fined for losing "competitiveness", but has to

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21 Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, 22 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32011R1175:EN:NOT

follow a “corrective action plan”. The corrective action plan describes the detailed policy actions the country has to take within a defined time frame, based on an agreement between the affected member state, the Commission and the Council. The scoreboard of indicators that judges this competitiveness is set unilaterally by the Commission and is therefore out of reach of democratic control. What is considered a macroeconomic imbalance and how it is measured, is the sole decision of the Commission.[22] While the current scoreboard doesn’t adopt BE's proposals (listed on page 4) precisely it still promotes the same agenda. Among 12 indicators, for example, one measures a country's current account balance with a bias towards surpluses, therefore privileging an economy orientated to exports. Another one assesses the development of unit labor cost and therefore wage developments.[23] This is not what BE had asked for, as they wanted wages to be the benchmark itself, but unit labor costs consist of the relationship between wages and output. And wages are the variable easily to modify if austerity policies are promoted on a European level. In addition it is noteworthy that the scoreboard only measures if the unit labor costs rise too fast, but not the opposite. This is highly problematic because it is well known that low wages in Germany combined with a high productivity made it possible to increase Germany’s share within the eurozone on the back of others.

A Troika-like approach

It is noteworthy that a country which has to adopt a “corrective action” plan is supposed to graduate from the corrective arm of the procedure not by getting the indicators in balance again but by implementing the corrective action plan to the satisfaction of the European institutions.[24] This means that the aim of the “corrective action” is not so much to correct imbalances, but to promote specific neoliberal structural reforms. Therefore we can assume that the true aim is to force through specific neoliberal measures rather than to correct actually existing imbalances within the eurozone. The “correction” of “macro-economic imbalances” is a Troika-like-approach. So far only countries with difficulties refinancing their sovereign debt have been forced under the regime of the Troika (which

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22 Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, Article 4 (http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32011R1176:EN:NOT)

23 DG-ECFIN; Scoreboard Indicators, http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/mip_scoreboard/index_en.htm

24 Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, Art. 8 and 9 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32011R1176:EN:NOT

consists of the European Union, the European Central Bank and the International Monetary Fund), which means that relevant decisions are made by the Troika instead of democratically elected parliaments. But with this procedure it is now possible that the European Commission and the European Council will directly determine the course of the economic policies of a country, merely for crossing certain statistical thresholds which are considered to be a macro-economic imbalance. This is a further attempt to undermine democratic decision making on the national level and helps to promote the agenda on BE's wish-list.

In addition to the direct power the EU gains with this reform, the imbalances procedure is an advantage for big corporations in another respect. The Commission now provides a set of concentrated official data to measure a country's competitiveness. This creates new pressure on governments to comply in the race for competitiveness as financial markets will punish a country not matching the criteria.

Taking governance further

Motivated by their success after the adoption of the Six Pack, BE hasn't paused in pushing forward their agenda. In October 2011 the General Director of BE asked in a speech for even "more radical reform"[25] of European economic governance.

At the centre of BE's agenda once again was the call for a stronger, committed implementation of structural reforms. On the one hand BE was very happy about the approach the Commission had taken in the country specific recommendations (annual non-binding recommendations by the Commission to all member states on economic policy) towards structural reforms,[26] but on the other they were quite unhappy about the member states unwillingness to really implement the recommended reforms.[27] So BE gave

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25 Phillipe De Buck; "TWENTY-FIFTH MEETING OF THE MACRO-ECONOMIC DIALOGUE AT POLITICAL LEVEL", p. 2 http://www.businesseurope.eu/content/default.asp?PageID=568&DocID=29202

26 ibid.

27 BusinessEurope; "OVERCOMING THE CRISIS: TOWARDS A POLICY PROGRAMME FOR SUSTAINABLE RECOVERY", November 2011, p. 2 http://www.businesseurope.eu/content/default.asp?PageID=568&DocID=29429

a clear message: “So, no more lip service in Brussels. But a real commitment from all member states to review their policies.” [28]

In June 2012 Van Rompuy together with the Heads of the Commission and the ECB presented their report “Towards a genuine Economic and Monetary Union”[29] which offered a way to realise BE’s urgent demand to enforce structural reforms: contractual agreements between the European Commission and the individual member states.[30] The idea behind this is clear. Instead of non-binding recommendations, member states would be forced into agreements on structural reforms that would not only undermine democracy but also act as a vehicle to promote the neoliberal agenda BE supports so strongly within the member states.

With the ongoing debate on a “genuine economic and monetary union” the coming month will be decisive; will democracy further diminish while neoliberal austerity policies deepen, or can other voices be raised loud enough to ensure that big business isn’t the only group being listened to. When European head of states meet in March in Brussels at the EU Spring Summit to discuss these issues it is time to confront them with mass protest in Brussels and across Europe. Corporate Europe Observatory therefore calls to join the mobilisation for the European Days of Action on March 13 and 14.

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28 Phillipe De Buck; “THE GROWTH IMPERATIVE – CIP BUSINESS CONGRESS, November 2011, p. 3, http://www.businesseurope.eu/DocShareNoFrame/docs/16/EICCIJKABMDHOEABHPGPHNLPPDWY9DWN7Y9LTE4Q/UNICE/docs/DLS/2011-01691-E.pdf

29 Van Rompuy; “Towards a Genuine Economic and Monetary Union”, June 2012, http://ec.europa.eu/economy_finance/focuson/crisis/documents/131201_en.pdf

30 For a more detailed examination see http://corporateeurope.org/blog/troika-everyone-forever and http://corporateeurope.org/blog/hand-hand-towards-genuine-economic-and-monetary-union