9 The EU’s competitiveness fetish
Industrial renaissance through internal devaluation, really?

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Industrial policy, once a key pillar of European integration, has been outlawed during the past decades of neoliberal reign. As part of recent European Union (EU) crisis-management plans however, industrial policy seems to be reviving. The European Commission’s Communication, For a European Industrial Renaissance, issued in 2014 is telling here, announcing that “a strong industrial base will be of key importance for Europe’s economic recovery and competitiveness” (European Commission, 2014). To overcome the crisis and make the EU future proof, the goal is to reverse the process of deindustrialization, reflected in the transfer of manufacturing capacity to China and other emerging markets by boosting industrial competitiveness. The target is to increase the manufacturing share of the EU’s GDP from its current 15 percent to 20 percent by 2020. Manufacturing, which accounts for 40 percent of all EU exports, is argued to be the main driver for “innovation, jobs, growth and wealth” (ibid.).

Boosting the competitiveness of EU manufacturing industries certainly sounds politically appealing, particularly against the backdrop of a rising popular fatigue with fiscal austerity. Moreover, competitiveness evokes a vision of being part of a successful and “winning” community. A cursory inspection of the EU competitiveness agenda may give the impression of a perspicacious Keynesian-type of industrial policy – one that supports knowledge-intensive sectors and tackles the persistently high unemployment in the EU since 2009. However, reforms in the spirit of competitiveness are highly deceptive. Competitiveness is primarily understood as “price and cost” competitiveness, creating favourable parameters for export-led growth. EU industries should be able to compete on global markets on the basis of lower prices (European Commission, 2016a). Because individual economies within the Economic and Monetary Union (EMU) cannot cheapen export prices by engaging in unilateral devaluation, internal devaluation has been advocated as the way forward. The suggested strategy is three-tiered: first, depreciating real wages and inducing further labour market reforms; second, intensifying inter-company competition to lower prices; and third, lowering the overall level of corporate taxation. Arguably, internal devaluation as a substitute for exchange rate adjustments has been on the agenda since Maastricht. The EMU has
literally been designed to rule out Keynesian-style industrial policies through deficit spending. Moreover, far-reaching internal devaluation measures have already been employed in the context of Memoranda of Understanding and the new economic governance packages, such as the European Semester of 2010 or the Euro Plus Pact of 2011. Nonetheless, the new industrial policy is new as far as it seeks to anchor internal devaluation in a regulatory framework according to which not only the most crisis-hit member states, but the entire EU has to step up reform efforts. EU economies not only have to undercut each other’s cost and price competitiveness, or corporate tax rates in a competitive, beggar-thy-neighbour fashion, but also those of the main trading partners or rivals. The suggested race-to-the-bottom has strong authoritarian aspects, whereby not only democratic institutions but also social partners are being disempowered (Wigger, 2018). Although EU member states have weakened the first set of Commission proposals for bilateral competitiveness pacts or competitiveness authorities, the democratically unelected and unaccountable Commission will still gain further discretionary powers in areas that hitherto have fallen outside the EU’s competence. In addition, the powers of the European Courts are likely to be strengthened to sanction cases of non-compliance with commonly agreed competitiveness benchmarks.

Some political economists echo the message from EU institutions, repeating the claim that labour costs in the EU are too high to remain competitive (for example, Eichengreen, 2008, p. 380). In contrast, post-Keynesian and critical political economy scholars have shown that the EU’s neoliberal crisis management has failed dramatically (for example, Jäger and Springler, 2015; Sandbu, 2015; Stiglitz, 2016; Stockhammer, 2016). This chapter takes this further by examining the new industrial policy strategy as the most recent crisis-management strategy. Whereas previous research labelled the EU crisis management as “muddling through” (Overbeek, 2012), or as “lacking a clear vision” (EuroMemorandum, 2013), it will be shown here that the driving coalition of EU governments, EU institutions, and organized capital have a clear and outspoken vision. This vision continues to be neoliberal in orientation and does not display a radical break with the crises measures hitherto. The new industrial policy, which is actually a disguised form of internal devaluation, rather calibrates neoliberal structural adjustments by putting the primary burden of adjustment on labour rather than capital: while wage repression, labour market reforms, and intense price competition directly and indirectly deflate labour, the reduction of corporate taxes expedites the redistribution of wealth from labour to capital. As this chapter will argue, little if anything has been learned from the previous crisis management. Internal devaluation exacerbates existing structural asymmetries and economic disintegration further, and thus will fail just as earlier forms of neo-liberal crisis-management also failed.

The chapter is organized as follows: Section one sketches the wider EU approach to crisis management since 2008 and locates the new industrial policy therein. Section two outlines and discusses the internal devaluation strategy
with regard to the issue of reducing unit labour costs and intensified price competition. Section three reveals the authoritarian traits of the regulatory format, and Section four analyses the coalition of key driving political agents. The concluding section summarizes the main findings and considers the possibility that, in the name of competitiveness, the last remnants of labour rights risk being torn down in a major assault on democracy.

1. EU crisis management revisited

When major financial institutions, and particularly those with large US subprime exposure, faced a heightened liquidity shortage ("credit crunch") and the threat of insolvency in 2007–2008, many EU governments reacted quickly by bailing out banks considered of systemic importance ("too big to fail"). State aid packages took the form of massive loans or liquidity guarantees, government-sponsored mergers, corporate tax exemptions, a (partial) nationalization of banks by the acquisition of "toxic" assets and state purchase of preferential shares, and government guarantees for deposits (see Wigger and Buch-Hansen, 2014). The Commission took more than 500 decisions from 2008 to 2015 concerning 117 European banks (European Commission, 2016b). The bailouts amounted to roughly €747 billion, while another €1,188 billion was made available in guarantees on liabilities (TNI, 2017, p. 4). Soon after, when other industries in distress such as the car, steel, construction, or shipbuilding industries, also demanded emergency state aid to cope with the worsening crisis, the Commission was no longer so permissive and declared state aid to be a distortion to competition in the common market. At the time, the Commission construed the crisis as a crisis within the financial sector only, and optimistically expected the crisis to be over by December 31, 2010, the expiry date of permitted state aid schemes for the financial sector. Even though the expiry date had to be extended several times, the Commission maintained that the bailouts mitigated the course of the crisis considerably, and that the adoption of subsequent financial regulations reduced the build-up and the emergence of systemic risk across the financial system.

Bailing out the financial sector, in conjunction with overall lower GDPs and declining tax revenues, exhausted national budgets. The crisis was subsequently no longer interpreted as a crisis of the financial sector but as a sovereign debt crisis due to excessive government spending. Particularly Southern Eurozone members suffered from growing current account imbalances and rapidly accumulating public debt, facing acute difficulties to sell bonds (and thus, public debt) on financial markets. In response, the EU, together with the International Monetary Fund (IMF), provided conditional loans to governments, while, in parallel, the European Central Bank (ECB) started a series of liquidity injections to the financial system. Rather than blaming the financial sector, crisis-hit Eurozone-member governments were accused to have lived beyond their means, which served as a political legitimation for the imposition of painful austerity programmes. A range of Eurozone-specific and more
general EU-28 regulatory and treaty-based measures were adopted. These comprised the European Semester of 2010; the Euro Plus Pact; the Six Pack of 2011; the Treaty for Stability, Coordination and Governance, leading to the Fiscal Compact of 2012; and the Two Pack of 2013. These measures imposed a strict EU monitoring of national budgets, limiting the capacity to run budget deficits and adopt costly social and economic policies. Tightening member states’ fiscal discipline and enhancing their ability to service their debts served the purpose of regaining the trust of financial markets and their rating agencies. Austerity packages did not stabilize public finances: they merely targeted ongoing budget deficits, while protecting the accumulated stock of existing debt (Sandbu, 2015, p. 64). As a result, deficit and debt ratios stayed high, while economic contraction and depression aggravated. Even IMF economists eventually concluded that austerity did more harm than good (see for example Blanchard and Leigh, 2013). However, EU bureaucrats and politicians continued to push for strict budget rules. With EU austerity politics under mounting critique, Jeroen Dijsselbloem (2017), former head of the unelected and democratically unaccountable Eurogroup, announced, “there will be a change in the policy mix [...] moving away from austerity and putting more emphasis on deep reforms.” Particularly, structural reform boosting economic competitiveness came to be heralded as the new strategy. In other words, the crisis’s root causes came to be framed as a lack of competitiveness of European economies.

The EU has a longstanding tradition of policies justified by the rhetoric of competitiveness. Already the preambles of the Treaty of Rome of 1957 declared “a high degree of competitiveness” as a Community goal (Article 2). Indeed, competitiveness performance indexes, benchmarking best practices and scoreboards have formed the apex of the neoliberal organization of capitalism in Europe for decades. The Lisbon Agenda of 2000 and its successor strategy Europe 2020 were entrenched with notions of competitiveness. When the crisis hit, “competitiveness” moved up the agenda. In 2011, the European Commission announced:

[w]hile fiscal imbalances are at the forefront of the current policy debate, they are by no means the only area where policy action is needed. Recent developments have highlighted the urgent need for some euro-area Member States to restore their external balances and to improve their competitiveness.

(European Commission, 2011, pp. 21–22)

The Four Presidents’ Report (2012) launched the idea that EU member governments should conclude annual contractual arrangements with the Commission, targeting areas where competitiveness was weak. In January 2013, German Chancellor Merkel proclaimed at the World Economic Forum in Davos, Switzerland that “Competitiveness Pacts,” along similar lines to the Fiscal Compact, should create the prerequisite to get access to financial aid
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from EU budgets under what euphemistically had been termed the “solidarity mechanism.” A month later, the Commission launched a proposal for a “Convergence and Competitiveness Instrument,” which suggested a procedure according to which the Commission would make recommendations to individual member governments on how to regain competitiveness (European Commission, 2013). Almost simultaneously, the European Council committed itself to negotiate “Partnerships for Growth, Employment and Competitiveness,” entailing that individual governments and the Commission would conclude bilateral reform contracts, which would be subject to approval by Council, notably in the configuration of the Competitiveness Council (European Council, 2013, pp. 17–20). In contrast to the reform requirements spelled out in the Memoranda of Understanding (MoU) between member states and the Troika or the IMF/EU, the envisaged competitiveness treaties would encompass all Eurozone members. Furthermore, in contrast to the Country-Specific Recommendations (CSRs) issued ex ante by the Commission under the European Semester procedure of 2011, the competitiveness treaties would be legally binding, which would make them enforceable through ex post litigation before the EU Courts. In the absence of political support, the Council negotiations were stalled in June 2014; yet the idea of member state-specific competitiveness reforms has persisted ever since. The Five Presidents’ Report, prepared by the European Commission’s President, in cooperation with the Presidents of the Euro Summit, Eurogroup, the European Central Bank, and the European Parliament, proposed establishing “National Competitiveness Authorities” entrusted with the supervision of policies and performances in the field of competitiveness (see Five Presidents’ Report, 2015). To trivialise the binding character, the Commission subsequently renamed the envisaged Competitiveness Authorities, Competitiveness Boards, and in September 2016, the Council subsequently issued a recommendation calling upon Eurozone members to establish “National Productivity Boards” – a slightly weakened version of what the Commission initially proposed.

2. Industrial renaissance through internal devaluation

The Commission Communication “For a European Industrial Renaissance” (2014) prophesies a vast on-shoring of manufacturing production back from emerging markets to Europe, provided competitiveness measures were adopted. In addition to increasing the manufacturing share of the EU GDP from 15 to 20 percent by 2020, keeping pace with China, India or Brazil takes centre-stage. The Commission emphasized that EU’s relative weight in world trade and share of world capital flows vis-à-vis emerging markets had both declined. The Chinese economy, for example, no longer exclusively caters for labour-intensive low value-added production but climbed the ladder towards high-quality, high value-added segments, notably in the computer and electronics sector, and became the world’s largest exporter at country-level, while attracting a share of FDI equal to the EU (European Commission, 2015a,
The Communication is just one among many policy programmes. The European Fund for Strategic Investments (EFSI) established in June 2015, also referred to as the Juncker Funds, named after Commission President Jean-Claude Juncker, for example, seeks to co-finance and leverage risky “infrastructure and innovation projects” around Europe that would not otherwise be funded. Similarly, the Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) seeks to improve SMEs’ access to credit on the basis of guarantees and counter-guarantees, as well as through using the securitization of debt-finance portfolios as leverage.

The various packages may give the impression of an active industrial policy consisting of state aid packages meant to counter the decline in Europe’s industrial base as they had been employed during the stagflation crisis of the 1970s. However, as former Commissioner Almunia (2014) affirmed, the new industrial policy differed markedly from that of the 1970s. In the view of the Commission, the EU’s future prosperity depends on its ability to attract investments, most notably Foreign Direct Investment (FDI) to compensate for low domestic investments. Since the 1970s, investments in the production sphere in relation to GDP have been declining, which is due to saturated markets, lingering overcapacity, slowly growing aggregate demand and a vast tertiarization. Measured in terms of gross fixed capital formation, investments decreased from 22.1 percent of GDP in 2000 to 19.3 percent in 2014, which compares to 45 percent in China or 30 percent in India (European Commission, 2015a, p. 8). From 2000 to 2014, de-industrialization accelerated in the EU: the share of manufacturing of the total EU GDP fell by 3.5 percentage points in nominal value-added terms (from 18.8 to 15.3 percent), and employment in manufacturing 16 percent, which translates in a reduction of 6 million jobs (ibid., pp. 5–7, 14). Whereas the crisis also hit the service sector hard, its impact was much heavier on manufacturing industries. De-industrialization has not affected all manufacturing sectors equally, and its national impact is also uneven, with manufacturing output dropping dramatically in Greece, Italy, Portugal, Spain, and Cyprus (ibid., p. 7). Although the debt-fuelled accumulation model in the EU’s Southern periphery bolstered gross fixed capital formation from 1995 up to 2008, most investments were made in non-tradable sectors, such as construction in Spain, tourism in Greece, and other services in Ireland, which increased import dependency and worsened current accounts (Stockhammer and Onaran, 2012a, pp. 13–14; Collignon and Esposito, 2014). According to the Commission, the way to attract investments in the real economy is to boost the competitiveness of European economies.

Competitiveness is almost exclusively understood in terms of internal devaluation, which can “mimic the expenditure-switching effects of ‘external’ exchange rate devaluation” (European Commission, 2011b, p. 22). European economies should become more resilient through falling wages, prices and corporate tax rates. Wage moderation is expected to make “labour” less costly for business, and to translate into overall lower prices for goods and services. Likewise, more intense price competition, alongside a vast deregulation of
product markets and further privatizations, is expected to lead to lower prices and hence overall lowered production costs. In addition, reduced corporate tax burdens, reduced taxes on exports, and a “revenue-neutral” shift from taxes on labour to consumption are expected to restore an attractive investment climate in Europe (European Commission, 2011b). In short, internal devaluation is expected to boost extra-EU exports and improve EU trade balances. Or, as German Chancellor Merkel (2013) declared, the yardstick of competitiveness “should be whether our products can compete in global markets.” Emulating the emerging markets’ comparative advantage of cheap labour and deflating labour constitutes a cornerstone of the new EU industrial policy.

**Industrial renaissance through deflating labour**

A central yardstick to assess and compare the evolution of competitiveness is unit labour costs, a ratio between productivity and total labour compensation (direct and indirect labour costs), indicating whether labour costs rise in line with productivity gains. The components vary, ranging from total labour cost structures, like wages or employers’ contributions to social security and pension schemes vis-à-vis units of produced output or number of hours worked, whether at individual company, industry, regional or national level. Reducing unit labour costs is believed to have positive signalling effects to investors and will eventually boost economic growth and higher net exports, with a trickledown effect on employment and re-industrialization across Europe. Chancellor Merkel (2013), for example, reiterated it was vital to keep driving down labour costs to create a regulatory environment in Europe that is attractive to investors. Unit labour costs can be reduced either by increasing productivity or reducing elements of the total labour costs structure. However, since de-industrialization in the 1970s, productivity in the EU has slowed considerably, and productivity gains in the tertiary sector are limited. Consequently, labour market adjustments, notably through wage suppression or labour market flexibilization, are strongly emphasized, particularly as wages for temporary and flexible labour tend to be lower, and as social security benefits or experience-rated pay can be avoided.

Scoreboards of unit labour costs have become all-pervasive in EU crisis management. The general argument is that Greece, Ireland, Spain and Portugal have had real wage increases “far beyond of what could be justified on the basis of efficient production” (see Sandbu, 2015, p. 37). Germany’s relatively low unit labour costs often serve as a benchmark to illustrate that, since 2000, unit labour costs in the Southern periphery increased 25–30 percent faster than in Germany (Stockhammer and Onaran, 2012b, p. 198). So, it should not surprise that the far-reaching internal devaluation programme, adopted under Chancellor Schroeder’s Agenda 2010 is now not only considered a recipe for ailing economies in the South but also for all Eurozone economies. *Modell Deutschland* entails that job protection was lowered, job acceptance regulations for unemployed tightened (including so-called 1 euro jobs outside regular
labour markets), temporary work agencies deregulated, social welfare for long-term unemployed dismantled, social contributions reduced, collective bargaining decentralized and corporate taxes cut (Stockhammer and Onaran, 2012a, p. 15, 2012b, p. 197; Collignon and Esposito, 2014). A range of EU member states have already adopted similar reforms, varying from “piecemeal although significant deregulatory measures” to “far-reaching overhauls of the whole labour code” – either voluntarily or to meet Troika imposed requirements in return for financial support (Clauwaert and Schoenmann, 2012). Moreover, in the context of the European Semester, the Commission demanded wage cuts in the non-tradable public sector, expecting private wages would follow suit; a freezing or lowering of minimum wages; a radical decentralization of collective wage-setting procedures; and labour market flexibilization, including an easing of hiring and firing, flexible working time or changes in overtime and time-off provisions through reducing or abolishing compensation (see ETUI, 2014, pp. 59, 62). The root causes of the crisis, in other words, have become re-construed in terms of inflexible labour, rising and too high labour costs, unproductive labour and implicitly, too powerful trade unions.

Experiments with internal devaluation have hitherto only fostered structural asymmetries in Europe. In Greece, where services account for 80 percent of the GDP and where productivity gains are thus difficult to achieve, unit labour costs were reduced by 20 percent on the basis of rigorous interventions in the wage bargaining process, labour market flexibilization, and a reduction of minimum wages by 22 percent and an additional 10 percent for the young (ibid., p. 10). In addition to mass dismissals and a vast exodus of Greeks seeking jobs elsewhere, 36 percent of Greeks find themselves at risk of poverty or social exclusion – the highest rate in the Eurozone, and 10 percent higher than the Eurozone average (Stiglitz, 2016, p. 226). So far, internal devaluation has increased neither employment levels nor exports. Labour costs have foremost been reduced in the public sector, which therefore left the export position unaffected. Moreover, Greek exports are concentrated in capital-intensive low and medium technology sectors, and not labour-intensive sectors. Lower wages did also not translate into lower prices. In fact, Greek export prices increased by 20 percent from 2009 to 2013 – the highest increase in the Eurozone (ETUI, 2014, p. 17). Reducing unit labour costs, in other words, merely served to improve returns on capital. These returns have not been invested in long-term productivity, or in projects that improve the structural position of existing industries. As Sablowski (2012) explains, lowering wages in Greece cannot solve the problem that Greek industries cannot keep up the competition with Germany’s in high-tech manufacturing, automobile production, or the machine-tools industry, simply because such industries (or equivalents that would allow for high-value added production for export) do not exist.

Germany’s internal devaluation programme is often told as a success story because, since 2000, net exports have driven three quarters of its GDP growth. However, German workers have not profited from higher wages and the
growth of jobs was almost exclusively due to precarious and part-time employment (Sandbu, 2015, pp. 27–28). German manufacturers also tended not to invest in the German economy but relocated production to cheap labour areas in Central and Eastern Europe, notably Poland, the Czech Republic, Hungary and Slovakia, from where they imported components and processed material more cheaply (see Esposito and Guerrieri, 2014, p. 89). Moreover, EU economies mainly trade with each other, albeit in a highly uneven manner, and the expansion of Germany’s manufacturing industry has led to a contraction of manufacturing in other EU economies. This was further spurred by the valorization of surplus capital through credit extension to the EU’s periphery (and thus, what has not been paid out in wages). Cheap credit not only led to expansionary fiscal policies and household consumption as the main lever for economic growth in the South, but also further augmented the trade surplus of the EU’s North.

A competitive reduction of unit labour costs cannot solve structural economic asymmetries in Europe. EU economies cannot all expand their industries and pursue an export-led growth pattern with a large trade surplus; particularly as a reduction of unit labour costs in a given member state will weaken unit labour costs in others. Wage repression, in combination with austerity, undermines not only domestic but also intra-EU consumption, while triggering deflation, all factors that make the proclaimed export-led growth strategy a chimera. The obsession with export competitiveness is premised on the presence of strong global demand; however, global demand is weak. As extra-EU exports account for a relatively small share of the EU’s GDP (ranging between 12 to 15 percent, see Eurostat, 2017), internal devaluation will have a moderate effect on the EU’s net-export position, if at all (Stockhammer and Onaran, 2012b, pp. 195–196). Furthermore, reducing unit labour costs does not reduce debt burdens in poor deficit countries. Instead, it leads to a growing share of “working poor” and precarious workers, hitting hard on the youth, women, and migrants, particularly non-EU migrants, and low-skilled workers (EuroMemorandum, 2013, p. 39; ETUI, 2014, p. 10).

Competitiveness measured on the basis of unit labour costs is a crude reductionist travesty that dehumanizes and objectifies commodified labour to the extreme. As Marx observed in the Grundrisse (1973 [1939], p. 164), under capitalism, individuals are ruled by abstractions and the character of these abstractions is a product of historic relations. The abstraction, or idea however “[…] is nothing more than the theoretical expression of those material relations which are their lord and master” (ibid.). Scoreboards of unit labour costs are such an abstraction. Used as a calculus for competitive comparisons, unit labour costs transpose human labour into a symbol of quantifiable and commensurable exchange value, which then underpin entire policy programmes. As will be shown in the next section, labour is not only depreciated on the basis of reducing unit labour costs, but also intensified capitalist competition, another key strategy of the EU internal devaluation agenda.
The competition-competitiveness Nexus in internal devaluation

The Commission readily admits that internal devaluation through reducing unit labour costs is not the only strategy required, as only the cost of labour is targeted, thereby neglecting variable production costs such as energy and raw materials (European Commission, 2015a, p. 57). Thus, it also advocates a strict enforcement of competition rules as one of the main levers to reduce the cost of capital, energy, raw materials and other production inputs. Particularly the prices in the non-traded intermediate sectors, like electricity and energy, are in the spotlight. In addition, a range of “pro-competition” reforms have been announced, notably reforms that remove perceived (regulatory) market barriers in product markets. Moreover, flanking regulatory packages, such as the “Regulatory Fitness and Performance Programme” (REFIT) and “Competitiveness Proofing” have already been employed to remove existing legislation and to screen future legislation regarding their impact on competitiveness.

The competitiveness agenda is premised on the idea that Eurozone economies can compete themselves out of the crisis based on an overall lowering of price levels. According to former Competition Commissioner Almunia (2012a, 2012b), competition policy is “the cheapest and most effective structural reform”, “at no extra cost for the taxpayer.” Competition, he argued, enhances “competitiveness and innovation, creates jobs and drives economic expansion”. The Commission’s unfathomable faith in capitalist competition as the backbone for economic growth builds on the axiom that positive feedback loops in the form of higher competitiveness and better performance of entire economies can be expected if a plethora of discrete companies strive to become more efficient, increase their productivity and stay ahead of rivals through lower prices. The benefits of capitalist competition are presented as inherently positive-sum, lifting society to ever-higher standards of economic wealth, or, in the words of the European Commission (2016a), “consumers, taxpayers, workers and businesses – everyone is better off overall when competition exists in our markets.” Competition policy is also portrayed as a redistributive policy: through competition, prices are expected to converge towards marginal production costs, thereby reducing the portion of realized surplus value for capitalists and benefitting consumers.

Lower prices and economic growth through increased consumption might appear much-needed in times of economic slump and recession, and a strict enforcement of competition rules might seem less painful than tight austerity packages, onslaughts on social rights, labour and welfare state retrenchment. Moreover, the freedom to compete is often associated with broader notions of political freedom and individual self-determination. However, as Marx wrote in the Grundrisse (1973 [1939], p. 650): “[i]t is not individuals that are set free by free competition; it is, rather, capital which is set free” (Marx, 1973 [1939], p. 651). Competitive pressures can intensify to an extent that the prices of competitors can only be undercut by reducing variable production costs through a further exploitation of labour and nature (Wigger and Buch-Hansen, 2014).
To remain profitable and stay in production, capitalists constantly have to enhance the productivity of labour or cheapen labour. Internal devaluation through intensified competition rule enforcement may strike a chord among a great variety of political persuasions; however, ultimately, capitalist competition also deflates labour.

3. The authoritarian guise of internal devaluation

A range of scholars highlighted the authoritarian nature that EU crisis responses have (Bruff, 2014; Durand and Keucheyan, 2015; Oberndorfer, 2012; Sandbeck and Schneider, 2014), thereby drawing on Poulantzas’s (1978, 1979) concept of authoritarian statism (see Oberndorfer, 2012; Sandbeck and Schneider, 2014) and Hall’s (1979, 1985) work on authoritarian populism (see Bruff, 2014). In addition to outright violations of formal democracy, the authoritarian traits consist of constitutional and legal changes that have reconfigured EU institutions and its member states into less democratic entities. Executive, judicial, and bureaucratic discretionary powers have been strengthened, key decision-making areas insulated from the democratic control of legislative forces, de jure and de facto coercion has become more prevalent, and fewer attempts are being made to achieve consent with contesting groups through policy and/or material concessions.

The form in which competitiveness measures are being imposed is yet another domain of economic governance where we witness the removal of conventional forms of democratic contestation and accountability (see also Wigger, 2018). For example, competition rules enforcement, ensuring more intense price competition as a form of internal devaluation, has been insulated from democratic control since the beginning of European integration. The Commission, the supranational competition authority, is investigator, prosecutor, judge, jury and executioner all in one, and thus fuses legislative, executive and judicial powers. Commission decisions in competition cases can only be challenged before the European Courts. In addition to individual case decisions, the Commission often issues quasi-legislation, such as substantive notices, comfort letters, codes of conduct, and guidelines, which allow it to circumvent democratic legislative processes. There is no comparable field where the Commission enjoys such far-reaching discretionary powers and where the Council and the Parliament have so little to say (see Wigger and Buch-Hansen, 2015). Or, as incumbent Competition Commissioner Vestager (2015) has admitted herself in one of her speeches, “[t]here is simply no room to spare for political interference”.

Similar authoritarian traits can be observed in the suggested governance framework for competitiveness. The initial idea of “Competitiveness Pacts” – annual bilateral reform contracts signed between individual member states and the European Commission – had to be enforceable before the Courts. Including the punishing arm of the Courts was considered pivotal as, according to Commission President Juncker, the 2011 Euro Plus Pact on Stronger
Economic Policy Coordination for Competitiveness and Convergence failed to deliver the expected results – not because of the substance of the policies but because of their non-binding intergovernmental nature (Five President’s Report, 2015, p. 4). The Five Presidents’ Report, which suggested establishing “National Competitiveness Authorities,” no longer mentioned the involvement of the Courts in cases of non-compliance but envisaged these authorities would have functional autonomy and enjoy a statuary basis in national law so their decisions would have the authority of law. Moreover, these authorities had to be politically independent from ministries and public authorities when supervising national policies and performances of competitiveness (see Five Presidents’ Report, 2015). Having national rather than supranational competitiveness authorities was meant to increase the perception of national ownership and also to leave room for national disparities and legal traditions. According to the Report, “Member States have a responsibility and self-interest to maintain sound policies and to embark on reforms that make their economies more flexible and competitive” (ibid., p. 4). What may at first glance appear as a decentralized approach is, however, highly centralized. The Commission was envisaged as the chief coordinator, entrusted with the task of supervising the national competitiveness authorities, and formulating common templates and standards. The Commission would then use the reported progress by the national authorities as a basis for the Commission’s “country-specific recommendations” in the European Semester (ibid., p. 7–8). Common standards had to span the field of “labour markets, competitiveness, business environment and public administrations, as well as certain aspects of tax policy (e.g. corporate tax base)” (ibid., p. 9). Importantly, national competitiveness authorities should be mandated to “assess whether wages are evolving in line with productivity” as well as in comparison with other Eurozone members and “the main comparable trading partners” (ibid., p. 7). Furthermore, they should promote the “flexicurity” concept, the contradictory combination of flexible and reliable labour contracts, coupled with lifelong learning strategies and modern social security systems (ibid., p. 9). In October 2015, the European Commission (2015b) issued a “Recommendation for a Council Recommendation on the Establishment of National Competitiveness Boards”. The preference for “boards” rather than “authorities” was probably intended to appease member governments with a much less perilous-sounding term, given the climate of growing Euroscepticism and outright anti-EU sentiments. Yet, by suggesting the Council recommend such boards, the Commission sidestepped the ordinary legislative procedure, thereby excluding any parliamentary oversight and debate, or formal democratic accountability (see European Parliament, 2015). The Council (2016) eventually weakened the Commission’s suggestions but adopted the overall policy course. It renamed the competitiveness boards into productivity boards and downgraded the role of the Commission from a coordinator to a facilitator in the exchange of views among national boards. Nonetheless, the annual reports of these productivity boards will inform the country-specific recommendations in the European
Semester, while their main task will be to ensure member states “raise productivity while containing unit labour costs” and make adjustments when “cost competitiveness lags behind the euro area average” (European Council, 2017, p. 6).

Whether internal devaluation is regulated based on bilateral competitiveness pacts, national competitiveness authorities, or national productivity boards, the suggestions all constitute an assault on democracy, marginalizing not only national parliaments and the European Parliament but also the social partners. Although the Commission maintains it will not intervene directly in wage levels and collective bargaining rules, it advocated that social partners should use the annual competitiveness reports as guidance during wage-setting negotiations. Based on the European Semester, the Commission already has a foot in the door, allowing it to intervene into the wage formation process and demand labour cost adjustments, thereby intruding into policy domains that used to be a national preserve. As the European Trade Union Confederation (ETUC) has argued, “we are only a hair’s breath away from setting maximum wage standard[s] for collective bargaining that are legally binding, or from questioning the validity of strike action [...]” (2015).

4. Driving and contesting forces internal devaluation as industrial policy

The competitiveness agenda and the internal devaluation strategy have been actively promoted and supported by organized (transnational) capital. The so-called “Captains of Industry,” assembled in the European Round Table of Industrialists (ERT), were invited to a meeting in Berlin in March 2013, bringing together the German Chancellor Merkel, French President Hollande and Commission President Barroso, where it was jointly agreed that industrial competitiveness should be at the centre of EU policy making (ERT, 2013a). The fifteen ERT members present at the meeting made their position unequivocally clear: to be competitive, the EU needed more business-friendly regulations, such as tax reductions, less labour protection and more labour market flexibilization, lower wages and severance payments, further privatizations as well as the facilitation of mergers and acquisitions, or what the ERT calls “market-driven consolidation” (ibid.). In June 2014, the ERT (2014, p. 1) issued an Agenda for Action 2014–2019 for the newly appointed Commission, titled “EU Industrial Renaissance”, echoing the Commission’s documentation and demanding “industrial competitiveness should be mainstreamed throughout all policy areas and at all policy levels.”

Already back in the 1990s, representatives of transnational industrial capital deplored the lagging competitiveness of the EU vis-à-vis Japan and the US, blaming high tax levels, high social and energy costs, and the “exorbitant” contracts between social partners and environmental legislation (Barber, 1994, p. 2). The ERT included a “Competitiveness Working Group” into its organizational structure, and suggested a Commissioner for Competitiveness
at Commission level, and a Competitiveness Council at Council level. While the Competitiveness Commissioner should be entrusted with the task of scrutinizing EU legislation for its aptness to industrial interests, and preventing all kinds of directives that might harm the interests of large corporations attempting to compete on a global scale, the Competitiveness Council should have a veto right, blocking all new Commission initiatives that dilute the competitiveness of the European industry (ERT, 2014, p. 2). Basically, a “competitiveness screening” of all EU legislation had to be conducted at the proposal stage, as well as on all subsequent amendments until final adoption, while existing regulations had to undergo “fitness checks” (ERT 2011, p. 4, 2012, p. 1), or “benchmark tests”, comparing the regulatory environment of EU industries with those in main competitor markets (ERT, 2014, p. 3). The ERT further insisted that competition policy be integrated into a new strategic and holistic industrial policy that would take global competition as a basis for decisions and enhance EU companies’ ability to be competitive internationally (ERT, 2011, 2012, 2013b, 2014). State aid, which was previously regarded as competition distorting among EU economies, had to be reconsidered in a global context, and access to private capital, including private equity and venture capital – alternative types of finance – had to be facilitated (ERT, 2012, p. 1). Finally, the EU climate and energy policy had to be adapted to ensure that target of the industry’s share of 20 percent of EU GDP by 2002 is not endangered (ERT, 2014, p. 4).

The ERT’s suggested agenda was supported by nationally organized industrial capital. In a series of joint declarations, the German BDI (Bundesverband der Deutschen Industrie, Federal Association of German Industry) and Confindustria, Italy’s largest employers’ association, as well as the French MEDEF (Mouvement des entreprises de France or Movement of Enterprises of France), demanded that their governments put industrial competitiveness “at the core of each and every European policy” (BDI, 2014a, 2014b). These business consortia called for a fundamental change in the EU governance structure, suggesting the imposition of a “watchdog for competitiveness”, such as by upgrading the competences of the Competitiveness Council, and a fast-track procedure that would allow circumvention of amendments by the European Parliament when adopting new legislation or when abolishing burdensome and costly legislation (see BDI 2014a). The BDI and Confindustria even threatened that more business-friendly measures were prerequisites of future investments in Europe, emphasizing that otherwise 90 percent of future economic growth will be generated outside Europe (ibid.). Strengthening price competitiveness was identified as a main driver for innovation, particularly in the field of electricity prices, where state policies were blamed for a rise of 37 percent since 2005 (BDI, 2014a). To achieve price competitiveness, the costs of labour, energy, finance and administrative requirements had to be reduced, while non-price competitiveness had to be fortified by an improved regulatory environment for enterprises. The outspoken demands by organized industrial capital were corroborated by the OECD (2014), which recommended that all
EU member states, including those less hard-hit by the crisis, should push forward reforms that enhance competitive pressures in both labour and product markets, lower the tax burden on corporate income and capital gains, lower unit labour costs through a significant reduction in nominal wages, and “reducing the dualism between temporary and permanent jobs” (ibid.). As the previous sections have shown, the joint articulation of national and transnational business seems to have borne fruit: internal devaluation achieved through lowering the costs of labour, reducing prices and taxes has become the most prevailing agenda point in EU crisis management. The Commission’s new industrial policy embraced the demands of organized industries almost literally, while competitiveness proofing mechanisms for existing and future regulation have been put in place.

EU crisis management also led to considerable social unrest and political contestation, most notably in Southern Europe, where concerted actions, such as a series of transnational campaigns, manifestos and petitions, as well as joint strike days and weeks of action against EU austerity policies sought to chart an alternative future for European integration (see Wigger and Horn, 2014). However, whereas Europe’s political Left has not managed to win the support of a vast constituency, neo-populist Eurosceptic, radical right and even neo-fascist parties successfully harness feelings of discontent and insecurity. The statist centre-left moreover seems entangled by the enthralling competitiveness rhetoric as a remedy to rising poverty and social exclusion and has not discredited and de-legitimized the prevailing narrow vision of competitiveness. Even though ETUC, the umbrella organization of national trade unions, vehemently condemned the establishment of competitiveness or productivity boards (see ETUC, 2015), the uneven manifestation of the crisis and the persistent asymmetries of economic development in Europe has led to a situation in which organized labour is fractionalized into competing confederations with different positions or at times even contradictory interests, making it difficult to achieve transnational labour solidarity (Horn, 2012). Even more striking is the disrespect of the social dialogue at EU level. None of the austerity or the hasty bailout packages has been implemented in cooperation with trade unions. As ETUC (2014) writes, in formal meetings with the Troika, trade unions could voice demands and critique in ten-minute time slots, while Troika-representatives reacted with a “set response,” replying with “generalities” or in an elusive way. The exclusion of contesting forces from EU decision-making is an ongoing feature. Illustrative is the establishment of a permanent dialogue between the Commission with consumers in the form of an “Annual European Competition and Consumers Day,” or the establishment of the “European Consumer Consultative Group,” while for organized labour there is no equivalent. The structurally disadvantaged position of the Left is narrowing the scope for a more progressive and democratically justified EU crisis management. Decisions taken behind closed doors with the participation of financial and transnational industrial capital significantly constrain the room for manoeuvre for subaltern forces.
5. Conclusions

The prevailing interpretation of the crisis at EU level has shifted over time from a crisis within the financial system, to a crisis of sovereign debt, and more recently, to a crisis of lacking competitiveness of European economies. As German Chancellor Merkel (2013) stated: “[...] from a European standpoint we must aim to be so competitive that we not only stay prosperous but become even more prosperous.” The question is however, who will become more prosperous on the basis of the EU competitiveness agenda. Competitiveness is now conflated with lower wages, lower prices, and lower corporate taxes, thereby construing the crisis in terms of inflexible labour markets, and high labour and production costs. What has been disguised as the new industrial policy primarily serves to maximize the freedom of capital to exploit labour, which implies that less surplus from the production sphere will have to be redistributed to wage earners. Ever since the adoption of neoliberal policies in the late 1970s, average wage shares of GDP have been on a downward trend, and so have corporate taxes. In a context where member states will have to undercut each other’s internal devaluation policies in a “beggar-thy-neighbour” fashion, labour will be even further devalued. We see thus more of the same neoliberal remedies imposed in a highly authoritarian fashion, which not only insulates political decision-making from formal state democratic interventions but also marginalises any form of social dialogue. As competition disunites more than it unites, the competitiveness agenda, alias industrial policy, also risks the establishment of a solid basis for future social cohesion and pan-European worker solidarity. What is more, the competitiveness strategy is counter-productive and will only worsen the vast structural imbalances and uneven economic development in Europe, and if aggregate demand is tempered further, the propensity to invest in real production will stay weak. Thanks to the above-mentioned structural problem of overaccumulation, ever more surplus capital will be freed for circulation in the financial sphere with the prospect that the next manifestation of this crisis will again be in the financial sector; however, this time far more dramatic than what we have seen since 2007/8.

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