

EU, LABOUR AND REFORMS

PASQUALE TRIDICO

Eurozone's trilemma

(suspended in part during pandemic)

In the Eurozone, the model is:

- Fixed exchange rates;
- Free movement of capital;
- Budgetary discipline;
- Independent monetary policy.

This means that the Member States of the EU can make policy decisions only about labour policy, competitiveness, technology e similar things.

The trilemma is therefore defined by three pillars and it is difficult to solve:

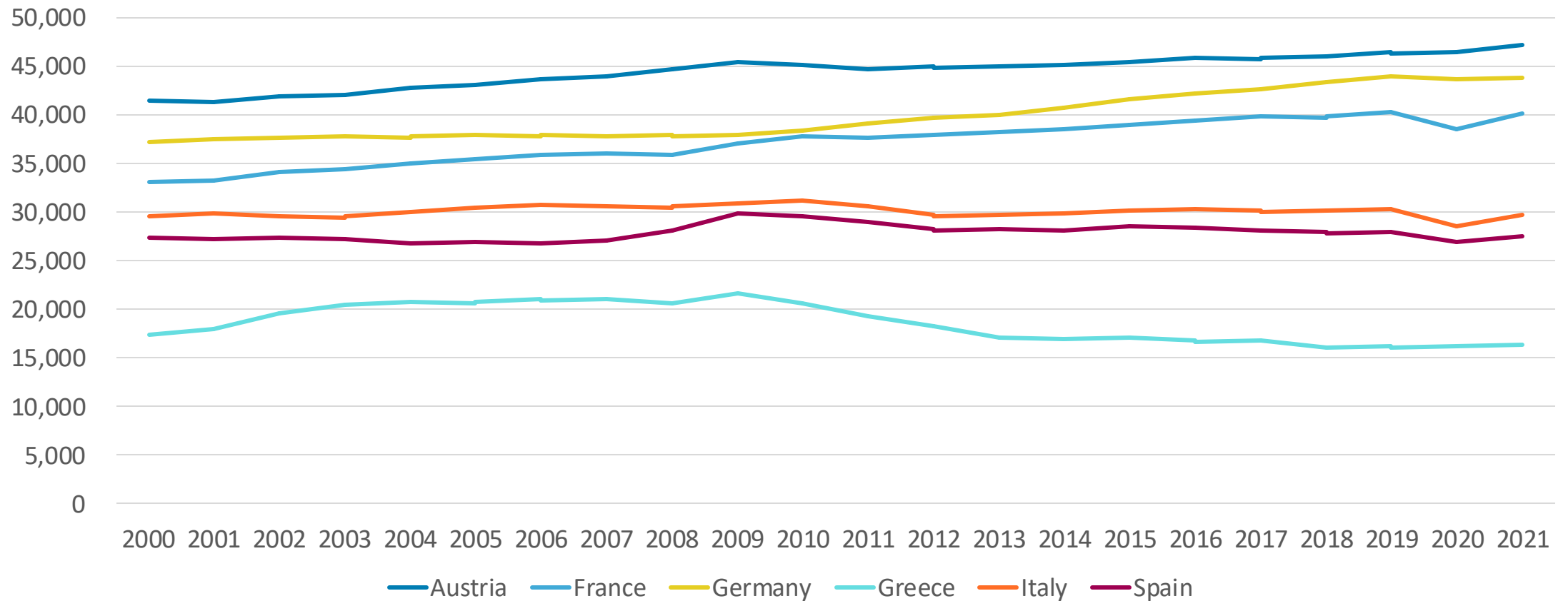
- Fixed exchange rates;
- Internal demand deflation/ instead of demand expansion;
- Internal salaries deflation/ instead of increase of salaries and employment.

The consequences of the trilemma

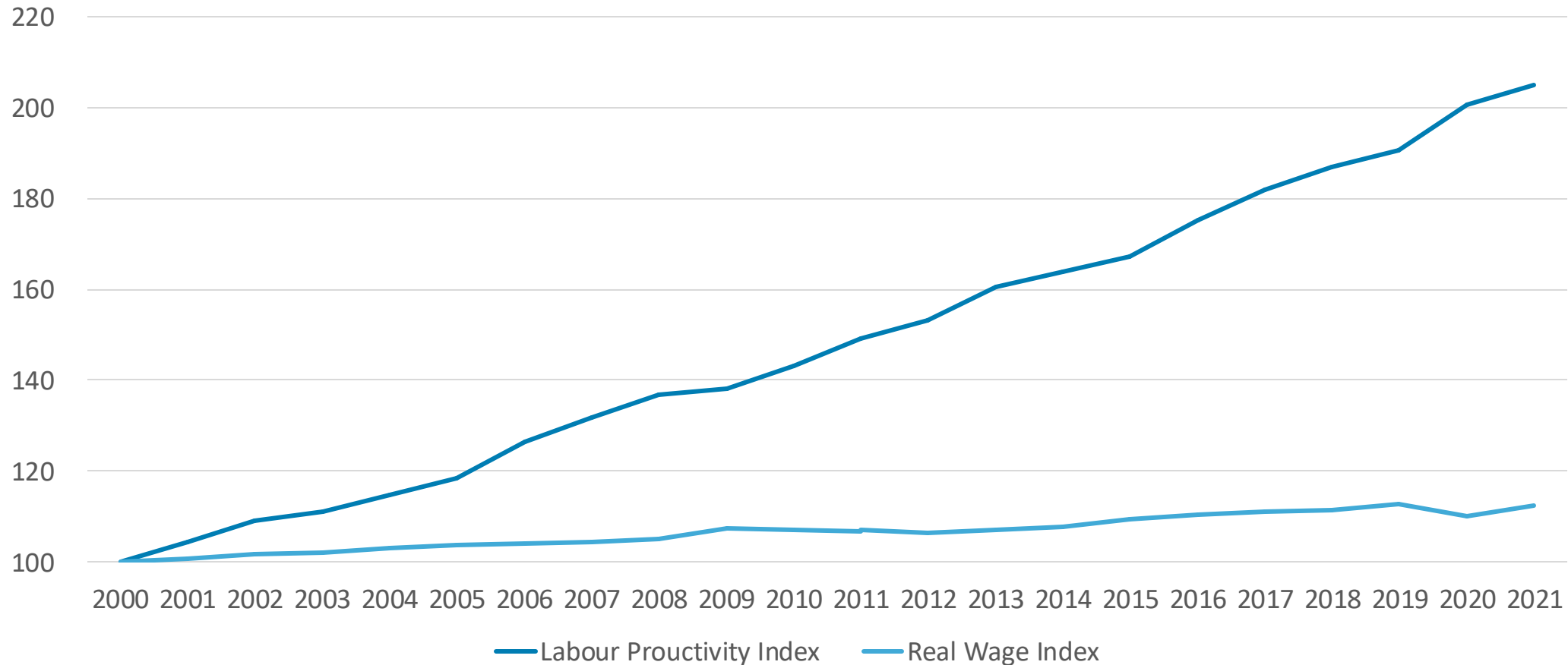
- In crisis time, because of the fixed exchange rates, the EU Member States have to implement restrictive fiscal policy (austerity), so that the demand for foreign goods decreased and the trade balance increases.
- It also increases unemployment, it decreases salaries and it increases competitiveness.
- From the European Commission's point of view, this strategy is rational because it fosters competitiveness. However, workers experience a lower level of income.
- **In other words, to increase competitiveness there is internal devaluation of employment and salaries, with structural policies → labour flexibility, decrease of salaries and deflation.**
- With fixed exchange rates and capital mobility, expansionary policies can cause more deficit in the trade balance of the South European States because of the increase of the import and the negative effects on demand and employment.
- On the other hand, with internal deregulation of the job market (EU structural reforms, decrease of wages, of public expenditure and indirect wages), there will be a further compression of the demand, a worsening of the recession and of the government debt-to-GDP ratio and an increase of the inequality.
- The experience of Draghi's monetary policy has shown that the quantitative easing is a possible solution, but it has a low probability of success (with exception of lowering spreads).

Real wages in euro, current prices. Source OCSE

2021 Constant prices and NCU



Wage compression (Eurozone average). Source OCSE



For the overall real wage index (2021 Constant prices and NCU), it is a weighted average (by population) of the national index of the following countries: Austria, Belgium, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Portugal, Slovenia, Spain.

A possible solution

A radical reform that starts from:

- **A EU system of subsidies against poverty and unemployment;**
- A ECB financed central fund that can be used to implement expansionary policies in Member States that experience recession and unemployment such as major projects and European relevant infrastructure.
- Golden rule: productive investments must be separated from the budget, without determining commercial deficit or decreases in internal demand

Different suggestions for European policy

- **Mazzucato** proposes that the State should be entrepreneur and innovator (but it is not feasible in the EU with the constraint of 3% of deficit);
- **Piketty** argues that in Europe there should be a common taxation and a minimum wage level (but how it can be done given the EU tax competition where each Member State tries to attract capital using a fixed tax for rich individual/companies?);
- **Krugman** thinks that exchange rates must be floating, in this way, it would not necessary for the salaries to decrease. However, this is not possible because we cannot have floating exchange rates with an unique currency.
- Moreover, which policies can be implemented if the EU assumes that the NAIRU is on average 9%? The decrease of a NAIRU of 9% would be possible only with active policies, labour flexibility, structural reforms instead of demand policies.

A new plan for a Social Europe

1. Introduction of **an European unemployment benefit in order to compensate for unemployment unbalances**. It would be useful for economic and political purposes, to close the gap between the EU and the EU citizens.
2. The ECB must be reformed, including employment in its statute. **ECB should be able to purchase MS government bond** without limits and finance public work and infrastructure.
3. Creation of a **Central European Budget of 5%**, to be increased over time to 10%.
4. Within eurozone: if there is a maximum deficit, there must be also a maximum surplus. Everything exceeding 3% of the surplus should be put in an **European Common Fund**.
5. The European Common Fund should be used to finance the **emission of 'labour' Eurobond** which have the purpose to invest in MS or Regions with unemployment rates higher than 8-10%.
6. **Productive investments should not be included in national deficits** of Member States.

Would it be useful to have a somehow European Unemployment benefit?

Possible Criteria for a European Unemployed benefits:

According to the results of some simulation (Brandolini et al. 2014) the best shock absorber in terms of stabilization capability has the following characteristics:

1. 50% of replacement rate for all employees experiencing a job termination;
 2. Eight months maximum duration;
 3. Trigger based on employment dynamics.
- The simulation results show that even assuming no redistribution across countries (full experience rating scheme) the coefficient of variation of the EA10 GDP is reduced by 0.03 per cent.
 - Schemes with partial or no experience rating would offer up to three times this level of stabilisation but would imply cross country redistribution.

Not only an EU Unemployment benefit, but also a EU Citizen Income?

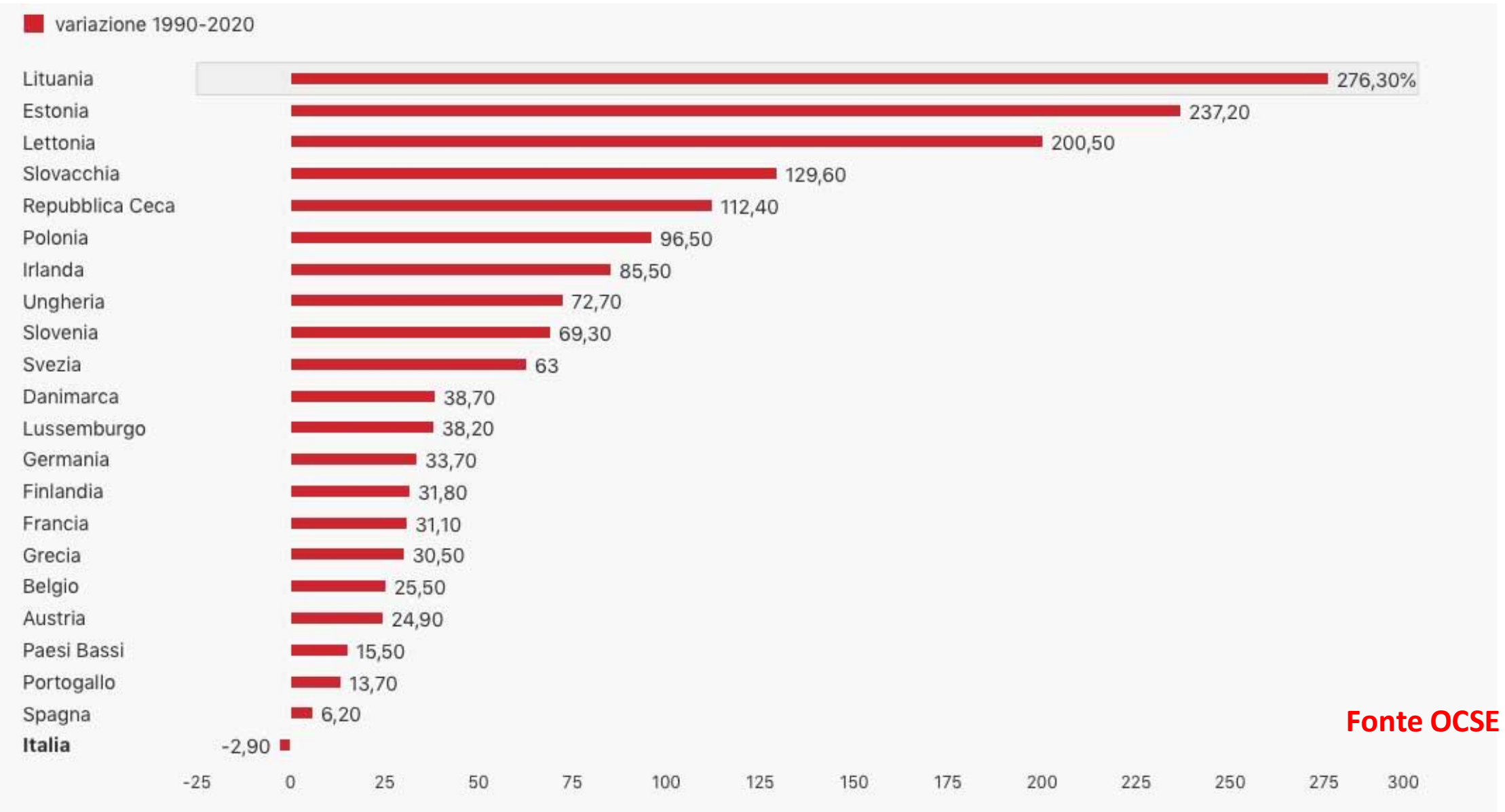
- Most of the European countries there are forms of a citizen income.
- In Italy the Reddito di Cittadinanza has been introduced in 2019, and around 3 millions poor individuals are covered by such policy measure.
- A possible proposal would be to implement the introduction of a European Citizen Income, with some common features.
- Of course it would be necessary to better understand the effect of such a policy (also in a within country dimension), and to find out a way on how to finance it at the European level, the extent of cross country redistribution and so on. (For instance for the introduction of the Citizen Income in Italy has produced quite a lot of information)
- Also in Germany a pilot project has been introduced to better understand the impact of such a policy on incentives and poverty dynamics. This project will implement some social random experiment, in order to derive unbiased results.

The German program for a better knowledge of the phenomenon: the Pilotprojekt Grundeinkommen

There is evidence that an unconditional basic income leads to fundamental changes in the context of:

- Health: less stress and a decrease in mental illness.
- Digital revolution
- Work. Part-time work and precarious jobs are increasing. However, most of the work in our society – such as bringing up children, house hold and care – is still unpaid.
- Cohesion. Can basic income be a politically idea solving the contradiction between freedom and security?
- Politics. Basic income may be able to alleviate uncertainty and therefore remove the breeding ground for populism and disenchantment with democracy.
- Environment. Basic income could be the solution to overcome stressful lifestyles and therefore unconscious consumption.

average wages 1990-2020 in EU



Performance GDP 1961 - 2021

