Unpacking Competitiveness

Myths and reality surrounding EU's competitiveness agenda

Foreword/Introduction

In recent years EU institutions have developed legislation at unprecedented speed. After the series of new treaties (the 'two-pack', 'six-pack' and fiscal compact), the Competitiveness Pact is the next step in demanding member states follow a specific policy agenda. After years of austerity failing to deliver the expected results, 'competitiveness' has become more important to the EU's strategy to overcome the European crisis.

Competitiveness is often mentioned by the European Commission and the media in a positive way, but without disclosing what hides behind the phrase. The structural adjustment programs implemented in the countries under the Troika regime, which prioritise 'fiscal consolidation and boosting competitiveness', have been used to push austerity policies, privatisations and the weakening of social and labour rights.

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1. What do we understand by competitiveness?

In an economic sense, competitiveness refers to anything that makes it easier for particular companies, countries or regions to sell goods and services to other companies, countries or regions. It may be based on a multitude of factors. In economic theory, labour, capital and technology are usually named as the most relevant factors for firms, while for countries or regions, institutions and policies are also determinant. The competitiveness of a market is also measured by economic theory. A 'perfectly competitive' market is defined as one where there are no barriers of entry or exit, with a large number of sellers and buyers, no transport costs or information costs, and where the market's functioning does not affect third parties (externalities) and is driven by profit maximisation. Reductions in trade barriers, lower transport and information costs over recent decades and the challenges posed by global competition have made competitiveness a major issue for corporations, economists and policy-makers.

However, political debates currently use a very narrow understanding of competitiveness, reducing it to the components of labour costs, such as wages and social benefits. These are presented as additional costs that increase the final price of the product or service, reducing its competitiveness and therefore reducing the market share of the firm or country.

In reality, many relatively high-wage economies such as Finland and Norway are very competitive due to their high levels of technological investment and training. Nor is competitiveness necessarily associated with a move towards market liberalisation – many economies where the state plays a prominent role cannot be said to be uncompetitive (China is an obvious case in point). This is not to endorse the economic models of Scandinavia or China, but merely to point out that competitiveness, understood broadly, is a complex and multi-faceted phenomenon.

2. What does competitiveness mean for the European institutions?

For the European institutions, 'competitiveness' has been one of the driving forces of the integration process. The Lisbon Strategy, presented in 2000, aimed over the next decade to make the European Union "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion"[1].

The protection of 'free competition' was already a key element in the Maastricht Treaty of 1992, which set the basis for the current shape of the EU. The treaty followed the strictures of the time, inspired by the 'Washington consensus'[2]. State intervention and public companies were presented as barriers to the construction of a perfectly competitive European internal market. Privatisation of public services and liberalisation of strategic markets (finance, energy, transport, communications) became the everyday policy of European governments – and a pre-requisite for joining the EU club.

Competitiveness is the European Commission's repeated argument when it demands member states implement policy reforms, especially since the eruption of the financial crisis in 2008. In Europe the financial crisis resulted in a massive bailout of the finance sector with public money. This, in turn, triggered a sovereign debt crisis in the peripheral countries of the eurozone. The regime set up for countries that needed external assistance from their EU partners has come to be known as the Troika.

The Troika is made up of the EU Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF). Since 2010, countries have to apply for so-called rescue loans under the European Stability Mechanism in order to get financial support.[3] The loans are awarded from a common budget of the participating countries and the IMF. In exchange, recipient countries make contractual commitments, in the form of a Memorandum of Understanding, to implement comprehensive neoliberal reform programmes. These Economic Adjustment Programmes, it is claimed, are intended "to restore fiscal sustainability and to implement structural reforms in order to improve the competitiveness of the economy, thereby laying the foundations for sustainable economic growth."[4] The Troika negotiates these conditions and oversees their implementation. The usual content of a memorandum is privatisation, cuts to social spending and services, wage cuts and dismantling labour rights.

Therefore, for the EU institutions, the definition of competitiveness follows the neoliberal narrative, beginning from the 1990s Washington consensus and followed and implemented by the Maastricht Treaty and the Lisbon Strategy. The consequences – as we can see in Greece, Portugal and other 'programme countries' – are deeper recession and the onset of a huge social crisis. Since the Troika started 'rescuing' Greece, the Greek economy has shrunk by around 30%, unemployment has risen from 9.5% to 27.3% – and public debt increased from 129.7% to 175.1% of GDP. Today, more than a third of Greece's population is affected by poverty or social exclusion.[5]

3. What is the Competitiveness Pact?

The Competitiveness Pact was launched by German chancellor Angela Merkel during her speech at the World Economic Forum in Davos in January 2013.[6] The idea of the pact is that all eurozone countries (and other EU countries that decide to join) must agree bilateral reform contracts with the European Commission. In these contracts, they would commit themselves to a set of reforms in order to increase their competitiveness. Merkel argued that a permanent increase in competitiveness is necessary to enlarge the European share of the world market, and so to improve European living standards. What she did not say is that the competitiveness-oriented reforms promoted by the EU are, for example, wage cuts, pension cuts and decreasing ecological standards. Such measures directly attack living standards, instead of improving them.

During 2013 a number of discussions on the proposal took place in the European Council and with the Commission. The result of these discussions is now on the table: It is a kind of 'Troika for all' – that is, an extension of the Troika regime (see question 2) to the whole eurozone.

The reform contracts will be designed to increase competitiveness and "cover a broad range of growth and job enhancing policies and measures, including the performance of labour and product markets, the efficiency of the public sector, as well as research and innovation [...]".[7] Increasing 'competitiveness' through these reforms again means decreasing wages, cutting labour rights and lowering ecological standards in production. Decreasing taxation on profits could also become an important issue. The pact would generate additional pressure for a further neoliberalisation of economic, social and budgetary policies.

Countries that accept agreements of this kind would in return be given access to financial assistance through a so-called solidarity mechanism. The implementation of the reforms would be overseen by the European Commission, and the financial assistance would be linked to progress in the reform process: only if the agreed reforms are seriously implemented will the EU keep giving financial assistance.[8] Countries in financial trouble would have no option but to accept the contracts. The Commission would then effectively have the final say on key economic policy measures, because the indebted country needs to accept the contract in order to receive any financial assistance. An additional danger of this treaty, therefore, is that the incentive of financial assistance from the EU can be used by national governments eager to implement neoliberal reforms.

4. **Who or what are the interests behind the pact?**

The true agenda behind this talk of 'competitiveness' was evident at the European Council meeting on 19 December 2013, which debated the proposed new Competitiveness Pact. To help draft the pact, German chancellor Merkel had invited French president Hollande and Commission chief Barroso to a meeting in Berlin in March 2013 with fifteen members of the European Round Table of Industrialists (ERT), all of them chief executive officers of large corporations – two of whom were asked to chair a 'working group on competitiveness'. The report of that group called for, among other things, reduced taxation, a roll-back of (already limited) bank regulation, further erosion of labour protections, the streamlined facilitation of mergers and acquisitions, and privatisation.

As Corporate Europe Observatory has put it, "the demands of the ERT appear to amount to nothing less than putting the European Union entirely at the service of corporations"[9]. The ERT's influence on EU policy making has a long history, starting before the Maastricht Treaty.[10] In the wake of the European economic crisis the ERT has been able to advance its policy agenda remarkably. Already in 2010 the ERT report *ERT's Vision for a Competitive Europe in 2025* had identified the European debt crisis as "an opportunity to rethink the European Union's future course and to take decisive action".[11] These are the forces driving the European Union's competitiveness agenda.

5. **What are the main criticisms?**

The examples of Greece, Portugal, Spain and other countries put under the Troika regime show the consequences of this kind of policy.

First, the deep cuts to public spending caused an enormous recession. In Greece the economy shrank by 25%. Unemployment shot up, while unemployment benefits were cut. This led to rapidly increasing poverty rates, decreasing living standards and homelessness. Healthcare systems collapsed and the number of suicides rose. At the same time, the financial crisis got even deeper. The recession led to serious decreases in tax revenue, and financial turbulence (exacerbated by previous financial liberalisation) precipitated huge capital movements, to the disadvantage of peripheral European countries. The official aim of this policy was to stop the debt crisis – but during the recession public debt increased. In the 18 eurozone countries, general government gross debt as a percentage of GDP increased from 70.1% in 2008 to 92.6% in 2013.[12]

All this would not necessarily be the outcome of the Competitiveness Pact, but the tendency is the same. Since the aim of the pact is a constant increase in competitiveness, it is likely to yield measures that lead to wage cuts, the erosion of workers' rights, deregulation of markets, privatisation and social cuts. Living standards worked for by societies over many decades, and social rights obtained by former generations after the world wars, would be directly attacked in all eurozone countries. Especially in times of crisis, the negative economic and social impact could be very serious.

A second point is democracy. Like the European Stability Mechanism programmes, the Competitiveness Pact would decrease the level of democratic decision-making. The reform agreements are to be negotiated between national governments and the Commission. Parliamentary influence is to be minimised. According to the conclusions of the European Council meeting in December 2013, there would be "appropriate involvement" of national parliaments. This sounds more like a right to be kept informed rather than the right to make final decisions. On the other hand, the Commission, which possesses scarcely any democratic legitimacy, would play a key role.

So inside the eurozone the pact would attack social systems and labour standards, and further it would cut back democracy. But there is another point of criticism, which is more about the global meaning of the pact. Angela Merkel stated in Davos very clearly that the pact is about increasing the eurozone's competitiveness as a whole, in order to strengthen its role in the world market.

Globally, the pact is likely to cause economic destabilisation as well as obstruction of economic development in the South, because an increasingly competitive eurozone would export more. Export surpluses would mean deficits in other parts of the world. Global economic imbalances would increase and less-developed countries would come under ever heavier pressure. More and more, the eurozone would come to play the fraught role in the world that Germany performs within the current monetary union. To a certain extent, other regions would react by devaluing their currencies in order to balance out the increased competitiveness of the eurozone. This could lead to further cuts and/or currency devaluation inside the eurozone, and so on.

There is a risk, then, that the Competitiveness Pact would kick off something like a global economic and social downward spiral. The first effects would likely be lower wages and decreases in labour and social standards.

6. **What is the current status of the pact?**

After Angela Merkel raised the idea, several political debates took place. The European Commission made proposals on how to implement the pact and the mechanisms of reform agreements.

Based on these proposals, the European Council agreed in October 2013 that "work will be carried forward to strengthen economic policy coordination, with the objective of taking decisions in December [2013] on the main features of contractual arrangements and of associated solidarity mechanisms"[13]. So last autumn it looked like the pact would be agreed at EU level quickly. This was not really surprising, since the EU projects of the German government are usually pushed forward quite intensively.

In December, however, the brakes were applied. In the conclusions of the European Council December Summit, it stated that "Partnerships based on a system of mutually agreed contractual arrangements and associated solidarity mechanisms would contribute to facilitat[ing] and support[ing] sound policies [...]". The conditional tense is used throughout the entire section on the Competitiveness Pact, which shows there is scarcely any political agreement.

The greatest area of disagreement is the financial assistance – the so-called solidarity mechanism. The purpose of this mechanism is now supposed to be "offering support, as appropriate, to Member States engaging in mutually agreed contractual arrangements". This could mean anything. The conclusions show that no agreement has yet been reached on either the type of support – loans, grants or guarantees – or the amount. The Council simply concludes that "further work will be pursued" on these matters.

While the German government is absolutely set on the 'Troika for all' approach, linking pressure for reform to financial incentives, some governments, such as those of Austria, Finland, Sweden and the Netherlands, are questioning the very principle of the mechanism. They do not want to foot the bill for other countries' reforms. Ultimately, they say, it is in those countries' own best interests to become more competitive. They want to install reform contracts, but without the link to financial assistance – which raises the question of why member states would want to sign the contracts. In this model, the pact could become a weak, non-binding tool.

Instead of decisions being taken as originally planned, the deliberations have been largely deferred. The president is to report to the Council in October 2014 on work carried forward on the Competitiveness Pact. This means that December 2014 is the earliest time at which decisions can be expected. The project, in other words, has been put back by one year.

During this time, intensive discussions will take place. The European Council of June 2014 has "growth, competitiveness and jobs" as the second point on the agenda, and will "endorse country specific recommendations to guide Member States in their structural reforms, employment policies and national budgets".[14] This procedure has become routine under the policy cycle known as the European Semester. Whether it will be possible for the political elites to reach agreement on the Competitiveness Pact is still an open question, and one that will not only be answered in EU negotiating rooms. The answer will depend also on the influence of the European elections results and on public debates, attention and resistance!

7. **What might break the Competitiveness Pact?**

Breaking the Competitiveness Pact is an endeavour that will involve work at many levels. A lot of resistance work is ongoing, with initial signs of success. Indeed, those resisting the pact can claim credit for the fact that it is currently on hold.

Some of the most promising avenues of resistance towards breaking the Competitiveness Pact are the following:

- Unmasking the real agenda behind the Competitiveness Pact (see question 3).
- Building upon disagreements between countries, highlighting whose interests are served and how the majority is losing out.
- Building on internal contradictions and different interests within countries' governments (see question 6).
- If there is a need for a ratification process of the legal documents, working towards preventing main groups and stakeholders voting for it.
- Linking the economic and employment crisis in European countries to the elite agenda, mainly represented by the ERT (see question 4), which expresses the same mindset as the Competitiveness Pact.

Social movements in individual countries need to focus on building alliances and mobilising stakeholders that can influence the position of representatives on the European Council, and influence the national government's position on the Competitiveness Pact. A good example is the successful campaign started by Attac Austria called 'Refounding Europe', trying to build a broader alliance among progressive groups which oppose the Competitiveness Pact and the 'Troika for all'.[15]

8. **What would be the consequences of failure to enact the Competitiveness Pact?**

The Competitiveness Pact is one of the flagship projects of the European corporate and political elites to complement and complete the neoliberal economic governance architecture for the EU[16]. A failure would open up spaces and opportunities for change.

Enlarging the crack into a grave for the dominant paradigm would depend very much on how far it is possible to translate a possible failure into cleavages between different actors and different governments. For example, Germany has been one of the main drivers of the competitiveness agenda. It would be important to create a sense that a failure of the competitiveness agenda is a failure of the German government's leadership, which has been contributing to pushing the EU into a prolonged recession. If this pet project of conservative leaders falls through, it might be a crack in the current support for the austerity agenda that social movements could use to promote alternative policy solutions.

However, we have to be realistic. A failure of the Competitiveness Pact could carry seeds of a crisis of the ruling elites and their austerity and competitiveness agenda. On the other hand, it is also likely that this project's failure would lead to new plans to do the same thing under a different name. The past years have showed us that elites are rather resourceful in pursuing their economic priorities by a range of different tools and means. One of these proposals is the Transatlantic Trade and Investment Partnership (TTIP), under which new rules will be created that 'lock in' existing levels of liberalisation, with the aim to work towards further deregulation. Linking the struggles against the Competitiveness Pact and austerity policies with the struggles against TTIP and the Comprehensive Economic and Trade Agreement (CETA) is key, as the two issues are two sides of the same coin.

Thus, the voices and networks that criticise the Competitiveness Pact have to be prepared to use and enlarge emerging cracks in the event of failure, to work towards the crumbling of the current dominant paradigm and the dismantling of the power of neoliberal elites. Failure must be projected as a failure of current European elites, and especially as a failure of their erroneous beliefs, paradigms and the credibility of their economic policy agenda. A failure will involve new opportunities arising at many levels, especially opportunities for networks of social movements all over Europe to work towards a people's agenda.

9. **What opportunities would the blocking of the Competitiveness Pact offer for European social movements?**

The resistance against the Competitiveness Pact so far has shown results in delaying the pact. The disagreements among heads of states of EU and in particular eurozone countries are increasing. The recent economic developments also play into the hands of social movements' demands for a radical change in crisis policies – starting with an end to austerity. At the time of writing, five eurozone countries are faced with deflation, with an increasing risk that this dynamic spreads to the rest of the eurozone. This clearly shows that lowering wages and pensions and destroying the welfare state – as is happening in Greece, Spain, Portugal and Ireland – is simply pushing Europe further into crisis. Day by day people's resistance to these policies is increasing – not only in the Southern European countries but also France, Austria and Germany. It is these developments that are increasing the chance that the Competitiveness Pact will never become reality. However, blocking this proposal is not enough, as we know that economic and political elites would just try to find another way to move their vision forward, as with TTIP (see question 8).

For social movements the time has come to get into a more pro-active mode and not only build up resistance against austerity policies but to start pushing alternatives if the Competitiveness Pact is finally blocked. While there are many alternatives being developed, and they are all needed given the multiple crises we are facing, the challenge for social movements is to converge on a few core, strategic alternatives that have the potential to break with the current logic and to generate new dynamics in the short term.

The question is – what would or could such strategic demands be? Here are a few ideas:

- Increase wages and pensions and shorten working time as an immediate answer to the social crisis and high levels of unemployment.
- Allow direct financing of public bonds by the central banks and write off parts of the unsustainable public debt to end the debt crisis and break austerity policies.
- Separate commercial and investment banks, establish rules that ban credit for speculative purposes and make banks small enough to fail.
- Introduce taxes for the super rich, end all tax evasion mechanisms and make public budgets democratic.

Strong alliances are required to push key demands such as these. These proposals put the question of a more equitable distribution of wealth, and of labour, at the core – as an alternative to 'competitiveness' and with it the fantasy that European economies can export themselves out of the crisis. Strategic demands giving short-term answers to the social crisis need to be complemented with demands that put more emphasis on the ecological crisis and climate justice. The transitional towards renewable energy, food sovereignty, the expansion of public transport and the re-localisation of other sectors of the economy are a few entry points here.

To achieve this, social movements also need to start discussing the idea of a new constituent process for Europe, led by its citizens, as it is clear that the current framework of the European Union needs to be radically changed. We need to seize this opportunity to start the debate about these fundamental questions, and to re-appropriate for ourselves the capacity to make decisions about our own future.

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The Competitiveness Pact is the final stage of the new EU economic governance architecture.
In this report we expose the myths and reality surrounding competitiveness – and what it really means for the lives of Europeans.

June 2014

Published by ATTAC and the Transnational Institute (TNI).

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