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PROSPECTS FOR FUTURE EU LABOUR MARKET INTEGRATION- TRADE UNIONS, LONG-TERM UNEMPLOYMENT AND ACTIVE LABOUR MARKET POLICIES

LAURA CONROY

Junior Sophister

Nowhere is the changing structure of the EU labour market more evident than in the Irish economy. Recent enlargement of the EU and the subsequent focus on further labour market integration has aroused mixed feelings across the member states. Laura Conroy considers the prospects for achieving consensus on further labour market integration. Particular attention is paid to the future of trade unions, the harmonisation of welfare systems and the role of active labour market policies.

Introduction

Since the enlargement of the EU in 2004 much attention has been focused on labour market integration in Europe. Many members of 'old Europe' have fought to prevent what they feel would be an influx of an excessively large number of Eastern European, cheap, unskilled labour (this is particularly relevant at the moment in the services industry[1]). Only Ireland, Sweden and the UK have allowed truly free movement of labour across their boundaries. The experience of these three has proven beyond doubt that the fears of old Europe were unfounded. Even last month the EU Commission published a report stating that not only did the influx of foreign labour fail to increase unemployment (The Economist, 2006c), but Ireland has sustained a level of unemployment that is one of the lowest in Europe.

If labour mobility is to be so desired, what can we now do to improve it? Labour mobility in Europe is still lagging far behind that of the US and is not showing any signs of improving sufficiently in the near future. A huge step in the right direction would be to order the immediate removal by all EU members of restrictions on the movements of workers from new member states. This is likely to be a highly contentious issue and one not liable to be quickly agreed upon, even with some countries beginning to admit the failure of their doomsday predictions. We must also remember that

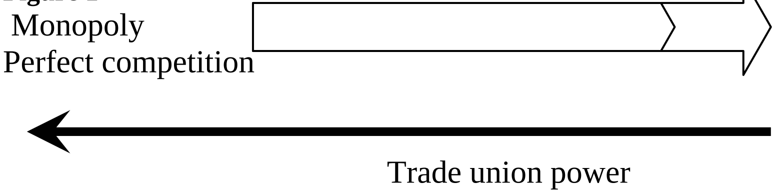
[1] For a full discussion of this see The Economist. 11/02/06

the EU is not one country like the US – "Europe cannot really be defined in terms of a single culture at all" (The Economist, 2006a). Cultural differences, national boundaries, nationalistic behaviour and perhaps even religion in the near future separate the EU where the US is united. Europe is totally committed to the EMU and many believe that in order for this to be a success there must be sufficient labour mobility to protect the market from asymmetric shocks. If this is to occur at a standard required then the next step for the EU labour market has to be further integration. In this paper the prospects of success for this integration will be looked at, first in terms of the role, if any, national trade unions may have in a more integrated labour market. Next, the EU experience with regard to long-term unemployment and harmonising welfare systems will be recounted, before concluding with analysis of the main active labour market policies in Europe at the moment and predictions as to whether any of these can be adapted or combined to 'fit' all of the members of the EU.

Trade Unions influx

In an ideal world, when an adverse shock occurs, demand falls and eventually wages will follow and the market will do much of the adjustment needed itself. However, the labour market differs considerably from the goods market, mainly due to the existence of labour market rigidities. Wages in industrial nations can rarely be legally cut and wage negotiations and redundancies are both equally drawn-out processes because of the presence of trade unions and labour legislation. So, when faced with declining demand, firms are in a difficult position if they are unable to adjust wages or employee numbers – ultimately profits will decline, other expenses will be cut and in extreme cases closure or bankruptcy may result. Trade unions and labour regulations are necessary to counter market failures such as information asymmetry; they also provide necessary protection of vulnerable workers and further training – the key issue here is balancing the need for regulation and the need for flexibility. Market failures need to be addressed, but in order to achieve maximum growth and economic stability an economy needs a flexible labour market; "the more inflexible the labour market, the higher are the costs of dealing with an asymmetric shock" (Baldwin & Wyplosz, 2004:432). In the EU at present stringent competition policy rules exist, and there is perceived to be far more market domination in the US than in the EU, (something which generally increases union power due to the larger nature of surplus).

Figure 1



This would seem to suggest a move away from powerful trade unions at the current time but other factors could influence their role more long-term; local union membership density, the preferred type of bargaining arrangements, the legislative environment, the level of public and media support and of course union preferences and choices as to their future direction. The impact of increasing intra-EU trade and FDI as well as both vertical and horizontal integration of firms must also be factored into the argument.

So what path will unions take?

It is undeniable – the role of trade unions in Europe is changing. Union density is falling and even the nature of business within Europe is changing as the effects of globalisation and deeper integration set in. It is quite apparent that, in order to survive, trade unions across Europe must change fundamentally or else they will be left behind. There would appear to be no compelling evidence to point towards a resurgence of union membership until there is some kind of radical change in the co-ordination of unions at an EU level, something that is highly unlikely mainly because of the loss in individual union power that would result and the major costs of co-ordination. The trend began in the first place because of a number of reasons, but primarily because of the increasing market size of service industries and a decline in the size of the traditional 'core' manufacturing industries where unions were popular. These new services depend on contract, temporary and short-term workers, and so do not favour union membership. This problem for unions has been further exacerbated by the EU itself. In recent years the EU has sought to protect vulnerable workers by issuing various directives to be implemented in all EU member states, thus removing one of the reasons for joining the union in the first place.

However, as mentioned earlier, much will depend on the unions' ability to reform. There are three different levels upon which a union can negotiate – plant level, industry level and on a national level, the latter possibly with EU-wide co-ordination. Of recent years, in most EU member states, the trend has been one of increasing decentralization of collective negotiations within countries, a development quite favourable to the population's welfare and economic efficiency. According to Baldwin & Wyplosz (2004:434), this negotiating at a plant level means that "workers and their unions are keenly aware that high wage settlements could endanger their firms competitiveness and result in job losses…exerts a moderating influence on wage claims". Negotiating at the national (or higher level) the unions can see that "the whole economy's competitiveness is at stake" (Baldwin & Wyplosz, 2004:434), and wage restraint will exist here also. It is at the industry level that the economy is most in danger, where "unions feel responsible for neither the entire economy nor any particular firm. (Thus) they have little incentive to restrain their wage claims" (Baldwin & Wyplosz, 2004:434). Therefore, the only two paths that unions should, from an economic efficiency point of view, travel down, are further decentralisation of negotiations or negotiations at a national level with a view to EU co-ordination. Negotiations at industry level, particularly in the event of possible co-ordination on a pan-European scale (for example co-ordination of unions of steel workers across the EU), would be very dangerous and would encourage reckless wage demands and inflexibility. Boeri, Brugiavini and Calmfors (2001)[2] put forward four possible scenarios for trade unions in Europe; for various reasons, mainly those discussed above, three of those options could be viewed sceptically, but the one of them is quite possible as a future role for trade unions.

National co-ordination through social pacts would be an option that would benefit all partners in the system; the unions, the working population and consumers, and the government with a view to the economy as a whole. The core problem with the EMU so far has been the inflexibility of the market to react to adverse shocks, due to the loss of the monetary policy instrument.[3] "If – as we expect – fiscal policy proves to be an insufficient stabilisation policy tool in this situation, then it is likely that wage restraint through co-ordinated action may come to be seen as a necessary means of stabilising a recession-struck economy" (Boeri, Brugiavini and Calmfors; 2001:122).

Consumers and workers alike would both benefit from the positive effects resulting from wage restraint as discussed in the preceding

[2] Contains detailed further discussion of possible future roles for European Trade Unions

[3] See Baldwin & Wyplosz; 2004: 435-437, also Boeri, Brugiavini and Calmfors; 2001: 121 - 125

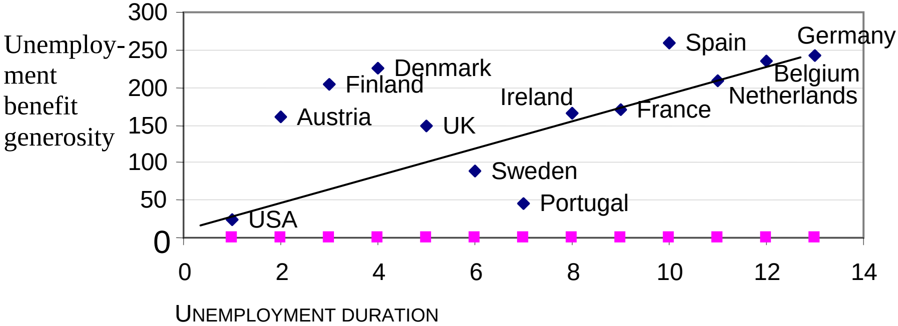
paragraphs. Finally, the unions themselves would also benefit from such a solution, one where there is no formal amalgamation of unions into larger European unions which would reduce the power of national actors. Social pacts and informal agreements would see a large level of cohesion while protecting national interests at the same time. The co-ordination would also be necessary to uphold the legitimacy of unions in the face of declining membership and increasing decentralisation, and would help the unions to act together with the ECB to guarantee wage restraint.

Long-term Unemployment & Social Insurance

Social insurance is a second issue which is of vital importance if the labour market is to be integrated within the EU and the issue of long-term unemployment needs to be addressed. Insurance against unemployment has obvious vital outcomes that society requires to protect the weakest of its members. However, it is a dangerous tool if not used in the correct manner or in the correct amount. If too much money is given out by the state (or trade unions for that matter), then there could be an incentive for people to stay out of employment or at least be overly-choosy in picking a new job. Furthermore, there is a risk of insurance taking the form of payroll tax (Baldwin & Wyplosz, 2004:440) – as unemployment rises so do the payments which will further increase unemployment and further aggravate the problem. There is a distinct correlation between the generosity of welfare payments and the length of time that people spend in unemployment – see figure 2 for details[4].

[4] Graph taken from Baldwin & Wyplosz; 2004:441:fig.17-7

Figure 2: Long-term Unemployment & unemployment benefits



Europe stands apart from the USA in its comprehensive safety nets and insurance it provides for it's workers, but it is a luxury that may be about to become too expensive to afford. Some have argued that the only way such expensive welfare systems could work is behind the protective wall that existed when the EU contained barriers to competition and trade. These are now rapidly falling. With the advent of highly integrated trade and competition policy the EU faces its biggest task yet – welfare policy harmonisation. Does it develop more along the US model of lower welfare provision or is there another way, perhaps along a 'Nordic' model? This returns us to the problem of asymmetric shocks; the model needs to be able to respond to such shocks, and high unemployment insurance payments hinder this process, as all other labour market rigidities do.

Welfare policy harmonisation for Europe

If the labour market is to converge there is obviously a need for the welfare policies in EU member states to converge – some will have to increase welfare provisions and some will have to decrease theirs. There is a desire in the EU for this, but very little accord with how to go about doing it. Francis Castles (2004) compiled extensive research into the possibility of convergence of welfare provision in Europe, and the results so far have been diverse in nature. It was found that although the EU is not distinct in welfare provision from much of the rest of the OECD area, within the EU there are a few distinct clusters. The Nordic countries, the 'continental' countries, northern Europe and the accession countries all formed comparable groups. The data did show that convergence is beginning to happen in areas such as expenditure levels, but in others, for example with regard to pensions, Europe is diverging. This is troubling for the leaders of the EU member states at a time when new, relatively poor countries have recently made the member numbers swell to 25 and stretched the budget for structural aid to its limit. In fact, this problem is at the heart of the most recent EU expansion;

> "If, over the coming years, we eventually witness a broader European welfare state convergence, we should hope it is because of structural adjustment initiatives and institutional rules stipulating minimum standards are bringing these countries closer to the realities now prevailing in much of Northern Europe…For many in the new Eastern Europe, it is the promise that makes EU membership seem so attractive." (Castles, 2004:92)

Active labour market policies

Now we turn to labour market policy prescription for Europe – how will welfare harmonisation occur? Most commentators agree on the existence of three distinct models in Europe – the 'Continental' (France, Germany, Belgium, Austria) model, the 'Nordic Model' (Sweden, Finland, Denmark, the Netherlands) and the 'Anglo-Saxon' model (UK, Ireland). The results across the three have varied quite considerably, but none seem keen to give up their respective policies, regardless of success.

The Nordic model has the highest level of welfare provision in Europe. There is a large emphasis on income equality, wage compression and the redistributive effects of high taxation in the region, and while unemployment benefits are among the highest, the region has a rigorous retraining system and is strict enough to ensure that workers are unemployed for only the briefest of periods. "Such a degree of wage compression is frowned upon by many economists who believe there is little reward for hard work and risk taking, and therefore may hurt growth. On the other hand, a high degree of equality underpins social cohesion and reduces crime" (Baldwin & Wyplosz, 2004:447). The results appear to speak for themselves – inequality, the number of hours worked, crime levels and unemployment duration in the Nordic regions are amongst the lowest in Europe.

The Continental model is one where trade unions would continue to play an important role, with very high levels of stringent labour laws on dismissals, wage cuts and welfare provision. The results in this model have not been promising (high unemployment, long duration of unemployment – see table above), but these countries are reluctant to give up their extensive welfare nets (in the form of education, working hours, healthcare provisions and social insurance) which they believe afford them a higher standard of living.

The Anglo-Saxon model evolved from the Continental model in the Thatcher era, which weakened trade unions and decentralised negotiations (Baldwin & Wyplosz, 2004). However, this model has quite a way to go if it is to catch up with the welfare standards of the Nordic countries, but there is an undercurrent of support for exploring such policies – a return to the high levels of unemployment in the pre-Thatcher era is not a welcome one.

With the arrival of the accession countries, these models will once again be thrust into public debate. It would seem, on the basis of results that the Nordic model is a successful one, and the Anglo-Saxon model is already evolving along these lines. However, the Continental countries will be reluctant to accept the relatively high taxes and redistributive effects, particularly since they feel their unfavourable unemployment statistics are offset by high, unquantifiable standards of living. The accession countries themselves at the moment do not have a 'model', and it may be their choices that will sway the debate. Either way, the debate will continue to run and run, but, for the benefit of vulnerable new economies entering the EU, a compromise should be found sooner rather than later. The question, then, really to be answered first is not 'what model of labour market policies does Europe want as a whole?', but 'do we want less favourable employment statistics in return for higher standards of living and job security, or will we accept much higher taxes in return for less unemployment, greater social cohesion and lower levels of crime?'.

Conclusion

To conclude, I think it is easy to say labour market integration and the removal of barriers to the movement of workers is needed for greater economic flexibility in Europe. What is harder, is reaching a consensus on how to get there. Removing barriers to movement of workers, some feel will leave the economies vulnerable to social dumping and an influx of cheap labour. Getting trade unions across Europe to co-operate will require huge co-ordination costs and the sacrifice of a lot of individual union power, and harmonising welfare systems will also require a sacrifice of even further government control over policy. All in all it will be a very expensive process, in monetary and political terms. But it will be a necessary one –

Europe is yet to be tested be a major economic shock, and it is very reasonable to believe that, at the moment it does not have the flexibility of labour to respond to large, adverse, asymmetric shocks. Trade unions are fast losing their relevance with the onset of integration, globalisation and the decentralisation of negotiations. If they are to survive, but also survive at a level that will encourage wage restraint rather than dominate the markets, major reform is needed, as well as cohesion with European counterparts (at a national level rather than industry level). A balance also has to be found in the provision of welfare benefits and social insurance. It is a fact that, without proper regulation, overly generous welfare benefits will encourage longer periods of unemployment, but statistics in Scandinavian economies have shown that large provisions can be balanced with thorough retraining schemes and strict regulations to reduce this time span. It is from the bones of these arguments that EU policymakers must put together a roadmap for a European welfare system, whether it be Scandinavian, Continental or otherwise. Whichever outcome or even if neither outcome results, some form of integration is necessary to hold the EMU together under the strain of an adverse shock in the future.

> "As the extent of economic integration approaches that of the United States, labour market institutions and labour market outcomes may also begin to resemble their American counterparts (…). Full and irreversible economic integration may call for harmonisation of social and market institutions within the European Union." (Giuseppe Bertola, in Baldwin & Wyplosz, 2004:426)

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