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Economy

# EU follows the German example

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### **Between 2003 and 2005, Gerhard Schröder's socialist government gave German employers a helping hand in imposing sacrifices on the workers.**

The paper *En finir avec la compétitivité* (Putting an end to competition), published jointly by ATTAC and the Copernic Foundation, sets out the measures taken and the attacks on social and economic rights: "The Hartz Acts (named after Volkswagen's Human Resources Director who was also Schröder's advisor) were passed between 2003-2005. Hartz I obliges the unemployed to accept any job that is proposed to them, even if the pay is less than unemployment benefits. Hartz II created the mini-job at less than €400 a month (exonerated from social contributions). Hartz III limits the right to unemployment benefits for ageing workers to one year and makes access more difficult. Hartz IV merged long-term unemployment benefits with other social aid, and installed an aggregate maximum amount of €345 a month. To this were added successive retirement and healthcare reforms—the capitalization of pension schemes (Riester-Pensions), increased contributions and later retirement ages (reaching 67 by 2017)". The authors of the paper mention in particular that: "together these reforms have contributed to an impressive rise in social inequalities. This point is often forgotten in the 'German model', as may be demonstrated by some precise figures. Germany has become a divided country: a parliamentary draft report on wealth and poverty [1] has recently established that the poorest half of the population possess only 1% of the assets, compared to 53% for the richest. Between 2003 and 2010, the purchasing power of the average salary decreased by 5.6%, but the effect was very unequally spread, with the lowest-paid 40% seeing a fall of 12% while the highest-paid 40% lost only 4%. [2] Official statistics show that the proportion of low salaries increased from 18.6% in 2006 to 21% in 2010. It should be emphasized that West Germany was worst hit."

"According to the same study, the number of employees rose by 1.2 million between 1999 and 2008, reflecting an increase of 1.9 million casual jobs corresponding to a loss of half a million full-time permanent jobs. A quarter of today's wage-earners occupy unstable jobs and this proportion is 40% for women, as it is in the US. "The majority of precarious jobs (70%) are considered women's jobs. [3] The proportion of unemployment benefit claimants dropped from 80% in 1995 to 35% in 2008 and all those unemployed for over a year have been transferred to welfare".

As noted by Arnaud Lechevalier, this trend lies within the general framework of a context of erosion of the collective bargaining agreements protecting employees: the percentage of employees covered decreased from 76% to 62% in ten years, and by 2008 these agreements only applied in 40% of German firms. In addition, the unions have had to make many exemptions to sector-based and/or company-wide collective bargaining agreements. [4]

A possible explanation of German leaders' current attitude towards the Eurozone crisis might lie in the lessons they learned from the absorption of East Germany at the beginning of the 1990s—in particular that significant wage disparities between employees can be exploited to the advantage of employers. The massive East German privatizations, the attacks on the job security of ex-GDR workers, along with the increase of German public debt due to the costs of this absorption (used as the pretext for austerity programmes), have enabled the employers to erode the situation of East as well as West German workers. German workers have been strictly divided between those in the big industrial sectors where many advantages have been maintained and other, more precarious, sectors including small to medium-size businesses.

### **The German example for the EU**

German corporations have chosen to increase their production in the EU countries where wages are lowest [5]. Partly finished goods are then reintroduced into Germany, without paying import/export taxes, for assembly and

re-exportation, mainly to other European countries. This reduces production costs, puts the German workers into competition with their foreign comrades and increases company profits. In addition, these assembled and re-exported goods appear, of course, in Germany's export figures, whereas they are to a great extent produced from imported goods.

Corporations in the other strong European countries are doing the same, but proportionally speaking the German economy profits most from the low wages and precarious working conditions of the Eurozone workforce (including within Germany's national boundaries) and the EU. In 2007, 83% of German exports went to other EU countries: €145 billion to Eurozone countries, €79 billion to non-Eurozone EU countries, and €45 billion to the rest of the world. [6]

IG Metall, one of the big German industrial trade unions, has published a text in defence of the Eurozone which helps explain why unitary action against the employers has been abandoned. It provides an interesting advocacy of German economic interests and the single currency. In this document, entitled *Ten Reasons for the Euro and the Currency Union*, published on 19 August 2011, we read: «*The German economy depends more than any other on its exports. Our foreign clients are the source of millions of jobs in Germany. The biggest market for German products is Europe. [...] The single currency has played a huge role in the competitiveness of German products. If indebted countries are excluded from the single currency, they will devalue their own currencies to improve their competitiveness. This would then place considerable pressure on the remaining Eurozone, which would be composed exclusively of those countries of the European Union with the strongest economies, to revalue the euro. A return to the Deutsche Mark would entail a revaluation of at least 40%.*» [7] What a pitiful admission for a trade union to make! Where is international solidarity between workers against Capital? The solidarity is now between German bosses and German workers to make German goods more competitive in order to win market shares.

For today's German leaders and employers, the Eurozone crisis and the brutal attacks against the Greek people and the other peripheral populations are opportunities to push the offensive further and to reproduce, on a European scale, the success of the German offensive.

**Not to be outdone, the leaders of the other strong European countries and the CEOs of their major corporations are making the most of the common European political, commercial and economic zone. The northern European economies and transnational companies are exploiting the strife in the Eurozone's southern economies to improve their profitability and to gain competitive advantage over their North American and Chinese competitors. Their objective at this point, as mentioned above, is not to revive growth and reduce differences between the EU's stronger and weaker economies. Southern capital-holders and the governments themselves approve of these policies, looking to seize long-coveted privatized sectors at give-away prices, with the help of the [Troika](#).**

In Germany today, following the long period of wage reduction and erosion of labour laws, the bosses and the Christian-Democrat (CDU-CSU) – Social-liberal (SPD) coalition government, who have undoubtedly made their mark as much in the EU as in Germany itself, have had to make one slight concession: the creation of a minimum wage. As from 1 January 2015, Germany will introduce a minimum hourly wage of €8.5/h before deductions, or just over €1 400/month for a full time job. There will be exceptions to the measure. [8]

This minimum wage will benefit 4 million workers who prior to the application date had been receiving lower pay, thus highlighting how large sectors of workers have suffered worsening conditions over the last twenty years. Officially, 1.4 million workers are paid less than €5 per hour and about 2.5 million earn between €5 and €8.5. [9] This minimum rate is about the same as that practised in Belgium, France and the Netherlands. By the time the minimum wage is fully applied, on 1 January 2017, it is estimated that about 6 million workers will benefit.

### Europe is the new battleground for wage cuts

According to Michel Husson, real labour costs per unit were compressed by 10% in Germany between 2004 and 2008. [10] In the rest of Europe these costs also decreased, but to a lesser extent. Since the 2008-2009 crisis, the Eurozone has been severely affected by a clear drop in real wages in the most exposed countries. As Patrick Artus, a researcher for the bank Natixis, points out, “[W]e notice a significant reduction in real income in the Eurozone countries having the most difficulties (Greece, Italy, Portugal, and Spain)”. [11] Artus claims that European leaders are imposing a deliberate pay-reduction policy and adds that this has neither boosted investment in the countries just mentioned nor helped their exportations to become more competitive. The favourable effects of pay reductions, “are not showing in competitiveness, foreign trade, or business investments”, he writes. He adds that lower wages have two clear effects: on the one hand they have raised profits; on the other hand, they have reduced consumer demand, which in turn has contracted the economy. [12]

Artus’s report confirms that the goal of the European leaders is neither to revive economic activity, nor to improve the situation of the peripheral countries as compared with the countries of the Centre. The pay reductions aim to weaken workers’ resistance in the countries concerned, while increasing profits and progressively destroying what is left of the welfare states built up over the three and a half decades following the Second World War and before the neoliberal turn-around of the late 1970s and early 1980s.

In the *Global Wage Report 2012-2013* published by the International Labour Organization in December 2012, the authors revealed that “in developed economies, the crisis led to a 'double dip' in wages: real average wages fell in 2008 and again in 2011, and the current outlook suggests that in many of these countries wages are growing marginally, if at all, in 2012”. [13] This is the only part of the world, along with the Middle East, where wages have fallen since 2008. In China, the rest of Asia, and Latin America, wages have increased. In Eastern Europe they have recovered to a certain extent after plummeting in the 1990s. This report confirms that Capital’s offensive against Labour has been displaced towards the developed countries.

The *Global Wage Report 2014-2015* [14] points out that between 1999 and 2013, German industrial productivity grew more than real wage increases. Capital has progressed and the German employers have made the most of it. The same report confirms the nefarious effects in several European Union countries of the crisis that began in 2007-2008: in 2013, real average wages were lower than in 2007 in Greece, Ireland, Spain and the UK.

### François Hollande and Matteo Renzi, shameful disciples of the German example

The mainstream media claim that the “socialists” Francois Hollande and Matteo Renzi want to change the direction of the European Commission and the European Union, but are prevented by the German leaders who stand steadfast on ultra-liberal orthodoxy. The reality is that they are looking to apply the same measures seen in Germany in their own countries. Since Autumn 2014, Mario Renzi is challenging Italian workers with easier sackings and ever looser work contracts. François Hollande is giving the rich more tax breaks. He has appointed Emmanuel Macron, ex-banker at Rothschild, as Minister of the Economy and behind the scenes seeks advice from Peter Hartz, former human resources executive at Volkswagen who, in complicity with the “socialist” Chancellor Gerhard Schroder, directed the big attacks of 2003-2005, against German labour laws. Francois Hollande promised, in his presidential election campaign, to oppose the TAFTA and he could do so if he really wanted to. Once elected, he immediately broke his promise and lined up alongside Angela Merkel and the European Commission. Pierre Moscovici, European commissioner for Economic and Financial Affairs, Taxation and Customs and previous French Finance Minister under President Hollande, joined the German leaders, in December 2014, in their support for the right wing candidate to the Greek Presidency.

Other socialist leaders, such as José Luis Zapatero in Spain [15], José Socrates [16] in Portugal, Elio Di Rupo [17] in

Belgium, George Papandreou in Greece or Gordon Brown in the UK, when they were at the head of their governments, all applied neoliberal policies. Although European rules give governments a veto, none attempted to put spokes into the wheels of the European Commission's austerity measures and antisocial policies that they so much decried to their electors. There really is a fundamental unity between so-called socialist governments and conservative forces in waging the offensive against the social victories gained after WWII. German policies of the 1990s and 2000s have become, for many other European leaders, the example to copy and follow, as far as possible, in their own countries.

It is urgent to change this situation, through popular movements and through the polls. The injunctions of the European Commission must be disobeyed and the social measures that have been mismanaged or abolished, reinstated. The banks must be socialised, repayments of illegal or illegitimate debt must be stopped, socially useful jobs have to be created to permit local transitions.

### CADTM

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[1] German government report, *Lebenslagen in Deutschland. Entwurf des 4. Armuts- und Reichstumsberichts der Bundesregierung*, drafted 17 September 2012, <http://gesd.free.fr/arb912.pdf>.

[2] Karl Brenke and Markus M. Grabka, 'Schwache Lohnentwicklung im letzten Jahrzehnt', *DIW Wochenbericht*, #45, 2011, <http://gesd.free.fr/brenke11.pdf>.

[3] Source: German Federal Office of Statistics, <https://www.destatis.de/EN/Homepage.html>.

[4] Arnaud Lechevalier, 'Un modèle qui ne fait guère envie' ('An unenviable example'), *Alternatives économiques*, #300, March 2011 (in French), <http://gesd.free.fr/allmodel.pdf>, cited by ATTAC and the Copernic Foundation.

[5] The Gross minimum monthly wage in Bulgaria in 2014 was €174, in Romania €190, €320 in Latvia, €355 in Estonia, €344 in Hungary, €352 in Slovakia, €387 in Poland, €405 in Croatia, €566 in Portugal, €648 in Greece, €753 in Spain, €1217 in the UK, €1457 in France, €1487 in the Netherlands and €1501 in Belgium. See: <http://www.statistiques-mondiales.c...> consulted on 4 January 2015.

[6] OECD, *International Trade by Commodity Statistics* (SITC Revision 3), cited by Attac and Copernic Foundation, *En finir avec la compétitivité* (Putting an end to competition), Paris: Attac/Fondation Copernic, October 2012, [https://france.attac.org/IMG/pdf/en\\_finir\\_avec\\_la\\_competitivite.pdf](https://france.attac.org/IMG/pdf/en_finir_avec_la_competitivite.pdf) (in French).

[7] IG Metall, *10 Gründe für den Euro und die Währungsunion* (10 Reasons for the Euro and the Currency Union), 19 August 2011, cited in Cédric Durand (ed.), *En finir avec l'Europe*, (Have Done with Europe), Paris: Editions La Fabrique, 2013, p. 68 (trans. CADTM).

[8] Companies with collective bargaining agreements will have until 2016 to renegotiate. They do not have to apply the minimum wage of €8.5/hr until 1 January 2017. A specific schedule is planned for seasonal agricultural workers and newspaper deliverers who are currently paid less than €8.5/hr. Another exception will be the long-term unemployed who find jobs: the minimum wage will not be obligatory until six months in employment have passed. What is more the minimum wage will only apply to over 18s. Source: [http://www.allemagne.diplo.de/Vertretung/frankreich/fr/\\_pr/nq/2014-12/2014-12-19-salaire\\_20minimum-pm.html?archive=3521278](http://www.allemagne.diplo.de/Vertretung/frankreich/fr/_pr/nq/2014-12/2014-12-19-salaire_20minimum-pm.html?archive=3521278), viewed on 4 January 2015

[9] *Der Spiegel*, "Germany: a minimum wage. Finally!", 31 December 2014.

[10] Michel Husson, 'Economie politique du "système-euro"' ('The political economy of the "euro-system"'), CADTM, June 2012, <http://cadtm.org/Economie-politique-du-systeme-euro> or <http://hussonet.free.fr/eceurow.pdf> (in French).

[11] Patrick Artus, *“La baisse des salaires dans les pays en difficulté de la zone euro est-elle utile?”* (‘Is the wage decrease in the Eurozone’s peripheral countries of use?’), *Flash Economie* #289, 18 April 2012 (in French).

[12] ‘All that is left is the demand, which has suffered a strong reduction, having only one positive effect – to reduce the trade deficit (through reduced imports).’ (*Il ne reste que les effets sur la demande des ménages, d’où une forte contraction de l’activité dont le seul effet positif est de réduire le déficit extérieur (puisque les importations diminuent)*). Patrick Artus, *op. cit.* (trans. CADTM). Furthermore, Artus demonstrates clearly that business profitability has improved in the four countries that were studied.

[13] ILO, *Global Wage Report 2012-2013*, Geneva: ILO, December 2012,  
[http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_194843.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_194843.pdf)

[14] [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_324678.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_324678.pdf)

[15] Socialist Prime minister of the Spanish government 2004 – 2011.

[16] Socialist Prime minister of Portugal 2005 – 2011.

[17] Socialist Prime minister of Belgium 2011 – 2014.