



HOUSE OF LORDS

Revised transcript of evidence taken before

The Select Committee on the European Union

Financial Affairs Sub-Committee

Inquiry on

COMPLETING EUROPE'S ECONOMIC AND MONETARY UNION

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Questions 129 - 140

WEDNESDAY 27 JANUARY 2016

11.15 am

Witness: Veronica Nilsson

Members present

Baroness Falkner of Margravine (Chairman)
 Lord Butler of Brockwell
 Lord Davies of Stamford
 Lord Haskins
 Earl of Lindsay
 Lord McFall of Alcluith
 Lord Shutt of Greetland

Examination of Witness

Veronica Nilsson, Confederal Secretary, ETUC

Q129 The Chairman: Ms Nilsson, thank you for agreeing to give evidence to us today for our inquiry into completing Europe's economic and monetary union. As you know, the session is on the record and we will take a verbatim transcript of proceedings, which will be published in due course. You will of course have the opportunity to correct any minor errors or misunderstandings. Can I thank you for your patience in waiting for us to come back slightly later than expected? To commence, I wonder whether you might give us your assessment of the Five Presidents' Report and the actions introduced in the short term and in the longer term. Do you think it does enough to strengthen the euro in its long-term sustainability and, in reflecting on that, would you also comment on what you see to be any political obstacles to achieving what is proposed in the report?

Veronica Nilsson: Thank you very much. I am very pleased to be here and to meet with all of you. For us, this is a key issue. The ETUC Executive Committee adopted a position quite recently on this issue in December and we also have previous position papers on the issue of the EMU, which is of great concern to us all, I believe.

There are both positive and negative elements in the Five Presidents' Report, from our point of view. We understand the call for strengthening the current governance framework, but what if the framework is wrong from our point of view? We believe that the current framework is unbalanced. The focus is very much on fiscal stability and wage competitiveness. There is also an asymmetrical approach where deficit countries are treated differently from surplus countries. We believe that there is not enough emphasis on growth and job creation. We can also see this in the instruments that are already in place: the Stability and Growth Pact and also the Fiscal Compact. First of all, we have the criteria in the Stability and Growth Pact, but then we also had the Fiscal Compact a couple of years ago, which goes even further in terms of the criteria that governments have to abide by, so it is very strict.

There are also a number of proposals that we are not happy about. In particular, the proposal to set up these competitiveness boards. We do recognise that there is an evolution from the Five Presidents' Report to the current proposal that the Commission has put on the table. In the Five Presidents' Report, they spoke about "competitiveness authorities". I do not remember how they put it, but it was very clear that they should influence the wage-setting process and we are very concerned, because we believe that this does not respect the autonomy of the social partners.

The Chairman: These are the National Competitiveness Boards you are talking about.

Veronica Nilsson: Yes, but in the Five Presidents' Report they were called "competitiveness authorities", so they were even stronger in terms of interfering in wage bargaining. We think that the proposal put forward by the Commission does not go as far as the proposal in the Five Presidents' Report, but nevertheless we are very concerned about the idea of having these competitiveness boards, firstly because, as I said, it interferes with wage setting, which is an issue for the social partners.

The other thing is that we do not share the view that the EU is suffering from a lack of competitiveness. Of course we want competitive companies. That is extremely important for workers as well as employers, but we do not think that that is the key concern of Europe. In order to strengthen competitiveness, I do not think that wages are a key issue, because it should never be our ambition to compete with China, emerging economies or other countries on the basis of low wages. We should compete by having strong skills, strong research and development, innovation, strong infrastructure, strong networks, public services and quality services. That is what we should compete upon, not wages, so we do not really like this focus on wages.

In addition, it is not so clear what the Commission proposal will lead to, because those in favour will argue that this is not binding but is just giving advice, but we fear that these bodies will be able to exert a lot of pressure on social partners even if they are not binding. Also in the Commission proposal, the last paragraph leaves the door open for binding measures in the future, because it says that the Commission should carry out an evaluation in one year's time. That could then lead to additional steps that are more binding, so we are very much against this proposal.

We welcome that there is recognition on behalf of the Commission that they need to strengthen the social dimension of the EMU, and today we will get further information on what they have in mind for this social pillar. The question is if this social pillar will be taken as seriously as the economic rules. For us, it is also very important that the social pillar

applies to all EU member states, so not only the eurozone. Ms Thyssen issued a communication a week ago where she said that this was basically for eurozone countries, although others could join if they wanted, but it is perceived as something for eurozone countries and that is not something we agree with.

We believe that it is necessary to establish some kind of a common macroeconomic stabilisation function, as is proposed in the Five Presidents' Report. There is very little information on what this should look like and what form it should take, but I do believe that EMU is not viable. First of all, we want to revise the whole structure and that is one thing.

Lord Davies of Stamford: Did you say you want to revise the whole structure of the European Union?

Veronica Nilsson: No, not the whole structure of the European Union; the economic governance framework. As I said before, the focus is really on fiscal stability, cutting wages and so on, this whole asymmetrical approach. The question is what it will look like, and the Five Presidents' Report is not clear. We have our own ideas. There is, for example, one proposal by an economist, Joerg Bibow, which we find very interesting. He says that the institutions could set up a euro treasury that would issue common debt papers, but those common debt papers should be linked to investment. In exchange for this common debt, governments have to invest in their economies. This would reduce the public debt, because we would get common debt, and that would make us less vulnerable to financial speculation as the debt thresholds are very high in some countries. What is so good with it is that it links to investment, because currently we see the lack of investment as the big problem.

We also welcome the report's recognition that they need to strengthen democratic accountability, because that is missing today. Here I can only again deplore the way that the Fiscal Compact was agreed upon. First of all, according to the Lisbon treaty, any changes in the treaties should be done by calling a convention, but because the Fiscal Compact was done as an intergovernmental agreement they could avoid this. Now, though, the Fiscal Compact will be incorporated into EU law anyway, so it means that they have changed a treaty without calling for the convention. We do not think that that is really going to help strengthen democratic accountability, because it is perceived in the eyes of people as the EU just going ahead above us and that is a big problem.

In the report they call for more involvement of national parliaments, more involvement of social partners and this is positive, but it is not enough. What can be done? That is a different issue and it is very difficult. I do not believe I have all the answers, but something they also mention in the report is that they are going to set up a high-level group this spring and we, as

social partners, will definitely ask for a seat. I do not think we will get it, but we will nevertheless make the point that this is the future for all of us and we think that the social partners should also be able to have a seat in this high-level group.

There are many things that could be said on our concerns about the democratic deficits. If I talk about these competitiveness boards again, for example, we had the Tripartite Social Summit one week before the Commission published their proposal for the competitiveness boards. We raised our concerns. President Juncker was there. We did not get much of a reaction and then, one week later, nevertheless they put something on the table that interferes with collective bargaining and without even having consulted us before. At the same time as this new Commission, President Juncker is insisting on the need to strengthen social dialogue, strengthen the role of the social partners, but as soon as the Commission proposes something that is of concern to us we are not consulted. There are many issues that need to be addressed if you talk about the democratic deficit.

Q130 The Chairman: Thank you. You have raised quite a lot of very important and significant issues, one of them being, for example, democratic accountability and the lack of legitimacy. In your view, what would be the correct answer to how to get that?

Veronica Nilsson: I do not think we have all the answers. We have started discussions within our own organisation about what can be done. We see many problems and, as I said before, it is welcome that they are involving national parliaments and social partners more. That is very important, but of course that will not be the solution and then everything will be fine. It is not enough.

Also of concern is that the European Parliament does not really play much of a role in economic governance. For example, they are not asked for their opinion on the competitiveness boards. They can make their own initiative report, but it does not have that much value and that goes for the whole European Semester. The Commission published the AGS, Annual Growth Survey, package in November. There are lots of very important documents that are part of this package, but again the Parliament is not really involved. They are taking their own initiative by publishing different opinions, but it is their own initiative, so they are not really playing the role of the co-legislator in this area and this has to be changed. They need to have a more formal role in the whole European Semester and economic governance.

The Chairman: You have directed us quite clearly in a certain direction. I wonder if I can ask Lord Haskins to come in more specifically.

Q131 Lord Haskins: It seems to me that people like you are struggling with two enormous problems, which I have great sympathy with. First, there is the global problem about the way labour markets are changing, through reasons mainly technological, but jobs available for unskilled workers or semi-skilled workers are being squeezed, and one can see this even in the United States now, with the resultant huge inequalities developing in those markets. Secondly, the other side of it, in the eurozone, if you look at the German labour market operating against the Greek labour market, then you know who is going to win. That is a dilemma for the eurozone: can you do anything to narrow the differences between the way the labour markets work in Scandinavia and in Germany compared with the Mediterranean? Those two problems seem sometimes to be almost irreconcilable.

Veronica Nilsson: The Commission is doing quite a lot in terms of imposing structural reforms and that also comes back to the democratic deficit, what the troika did and that was criticised by the Court of Auditors the other day, which perhaps you saw. We do not necessarily agree with the reforms proposed by the troika, by the European Commission and so on.

Lord Haskins: What would your answer be?

Veronica Nilsson: How do you narrow the differences? We have to look more at the evidence of what kind of reforms are successful. Recently, Paul De Grauwe, who is a Belgian economist, issued a very interesting report showing that the labour market reforms that have been carried out these last years have not had the intended effect, so what kind of reforms are needed? The focus we have seen is on reducing things like employment protection legislation, making labour markets more flexible. In the UK, you have zero-hours contracts. It will not be a surprise to you that we are not very fond of those. I am not an expert on Greek labour market policy, so I cannot say exactly what kind of reforms are needed in Greece and I do not want the ETUC to be perceived as being against reforms. It is all a question of what kind of reforms and that will be very different in different countries. Being Swedish, structural reform is part of the Swedish model, but I cannot give lessons on what kind of reforms other countries need.

Lord Haskins: If the eurozone is to work, something has to be done about the Greek labour market and, I would say, the French labour market too, in a sense. They do not compete successfully against the Scandinavian, the German and the British models.

Veronica Nilsson: We had this discussion on Monday. We had the macroeconomic dialogue and my colleague from the TUC showed that productivity is much higher in France than it is in the UK.

Lord Haskins: It is, but unemployment is much higher too.

Veronica Nilsson: It is. You have to look at each country separately and it is very difficult for the Commission to make general recommendations. The problem is, as I said, they go in the same direction and it is about flexibility all along, and is not so much focused on security. We see that in the AGS, maybe not in the Five Presidents' Report, I do not remember, but the whole "flexicurity" concept is coming back on the agenda. This is a concept that tries to balance flexibility, yes, with security, which we need. We cannot just have one or the other. That does not work, but what is the right balance?

Lord Haskins: Sure, but the security issue is a global issue; it is the technological thing. How do the leaders of the labour movements across the world react to the global issue?

Veronica Nilsson: Digitalisation is both positive and negative. Of course it provides opportunities. It could also be an opportunity for more flexible working arrangements. It could be a way of improving the work-life balance for some people, but we are also very concerned about the social impact, because it is not just positive. Jobs will disappear and what kind of quality jobs will we have? Take crowd-working, for example. What rules apply to crowd workers? Which labour code of which country applies? That is not very clear. It is also a problem if these workers are not seen as workers.

I am not sure if it was the ECJ outcomes, but there was a court decision where they claimed that the workers who were going to get the crowd workers in order to negotiate their wages were seen as a cartel, so it was not allowed. I do not remember the detail; I have not followed it closely myself. There are opportunities, but there are many problems as well and here again the Commission has a bit of a technocratic approach, focusing more on the opportunities. We have to also look at what the problems are, what the risks are and how we can avoid them.

Q132 Lord Davies of Stamford: I was disappointed to hear what you said about the lack of consultation with the Commission. I thought the Commission was rather good among bureaucratic organisations in consulting generally and particularly committed to consulting with the social partners, so I was sorry to hear what you said about that. Have you had and have you taken up opportunities for consultation with the Commission in the context of the European Semester and the discussion about appropriate economic policies? That should, presumably, open up quite a lot of the field for consultation and discussion.

Veronica Nilsson: Yes, indeed, and I do have to say that the Commission has improved a lot, in particular when it concerns the European Semester, because that is the area where they are interested in involving the social partners. We regret that they do not take so many initiatives in the social field to invite the social partners to negotiate framework agreements. The

consultations are really taking place within the European Semester and there is definitely an improvement. We are consulted much more than we used to be.

Here, at the European level, we also have more informal consultations, which sometimes are more helpful because you can have more of a frank exchange and more of a dialogue. When you are in a formal meeting you are more in a situation where you give statements rather than have a dialogue. That is positive and it has improved. At the national level it is different, because that also depends on governments, of course, but here also the Commission is trying to play a positive role. When they send country teams to the different countries, they also meet with the social partners, for example. Here, our criticism would be more towards some governments. In some countries it works very well, where the social partners are consulted properly, but not all countries.

Lord Davies of Stamford: Like in Sweden.

Veronica Nilsson: Of course.

Q133 The Chairman: You mentioned earlier that you had just had a macroeconomic dialogue session a few days ago. Do you think that is a positive and useful tool in terms of economic governance?

Veronica Nilsson: It is, but we would like to improve it further.

The Chairman: What would you specifically wish to see?

Veronica Nilsson: First, we would like to have more resources provided by the Commission. We used to have interpretation in at least two languages for the technical meetings, because there is both the technical and the political meeting, and it makes it very difficult for trade unionists from countries like Spain and Italy to come and participate in the discussions if they have to do it in English. Unfortunately, that is the reality of things, so we have a tendency to bring affiliates from northern Europe where the language skills are usually better. More resources is one thing, not just when it comes to interpretation, but also so that we can have a broader and bigger delegation with trade unions from different countries, because we do get into quite technical discussions. A colleague mentioned Greece; I am not an expert on Greece, but I would like to have a colleague from Greece saying, “This is what we need in Greece” or “This is what the situation is in Greece”. For example, for the technical meeting we can bring 10 people altogether. When it is the political meeting we can only bring four people, so we would like to have broader participation.

We also want to have a stronger link with the European Semester. It is starting to change, but it was not there before. We want to use the macroeconomic dialogue to also talk about the

macroeconomic imbalance procedure, the country reports and the country-specific recommendations. That is changing a bit, though, so it is becoming better.

Q134 Lord Shutt of Greetland: I am looking at number five and you have covered a lot of this already. We know that you are arguing for there to be more democratic accountability. You obviously want your own organisation to have more involvement, but where do you see this in the democracy of Europe as a whole and is there any difference with the governance of EMU as compared to the European Parliament? How do you see this going forward? Are there any other democratic accountability issues that need to be brought into place that you want to raise, anything specific?

Veronica Nilsson: First, I believe they should abolish the troika. It has been more or less abolished already, but the way the troika was set up has done a lot of damage and does not help to create confidence among citizens.

There is also the role of the ECB, which we have not discussed. The ECB is too political. They are interfering with policy-making, which goes beyond their mandate of running monetary policy in Europe. I remember a few years ago, when Jean-Claude Trichet was still the director of the ECB, he sent a letter to the Italian Government telling them to introduce reforms in the labour market—more or less a covert threat that otherwise they might not get so much support from the ECB. That is stepping outside their mandate, as well as the fact that they participated in the troika. It is not their role and I could give many examples.

I am not really sure how to resolve the problem of the ECB stepping outside its mandate and going too far, but there are also other things in the ECB structure. The ECB has missed its price stability goal for four years and we think that the goal should be revised; we think it is too low. It would be more effective to have an inflation goal of maybe 2% to 3%, or something like that. They should also act as a lender of last resort. I know they are trying, but it is difficult. They should support public investment, shield member states from market speculation and also become more like the Federal Reserve, which does not only have an inflation goal but is also looking into employment and growth.

Q135 The Chairman: Can I press you a bit on the ECB and its role in the troika? I suspect that, if we were speaking to them, they would argue that they stepped up to the plate when nobody else was there to do so, potentially reluctantly, but there was a vacuum that needed to be filled in a crisis. Would you agree with that?

Veronica Nilsson: Yes, I understand that argument, which is perfectly legitimate.

The Chairman: Incidentally, while we are on that, do you believe that the IMF had a legitimate role?

Veronica Nilsson: Well, we are not particularly fond always of the recommendations coming out of the IMF, but the problem here is that we have the ECB and the Commission being bound by the treaties and EU law. EU law does not apply to the IMF, so that is the big difference.

Lord McFall of Alcluith: Is the issue you are focusing on with the ECB the lack of democratic accountability? Is that the issue at the core of it?

Veronica Nilsson: The core of what?

The Chairman: Or is it its mandate? Is your concern with the ECB democratic legitimacy or is it the mandate itself?

Veronica Nilsson: It is both. They are two separate issues. One is the economic policies, when I am saying we need a little more inflation in our economies, but that does not have anything to do with democracy. That is more the role that I see the ECB taking.

On the aspect of democracy, I also think there is a tendency on behalf of the Commission to rely much more on independent experts than they used to do. That is the general tendency and I do not think that all these independent experts are neutral, because we all come from different perspectives and have our own cultures and traditions that we are coloured by. For me, it makes more sense, for example, to invite social partners, because you know trade unions represent the interests of the workers; employers represent the interests of the employers. You know where they come from. All these independent experts are taking too much space. I am thinking again of the competitiveness boards, because the idea is not to involve the social partners in that. The proposal is clear: it is the competitiveness boards with independent experts. They are doing the same on the European Fiscal Board. Again, this is for independent experts. They are doing the same on Better Regulation with the Regulatory Scrutiny Board that they have set up with independent experts. For me, it permeates the whole of the EU, this idea of independent experts, and I have a feeling they are almost taking over policy-making.

The Chairman: Can I come in? It is a little controversial point I am going to address. I see where you are coming from and certainly in the German system you have the workers' representatives represented on boards, but we have seen the disaster of the VW board, where you had the interests of the company very tightly controlled by controlling shareholders and then you had the workers' representatives, who seemed to have rather got lost in terms of strategic oversight. Would you not accept that the public may have more confidence in independent experts' advice being heeded than perhaps a side that might have a vested interest?

Veronica Nilsson: That is not a very glorious example, obviously, but the German model is very particular. There is no other country where you have that system. We have something in Sweden, but it looks very different. You are not part of the board in the same way, so there is no mix-up between different interests. That is very much a German model, which does not really fit the rest of Europe. What can I say?

The Chairman: That is a difficult one. Lord Davies wanted to come in.

Q136 Lord Davies of Stamford: I am quite interested in what you were saying on characterising the present trend of the Commission to staff these bodies with independent experts or the platonic approach to governance; it is quite an interesting comment. I just wanted to note two rather striking ironies about what you have been saying in criticising the ECB. First of all, the trade union movement in the European Union is interminably criticising the futile policy pursued over the last years on the grounds that it is too demand-restrictive, but the only body at the present time that is taking action to increase demand is, of course, the ECB with their quantitative easing programme and yet you are criticising them. Secondly, you were making comments about the ECB not restricting itself to a purely monetary role, allowing itself to take an interest in politics, which sounds exactly like the criticism being made of the ECB by extreme right-wing monetarists in Germany, like Hans-Werner Sinn. I thought I would just point out those two ironies that emerged from your remarks.

Veronica Nilsson: That is fair enough.

The Chairman: The Ifo Institute is not exactly your best friend.

Veronica Nilsson: No. First of all, the quantitative easing came a bit late. Although we wanted to stimulate demand growth, investment and so on, there is the danger that quantitative easing has not given the result that we wanted. It has not increased inflation. Inflation is still extremely low at 0.2% and the inflation expectations have come down, so it is a very tricky situation. Although we want to stimulate demand growth investment and so on, the problem is that quantitative easing can inflate stock values, but not really provide the investment that the economy so desperately needs.

Lord Davies of Stamford: It increases stock prices, it reduces the cost of capital and so it makes a contribution, all other things being equal, to the propensity to invest.

Veronica Nilsson: There is still the problem of what we see: inflation is not going up, so how effective has this programme been?

Lord Davies of Stamford: It has been a move in the direction you have been urging, more demand. That was what I was pointing out.

Veronica Nilsson: Yes, absolutely, I agree. On what I said before about the ECB stepping beyond its mandate, I was perhaps not very clear. To be really frank, what the ECB did in Italy is blackmail. It said, “We are going to buy your debt if you do the reforms we want you to do”. That is not acceptable.

The Chairman: However, if the Commission does a country-specific report that tells Italy, “You have a problem”, is that okay?

Veronica Nilsson: First of all, the ECB is not elected.

The Chairman: Neither is the Commission, if I recall.

Veronica Nilsson: No, and that is also the problem. My overall impression is that even the staff of the Commission, the civil servants, are much more political than any civil servants you would come across in the ministries at national level. They play a very different role.

The Chairman: We often complain about that in the UK too.

Lord Davies of Stamford: I do not think there is anything remotely improper about what you have just described. It is public money that the ECB has and if you are a fund manager, it is no different from saying to Siemens or BP, “I am not going to buy your bonds or I am not going to buy your shares unless you make the following improvements in your governance or in your priorities”. It is a totally reasonable dialogue to have between lenders on the one side and borrowers on the other.

Q137 Earl of Lindsay: Can I ask you two questions? One is very short and it is just really for my own clarification, so therefore I would accept a very short answer. Am I right in saying that most of the concerns you and your members have are about detail and process, but if you look at the big picture, the big vision that EMU is trying to achieve that the Five Presidents’ Report is trying to map a path to, you do not have problems with the big, glorious vision; it is just the detail of the path to get there? Is that correct?

Veronica Nilsson: First, I should say that there are differences between different trade unions and, as you can imagine, our affiliates in the south are more positive and are pushing more for deeper integration than our affiliates in the north. Our position is that we have the EMU; we are not questioning the fact that we have a common currency and that we should have it, but we are seeing a number of problems. It does not work and, if it is ever going to work, we need deeper integration. That is the position of the ETUC.

Earl of Lindsay: The way you have answered leads into my second question, which is, as it were, the extent to which you have differences of opinion about the plans going forward between some of your individual members. One of the concerns we have been exploring in the discussions we have been having is the extent to which we say the non-euro member

countries might, in some way, be disadvantaged by monetary union. Even if one argues that the substance of what monetary union is seeking to achieve is of advantage to everyone, non-euro and euro, nonetheless the dynamics surrounding the euro membership and the way they deliver discussion and decision-making might spill into the governance and decision-making surrounding economic matters, for instance, which are of concern to all 28. Has your own Swedish trade union, has the British TUC, expressed any concerns to you about what the impact might be on non-euro member interests?

Veronica Nilsson: Our affiliates are taking a bit more of a European approach. We have this European project, which all our affiliates support whether they are members of the eurozone or not. I do not think that affiliates have expressed that kind of concern, but there is concern, for example, about the social pillar and whether this would apply to non-eurozone members or not. Our position is clear: we want the social pillar to apply to all EU 28 countries and that is also the line of the TUC. I do not recall anybody expressing concern about what that could mean for non-euro countries.

Earl of Lindsay: Finally, you mentioned the difference of mood between your more northern members versus your more southern members about the depth of integration. What about east/west? Is there any division there between, say, the views of your Polish and other eastern European members and affiliates and how they are looking at some of the proposals and some of the western European and longer established members?

Veronica Nilsson: No, I do not see much of a division there. Their problem is that they are less involved in the European Semester. I did not pinpoint any particular countries before, but it is true that what we hear back from them is that they are not properly consulted on the European Semester. Their opinions are not really taken on board yet, when I talk to my Swedish colleagues, they will tell me, “Oh yes, we had a good discussion” and so on. For them, the problem is that they do not really get involved but, in terms of our responses, what we want to achieve, I do not see any differences there.

Q138 Lord Haskins: Coming back to what I was talking about earlier a little, we cannot get away from the fact that, in a single currency, Germany, competing against Greece and, indeed, Italy, will always apparently win, because Italy and Greece no longer have the capacity to devalue themselves out of trouble. You could argue that the German market, which has been reformed quite a lot in the last 10 years, is the example that the Greeks should be following. You could certainly argue that the Swedish model is one that should be followed. You seem to be reluctant to drive that agenda in the Mediterranean.

Veronica Nilsson: Well, I do not think our German Trade Union Confederation (DGB), our affiliates, see the labour market reforms that took place in Germany as the model. I do not. I would rather encourage the Nordic model, as we have a bit more emphasis on security. That is also why they introduced the minimum wage in Germany, because there have been situations in Germany that we very much deplore, particularly in the meat industry, where you have had foreign workers working for a few euros an hour, which is really awful.

Lord Haskins: We have that problem too.

Veronica Nilsson: Yes, and for a rich country like Germany it is just not acceptable, so I would advocate the Scandinavian model more, but I also know how difficult it is to take a model from one country and try to apply it in another. It just does not work. Of course lessons can be learned. That goes back then to the “flexicurity” concept, because I believe both sides of our Danish social partners are more or less satisfied with their system of flexicurity and that is where it comes from but, when it is applied at the European level it becomes different and, in our view, more focused on flexibility than security, so you do not have the right balance. That is why it is so difficult to tell other countries what to do and what not to do.

You pointed to a very important issue, which is that they cannot devalue any more and that is the whole problem: how do you manage a union where you no longer have that tool? That is why all the adjustment has been done through cutting expenses, cutting wages and so on. That is just not the future for Europe. That is not how we are going to compete with the rest of the world.

Lord Davies of Stamford: Do you think devaluation is not cutting real wages?

Veronica Nilsson: It does, but it does in a very different way. If you talk about the programme countries, they have cut minimum wages. They have made cuts to those who are least well off in society. If you have a general devaluation it will hit everybody in a different manner, but when you specifically cut the minimum wage, like in Greece, Portugal and other countries, it affects the most vulnerable in society.

Q139 Lord Butler of Brockwell: There are two parts of your evidence that I have found difficult to reconcile with each other. As I understood it, in your opening statement one of your criticisms of the Five Presidents’ Report was that it impinged on the independence of the social partners. Latterly, you said, and this is what a lot of people say, that if the single currency is to work it needs deeper integration. How do you square those two statements?

Veronica Nilsson: What I said about the autonomy of the social partners was linked to the Commission proposal on the competitiveness boards and that is interfering with wage bargaining, which is really the role of the social partners. I do not think that deeper integration

of EMU, as such, is interfering with the autonomy of the social partner so, for me, those are two separate issues.

Lord Butler of Brockwell: What aspects of deeper integration do you favour?

Veronica Nilsson: That is what I said before. First, many years ago when the crisis erupted, we called for eurobonds, for common debt. That would be one way of handling this problem and not just putting everything on wages. There is very little in the Five Presidents' Report that is concrete on this issue, because that is what they leave for the future. That is why we are looking into, as I said before, the proposal that was made by one economist, which we find very interesting, to have a euro treasury. The whole point is to link it to investment, so you get the common debt but you link the common debt to get the investment, which we are lacking today. Public investment has continued to decrease. Even if we have a bit of a recovery and growth now, public investment continues to decrease and that is just not good for the economy.

Lord Butler of Brockwell: I can understand that you might have different views from the ECB, for example, on what is done by fiscal policy and how expansive or contractionary fiscal policy should be, but would you be in favour of more co-ordination of fiscal policy?

Veronica Nilsson: That is a tricky discussion within our organisation, because we have, as I said before, our southern affiliates that are more interested in going in that direction whilst our affiliates in the north are more reluctant. We do have a number of positions. We believe that the Commission and member states should do more to fight tax evasion, but the Commission has taken a number of initiatives in this area already. On fiscal co-ordination, we are also very much in favour of a common, consolidated corporate tax base. Now the Commission is relaunching this proposal. There was a public consultation, which has just finished, and we understand that this will be done in two steps, so it will be done differently. Within the ETUC, we have agreed not only that we think this is positive but we would also like to suggest—I am sure you will not like this—a common minimum rate of at least 25%. Here we have total agreement within the ETUC; this was adopted at our congress that was held last autumn. Some affiliates would like to go even further in terms of fiscal co-ordination, but we do not have a position here, because there is a lot of reluctance and many are arguing that this is a national competence.

The Chairman: Can I just clarify—you would advocate a common corporate tax base of 25% across the union?

Veronica Nilsson: Yes.

Lord Butler of Brockwell: Your objection to competitiveness boards is that you feel that they will mean pressure for the reduction of wages. You are not against the competitiveness boards as such, are you? Suppose that what they are recommending to individual countries is the increase in investment and improvement of education, you would presumably regard that as a good thing, would you not?

Veronica Nilsson: Then you have to ask the question of why you would even bother to set up the competitiveness boards, because those kinds of recommendations are already part of the European Semester, the country reports and the country-specific recommendations. There is no reason then to set up a particular body in each member country to discuss this.

Lord Butler of Brockwell: Is not the purpose of the competitiveness boards indeed to try to manoeuvre governments to adopt some of the recommendations of the Semester? It is a tool of implementation.

Veronica Nilsson: Yes, but if it is a voluntary tool why would it have more teeth than country-specific recommendations?

The Chairman: I suspect they would argue, first of all, that it brings independent research, but also transparency into the system. When you do an assessment of labour mobility or not or inflation or competitiveness, done by an independent body, as the Dutch have and in the United Kingdom we have that to some extent, it increases transparency in terms of democratic accountability.

Veronica Nilsson: Well, I am not so sure, because the country reports are rather transparent already and what can these competitiveness boards achieve, because they will be very small? This is a negotiation between member states, but that is the way it is proposed. It is not that they are going to have lots and lots of research at their disposal. I do not believe that—not in the set-up that is proposed. It is also right to point out that you have some similar bodies in different countries, but they are usually tripartite or even, like here in Belgium, bipartite, so it is a completely different structure.

Q140 The Chairman: We have a few minutes before we end. I wonder whether I might ask you about the macroeconomic imbalance procedure and how it can be strengthened when it goes into excessive imbalance. What is your reaction to the inclusion of social indicators in the alert mechanism?

Veronica Nilsson: That is something we have been calling for, for quite some time, so we were very happy when the Commission took up three new indicators. Then I saw the conclusions of the finance ministers and they were not very happy at all, so we had that discussion in the macroeconomic dialogue, because I wondered what would happen next.

They explained to me that this is within the decision-making power of the Commission, so the Commission had already decided that those three criteria have been added, so they will remain; it does not matter that it was criticised by finance ministers. We welcome a bit more of a social dimension to things.

How can you strengthen the macroeconomic imbalance procedure? As I said before, it comes back to the fact that today it is an asymmetrical approach and the focus is on the deficit countries and not the surplus countries. What about Germany, for example? Should there be fines only to the deficit countries? What about the surplus countries? Should there not be the same balance? If you cannot have a deficit that is bigger than 3%, can you have a surplus that is bigger than 3%? Why? We believe that this is not really fair. This is not the right setup and it should change. That would be, for us, the best way of strengthening this procedure.

The Chairman: Thank you. That now concludes the public part of the meeting. Thank you very much.