Warsaw Forum of Economic Sociology 8:1(15) Spring 2017
Warsaw School of Economics; Collegium of Socio-Economics; Institute of Philosophy, Sociology and Economic Sociology

Book review

Myant, M., Theodoropoulou, S., Piasna, A. (eds.), U*nemployment, Internal Devaluation and Labour Market Deregulation in Europe*, Brussels, ETUI, 2016, ISBN 978-2-87452-396-0

With the 10th anniversary of the global financial crisis that soon escalated into a global recession approaching, it seems like a good moment to look back at the disastrous events which had erupted in 2008 and 2009 and their long-term impact on the world of European labour. The anti-crisis policies implemented in the Eurozone (but also exceeding its boundaries, wherever the 'bailout' mechanism was implemented, for instance, in Romania) under the austerity banner produced mixed effects, not just in terms of economic growth restoration (while some MS returned to the growth path, they would not be moving at the same pace, while others sank into a prolonged stagnation) but also with respect to profound rearrangements in institutional foundations.

The book co-edited by M. Myant, S. Theodoropoulou and A. Piasna deals with three key phenomena explicitly used in the title: unemployment, internal-devaluation and labour market deregulation. The first was an inevitable consequence of the recession, the last – an institutional adaptation to the changing environment (let us withhold any judgments whether right or wrong for the moment), and the one in the middle was an immediate response intended to minimize losses. Internal devaluation, unlike the remaining two, sounds a bit mysterious, thus needs to be explained. It is a recipe used by the Eurozone countries stricken by balance of payments deficit, to which they could not respond with devaluation due to not having their national currencies anymore. In the words of one of the Editors, 'internal' devaluation is engineered 'by cutting production costs, meaning predominantly wages'. It is supposed to lead to 'lower relative export prices and hence to improved international competitiveness'. The Authors claim it was, unfortunately, not the case.

The idea behind the book is to comparatively analyse seven EU member states, some of which (Greece, Ireland, Portugal and Spain) underwent internal devaluation after 2008, while others (Germany, UK and Poland) did not.

Chapter 1 by Sotiria Theodoropoulou deals with Greece. Not surprisingly, it is the most dramatic case of all. Following horrendous initial recession and subsequent Troika-prescribed shock therapy, the country's economy still not recovered. The chapter is quite pessimistic in its general tone and very critical of the post-2008 policies. The Author observes that 'internal devaluation failed to spur higher growth and lower unemployment' (p. 53). This was mainly due to absence of drivers that could and would effectively trigger 'transformation and specialisation of the Greek economy in dynamic, high value added sectors', liberating it from 'reliance on the state for driving demand and employment creation'. While internal devaluation indeed produced lower labour costs, those would not necessarily translate into product prices. What is probably most important, in the system of communicating vessels, the Eurozone is, 'the lack of any effort by member states with current account surpluses to pursue internal revaluation meant that the effects of lower labour costs on the real exchange rate were in some cases completely nullified' (p. 54)

Chpater 2 by Tom A. McDonnell and Rory O'Farrell tells the story of spectacular downfall of Ireland, once known as the Celtic Tiger, and subsequent efforts to restore the country's competitiveness. In that particular case, 'there is no clear causal link between an internal devaluation in Ireland and the substantial movements in employment after 2008' (p. 80). What is for sure is that the 'Irish wages are now relatively lower than in other EU countries (compared with 2008)' (p. 80). Internal devaluation, although successful in technical terms did not help overcome recession, quite the contrary. Unemployment levels also stay at a relatively high level. Labour costs would go down mostly due to due to a collapse of the labour-intensive construction sector. The Authors suggest that in a peripheral economy, of which Ireland is an example, it is not internal devaluation but rather 'revaluation' (especially in advanced, high value-added branches) that could effectively allow regaining competitiveness.

Chapter 3 by António Bob Santos and Sofia Fernandes delivers account of anti-crisis policies in Portugal. While not so severely hit by recession as Greece, Portugal also suffered, and internal devaluation did not help the national economy much in going back onto the growth track. The immediate effects are assessed negatively: none of the initial objectives named by the Memorandum of Understanding (implemented between May 2011 and May 2014), including public deficit (stayed above 3 per cent of GDP); public debt (grew up to 130 per cent of GDP); export growth rates are (lower than before); GDP growth (stagnant); and very high (above 18 per cent) unemployment were achieved. Finally, the economy has not moved up the global value chain. Yet the overall conclusion of the chapter is moderately optimistic, the prospects for the Portuguese economy are not bleak, with the significant opportunities offered by EU structural funds.

Chapter 4 by Jorge Uxó, Eladio Febrero and Fernando Bermejo is devoted to Spain. In the 5th largest EU economy the post-2008 years were dark: between 2007 and 2014 3.3 million jobs were lost, which translated into 16 per cent of total employment. The therapy – in the way it was implemented – did not work well: in search of labour cost reduction the wages were cut down, which probed to be 'detrimental to employment because they have contributed to weakening domestic demand' (p. 165). Even the ray of light manifested on rise of employment visible from the 2014 onwards should not be welcomed with overt enthusiasm, as 'the new jobs are more precarious and worse paid' (p. 165).

Chapter 5 by Steffen Lehndorff sheds light on Germany in the times of crisis. Germany did not implement 'internal devaluation' after the arrival of global recession, as there was no need to do so: it had taken place already. And, according to the Author, the German 'jobs miracle' occurred not because of the internal devaluation itself, but because it had been put in place before other MS would decide (or rather be forced) to take the path. The 'logic of internal devaluation in Germany up until the financial crisis could work, in terms of improved price competitiveness, only because policy approaches in other countries did not follow the same logic. If all economies take the same route there will be a race to the bottom' (p. 192).

Chapter 6 by Steve Coulter is focused on the UK. The Author points out the readers' attention to a seeming paradox: 'the deepest recession since the 1930s' (p. 224), was coped with better than the previous cases of recession the UK had experienced (1980s and 1990s) as far as labour market indicators are concerned. Yet, the reality is more complex: new jobs to compensating for the lost ones were simply worse in quality: less paying and more precarious: 'most employment creation since the end of the recession has been in part-time or insecure jobs and the economy has only very recently begun to generate well-paid, full-time jobs in significant numbers.' (p. 197). At the end of the day 'it is sobering to note that UK workers are still less productive per hour than they were before the financial crisis struck.' (p. 225).

Chapter 7 by Małgorzata Maciejewska, Adam Mrozowicki and Agnieszka Piasna concentrates on Poland. Poland is another case of a country which had avoided recession after 2008, while being the only NMS covered in the book. In the NMS, with their predilection for seeking competitive advantage by keeping labour costs down, the arrival of the recession was just another incentive for continuing the macroeconomic policy course which had been set in the 1990s. The anti-crisis policies stressed out the need for further felxibilistion of the labour market. Thus, the unemployment growth was moderate but most new jobs offsetting the loss of those swept away by economic deceleration would prove to be precarious ones.

The books is a very critical account of the 'internal devaluation' and labour market policy modifications that followed. In general, the message the book delivers is that those schemes simply did not work out. Hardly any improvements in competiveness were achieved, while the most tangible outcome seen in all of the countries which underwent internal devaluation was arrested economic development expressed in terms of GDP dynamics. Could it have been done differently and to a greater benefit for the economies and societies concerned? Probably yes but it did not happen. The prerequisites for an effective fightback to the recession would be a more tolerant approach towards the indebted MS (this would be difficult to imagine in the countries with balance of payments surplus, read: Germany), and capability of transforming the peripheral (bluntly speaking: backward) economies too much reliant on FDI and real estate/construction into innovative ones, delivering high-value added goods and services.

The consequences of the therapy administered to the countries in trouble could be divided into direct and indirect ones. As of the former, the obvious outcome was prolonged recession, unemployment and social misery seen in all countries which underwent externally driven internal devaluation. As of the latter, the deregulation-oriented labour market reforms produced a blow to the collective labour relations and heavily contributed to precarisation of work. In terms of bail-out related labour market reforms, Portugal is a meaningful case of effectively dismantling collective bargaining system as a consequence of flexibilisation. The same could be pretty much said about Greece, to a lesser degree – about Spain. In Ireland the 'social partnership' system fell apart.

As this is a Polish journal, let me take liberty to devote a separate paragraph to Poland. One of the explanations why Poland managed to escape recession of 2009 and subsequent years mentioned quite frequently in the literature is actually not being part of the Eurozone, which allowed the country to retain control over the national currency. From the Polish perspective, the book can be read on several levels: 1) as *memento* of what could have happened if the euro had been adopted prior to the crisis (the lesson of the Baltic states, regretfully not covered by the book, is meaningful); 2) as a piece of evidence that behind bare statistics there is a more complicated truth, as far as quality of new jobs filling for the old, lost ones as a result of the crisis and anti-crisis policies is concerned; 3) as a reminder that 'internal devaluation' via labour cost squeezing does not necessarily require recession and debt crisis as preconditions (German and Polish chapters provide stories of maintaining competitive advantage based partly or solely on cheap/cheaper labour); 4) as a warning of risks behind the dependent economic development mode. The two latter points also apply to other countries of peripheral and semi-peripheral economic status.

The book is a very valuable empirical study, one of many the European Trade Union Institute (ETUI) based in Brussels has been publishing for number of years. Despite the analysis reaching the horizon of 2014 at best (in some countries the data series employed are halted even earlier), the edited volume looks not outdated at all. It is probably because the problems diagnosed by the authors have not disappeared in the meantime, the policy solutions applied are of questionable quality, and the prospects for the recession striking again remain solid.

Jan Czarzasty, Warsaw School of Economics (SGH), jczarz@sgh.waw.pl