



SOUTH-WEST
UNIVERSITY
·NEOFIT RILSKY·
BLAGOEVGRAD, BULGARIA

VOLUME 9
2011

SCIENTIFIC Research

ISSN 1312-7535

ELECTRONIC
ISSUE

Euro-Plus-Pact and its Socio-Economic Consequences

Radoslav Radoslavov, Ph.D.

Adoption of the Euro-Plus-Pact (initially known as the **Competitiveness Pact** or just the **Pact for the Euro**) and the decision of Bulgaria to join it, as a Euro zone candidate country, has provoked the public opinion and caused many controversial opinions among the policy-makers and experts.

The real pros and cons debate of the Pact started just after news for our joining the new European initiative.

The lack of wide public debate and political consensus on how to realize such an important political, economic and social act is disturbing and worrying factor, even for extreme Bulgarian conditions, which raises and will raise great social tensions and alarming questions without a satisfactory answer.

This management action is not something unknown in our most recent democratic history.

In fact, other fateful social and political acts, as Republic of Bulgaria's joining NATO and European Union, were performed the similarly, which is consecutive manifestation of chronic distrust of ruling elite in the political maturity of the Bulgarian people.

Position expressed by the Prime Minister at our enrolling with the speed of lightning, as a state in the rescue to save the euro, still has no unambiguous and categorical support from the Bulgarian society.

The pact strengthens the centralization of supervision of banking and public sectors and aims for closer integration of economic and monetary policy of the EU.

Improving of economic policy coordination, however, is primarily based on restrictions, macroeconomic balance and financial stability.

Activity of the Pact rests on four guiding rules¹:

1. Strengthen the economic governance in the EU, while providing of new added value.
2. Europe-wide actions in priority policy areas that are essential for fostering competitiveness and convergence.
3. Undertaking of concrete national commitments through annual programmes for implementation of the Pact;
4. Completion of the Single European Market which is the „key to enhancing the competitiveness,,² in the EU.

Which are the advantages?

- The participation of our country in the Euro-Plus-Pact will help to accelerate the modernization of national economy and state institutions;

¹ The Euro Plus Pact - Stronger Economic Policy Coordination for Competitiveness and Convergence – Annex „Policy of Competitiveness and Convergence”
EUROPEAN COUNCIL Brussels, 25 March 2011, EUCO 10/11, CO EUR 6, CONCL 3
http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf

² The Euro Plus Pact – Stronger Economic Policy Coordination for Competitiveness and Convergence – Annex „Policy of Competitiveness and Convergence”
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- Full-rate participation of Bulgaria in the single market area of European Union and extracting the immediate political and economical benefits from this presence in order to overcome the particular isolation, characteristic to small, peripheral countries in the EU;
- Reforming the labour market and lowering taxes on labour incomes, which will have positive impact on the social and professional status of employees;
- Falling interest rates on loans and achieving of more favourable levels, similar to those in Germany and France;
- Increasing the competitiveness of economy, supervision, sustainability and stability of public finance and financial system;
- Promotion and development of competition, education systems, research and development (R&D) activities and innovations;
- Reducing the bureaucracy of the various management levels in the country, improving the business environment and infrastructure.

Besides the advantages, there are also negatives that most experts considered to be uncontested:

- The Euro-Plus-Pact is going into „territories that are exclusively national competence and responsibility, such as the sphere of labour, payment and social protection”³. These territories are also guaranteed regional expertise in the decentralized Member States. This approach poses a big challenge for the central principle of EU functioning – principle of subsidiarity, which in its deep nature means, management decisions to be made, as closer as possible to the area of problem occurrence – in contrast to the trend of self-replicating and self-legitimizing of bureaucracy on Central European level;
- The proposed instruments for achieving of competitiveness and convergence are internally contradictory and inconsistent: „high labour productivity by reducing labour costs, maintaining the autonomy of the social partners in the collective bargaining process with the increased pressure on the public sector, free choice of political actions for each Member State with the „obligatory” recommendation for the possible packet of measures of European institutions in Brussels”⁴;
- Freezing the growth of labour income and social protection systems due to mismatch between required labour productivity per unit of output and the growth of wages in Bulgaria, which unambiguously eliminates gullible social expectations for fast, overtaking increase of remuneration of employees and approaching the European standards;
- Reconsidering the wage setting arrangements/regulations, and if necessary, revising the degree of centralisation⁵

³ Position of Confederation of independent trade unions in Bulgaria (CITUB) and Trade Union Podkrepa

<http://www.vedomost.info/novinite/374-trudova-zaetost/28631-pakta-evro-plyus>

⁴ Position of Confederation of independent trade unions in Bulgaria (CITUB) and Trade Union Podkrepa

<http://www.vedomost.info/novinite/374-trudova-zaetost/28631-pakta-evro-plyus>

⁵ The Euro Plus Pact - Stronger Economic Policy Coordination for Competitiveness and Convergence – Annex I, goal “Foster competitiveness”

EUROPEAN COUNCIL Brussels, 25 March 2011, EUCO 10/11, CO EUR 6, CONCL 3
http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf

- Limiting early retirement schemes and aligning the pension system to the national demographic situation by increasing the retirement age;⁶
- Member States with different economic situation, different history and national traditions are treated equally with the same economic instruments⁷]

In the signed text of the Pact is provided coordination and synchronization of economic, fiscal and budgetary policy only between national leadership and the European institutions, while in it there is no hint of any, even symbolic participation of regions in the countries with developed regional self-government, having the right to determine regional taxes and fees within their budgets.

Ambiguity creates uncertainty and anxiety in the representatives of regional societies that found expression in the Declaration of the Bureau of the Region Committee, dated 07 March 2011.

The findings in this Statement regarding the Pact hardly need comments⁸:

„We believe that the recent proposal for the Competitiveness Pact goes beyond the frames of traditional Community method. Issues that are addressed by this initiative – including the levels of taxation, wage index systems or retirement age, are too sensitive, to be left to address only national governments without the participation of European Parliament – through the Committee of the Regions of local and regional authorities.”

At this stage, the regional communities in the European Union still hope that the imposed fiscal and budgetary framework for each Member State after the conducting of obligatory coordination with the European Committee and acceptance of respective legislative acts will allow henceforth the regions with regional self-government to keep its relative autonomy in the collection of regional taxes and fees which by type and volume should allow them to effectively and qualitatively realize their empowerment as regional formations.

Pressure on implementation of principle of subsidiarity, whose „guardian” is the Committee of regions and its eventual erosion will cause further complications.

⁶ The Euro Plus Pact - Stronger Economic Policy Coordination for Competitiveness and Convergence – Annex I, goal „Foster employment”
EUROPEAN COUNCIL Brussels 25 March 2011 , EUCO 10/11, CO EUR 6, CONCL 3
http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf

⁷ Mendez, C. – [General Workers Union](http://www.ugt.es/) (UGT) trade union leader in Spain: „The Covenant of the Euro is a transaction interference in domestic policy „: EP EL PUERTO DE SANTA MARIA (CADIZ), 15 March 2011 <http://economicsnewspaper.com/policy/spain/mendez-the-pact-of-the-euro-is-a-transaction-interference-in-national-politics-579.html>

⁸Statement of the Bureau of the Committee of the Regions to the Spring European Council in 2011, p.15,CdR 73/2011 fin EN – ND/AS-AS/yp/tp, www.toad.cor.europa.eu

So far, it is unclear how it will be performed alignment of Euro-Plus-Pact with applying the principles of multi-level governance supported by the Committee of the Regions.

Functioning of the mechanisms of the Pact should not conflict with successful launch of the territorial pacts of the multi-level governance.

Involvement of the energy and resources of various management levels would predetermine a better destiny for Strategy „Europe 2020” against failed Lisbon strategy.

This is what many of the supporters of regional self-governance say– best expressed through the words of the President of the Committee of the Regions Mrs. Mercedes Bresso⁹.

The Pact for competitiveness and convergence sets many questions regarding the future of the income policy in Republic of Bulgaria.

Through binding the wage increase with a proportional increase of labour productivity, in our country will be corrected a historical injustice to working people. In the transition years, labour productivity in Bulgaria significantly outpaced growth of wages.¹⁰

International dimensions of our labour productivity, however, are very low – 15,3 \$ per hour (2009 at average values of 42,6 \$ for European Community and more than 70 \$ for the leading countries of the EU). Bulgaria ranks last in labour productivity not only in EU, but also among the so called „economically developed countries”¹¹ and these cause the obvious impossibility to overcome in foreseeable future the enormous backwardness in income compared to the leading European countries.

This is why overtaking income increase will remain yet another political desire without presence of accelerated economical development giving rise to it.

However, accelerated economic development cannot be a result of the current policy of economic restrictions with an emphasis on the macroeconomic stability.

It may consist solely in the conducting of another, alternative economic policy based on strengthening the role of government in the real economy through efficient and effective regulation, increased consumer demand and supply, implementation of advanced technologies, tackling new market niches in the global division of labour, increasing the qualifications in the labour force and others.

For the actual realization of overtaking economic development and sharp increase of wages, one additional very important element is required – a competent and respectful, responsible political governance, conducting expert policy in national interest and public interest, as well as many and solid financial injections from external, international financial institutions.

⁹ Bresso, M. – President of the Committee of the Regions, 6th Territorial Dialog, 20 March 2011 [http://portal.cor.europa.eu/europe2020/Library/Documents/Europe% 202020% 20Brief% 20March% 202011.pdf](http://portal.cor.europa.eu/europe2020/Library/Documents/Europe%202020%20Brief%20March%202011.pdf) \

¹⁰ Angelov, Ivan [Euro-Plus-Pact](#) Better coordination of economic policy, 13. April 2011, issue 85, <http://www.duma.bg/duma/node/1340>

¹¹ Wikipedia , ranking of countries by GDP per hour worked, based on data from the Center for international Comparisons at the University of Pensilvania, http://pwt.econ.upenn.edu/Documentation/PWT_63webac_final.doc.

For the experienced participants in the political and public life of the country, learned from the time to decipher all propaganda clichés unmistakable, it is clear that even under optimal options for political management, this will not happen soon.

Populism in our political life, however, has no intention to cede its conquered territories soon. It is sufficient to mention the proposal for a radical shock increase of incomes in the management project of the main opposition force – Bulgarian Socialist Party (BSP).

The political promise – until 2020 „average income of Bulgarian citizens to reach 75% of average income for EU”¹² is beyond the boundaries of political demagoguery.

This is why, the criticism of one of the doyens of Bulgarian economic thought, is more than reasonable¹³:

„I also want my country to develop quickly and our incomes to increase. But it is one case if you want to do something, and quite different – when you are able to do it. Possibility to do something depends not mainly on the fact that other countries and nations have achieved it once and somewhere in the world. Our development depends mainly on specific Bulgarian conditions and on the economical environment of our main trading partners.

All other considerations are pleasant fantasies.”

Immediate increase in income as an expression of a new wage policy within the range of possibility, with accurate financial and economic estimates is unavoidable and necessary, because the impoverishment of the majority of Bulgarian people has reached catastrophic dimensions. This is the only way to retain the quality human resources, especially younger people.

If this does not happen, economic migration will continue to snowballing growth and this will adversely affect the entire economy.

The high cost of our country’s membership in the euro zone following the decision for our participation in the European mechanism for stability (the dispute between the government and opposition concerns the guarantee taken over by our government in the amount of from 3 to 6 billion Euro / and the low extent of utilizing the EU structural funds will inevitably strengthen the Euroscepticism in Bulgaria.

Proposals have already done in the public space to revise the rules and criteria for payment of Member States, if it is really possible and if there is political will to do so.¹⁴

„EU countries with a lower figure of 75% of the average, to pay nothing or to pay a token advance contributions and, upon request, for example 5-10% of the normal ones. This will avoid the main defect of the current rule – the poorer and more

¹² „Until 2020 the incomes of Bulgarian citizens to reach 75% of average income in EU” – project management of BSP(Bulgarian Socialist Party), 12.05.2011, National palace of culture, Sofia, <http://www.bsp.bg/bg/article/2481>

¹³ Angelov , Ivan „Expected GDP growth in Bulgaria. Voters respect more realistic promises” , 25 May 2011, number 116 , newspaper „Duma”, <http://www.duma.bg/duma/node/15065>

¹⁴ Angelov, Ivan [Euro-Plus Pact](#) Better coordination of economical policy, 13 April 2011, issue 85 , <http://www.duma.bg/duma/node/1340>

disciplined, like us, to pay for the irresponsible actions of wealthier countries. If not, Bulgaria is unlikely to seek membership in the Eurozone."

Implementation of the Pact will inevitably lead to a conservative change of European social model and social models of Member States, despite their efforts and declared aspirations.

Competition between Member States through the principle of competition, on one hand and convergence, on the other hand, are antagonistic concepts in their nature. Absolutization of efficiency of market confrontation between developed and less developed Member States in economic and social terms will cause even greater socio-economic imbalances in the European Union, which unfortunately will prove the supporters of "Two-speed Europe" idea.

Moreover, under the terms of good faith application of Pact principles, that according some European leaders, is nothing new under the European practice, "the Pact does not add value" compared to all existing instruments in Europe in order to ensure budgetary discipline and surveillance of national economic policies. "Everything already exists."¹⁵

Enforcement actions to adopt Euro-Plus-Pact are unlikely to allow European Union to intervene decisively in the global economic race in the next decade in order to claim leadership positions, similar to those in the Lisbon strategy, taking into account the increasing advantage in economic development of China and the USA and convergence of India, Brazil and countries of Southeast Asia to European standards.¹⁶

¹⁵ Juncker , Jean-Claude, Luxemburg's Prime Minister, <http://economicsnewspaper.com/economics/juncker-criticized-the-pact-for-the-euro-in-paris-and-berlin-379.html>, [The Point - Economics](#)

¹⁶ New EU Innovation index: „The main competitors get ahead EU despite the achieved progress in many of the Member States”, Brussels, 1 February 2011, <http://europa.eu/rapid/press>