Wage Cuts And Austerity Have Come To Belgium

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Workers are paying the bill while business is getting a free lunch

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Today, trade unions in Belgium are organising a general national strike. This will come on top of 3 days of regional strikes as well as a national manifestation, all of which have been massively followed up by workers over the past month. Moreover, the trade union leadership is considering to continue with such actions in the new year. For Belgium, with its tradition of social dialogue, this is rather unheard of and to see similar intense trade union action one has to go 20 years back.

Belgian workers have however every reason to be upset. The conservative government, having taken up power recently, is applying an austerity programme of such depth that it reminds one of the brutal austerity policies that have been pursued in in many other European member states. Policies that have triggered the long European recession of 2011-2012. The total austerity package proposed amounts to some 11 billion euro or close to 3% of GDP.

Looking at the measures that are in the pipeline, both workers and unemployed people will face austerity from the cradle to the grave. There are cuts in childcare benefits, substantially increased childcare costs and (higher) education fees as well as swinging cuts in the educational budget and public services in general. Next year, workers will be forced to undergo a real wage cut of 2% while collective bargaining on wage increases is outlawed for the coming two years. Unemployment benefit systems are being hollowed out in many different ways and at the end of their active life, workers will have to work longer (to the age of 67) before being entitled to (reduced) pensions.

In all of these measures, the pressure is on wages while income from capital is not touched at all. On the contrary! On top of the 2% imposed cut in real wages comes a huge reduction in employer social security contributions. Business will enjoy a transfer of 4 billion euro or more than 1% of GDP.

The eternal alibi: Competitiveness, competitiveness, competitiveness…

These 4 billion are handed over to business on the basis of an old law on the competitive position of Belgium. According to this law and the annual statistics that are produced as a result of it, the competitive position of Belgium is under threat because hourly private sector wages in Belgium are rising too strongly in comparison with its three neighbouring countries (Germany, France and the Netherlands).

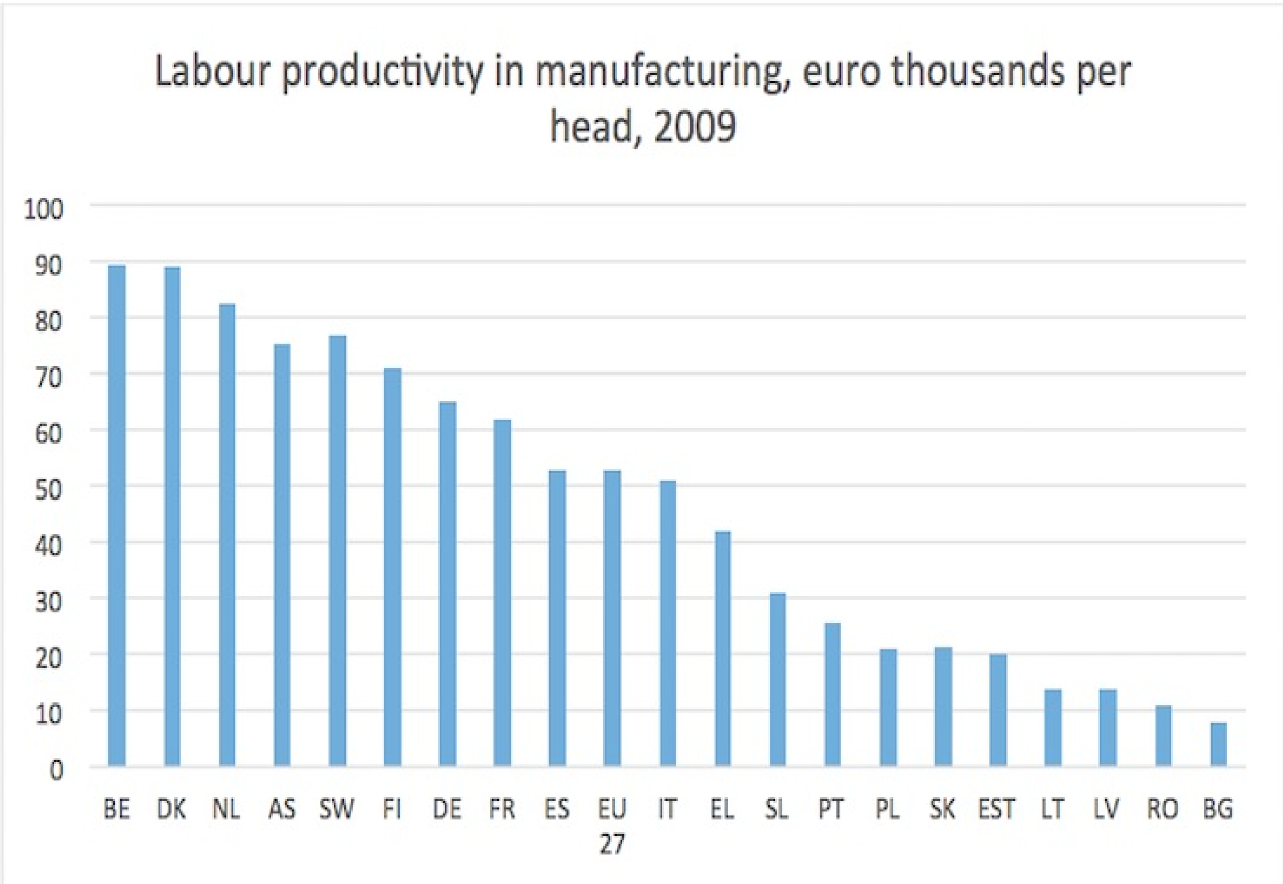
This, of course, puts employers in a perfect position. All they have to do is pointing to this law and its associated statistics to defend their case that there's no room for collective bargaining on wage increases, that wages have to go down and that they urgently need another round in employer social security contributions.

It is however simplistic to reduce competitiveness to the dimension of wages. There are many other and indeed much more important factors than wages that influence competitive performance.

Belgium, it turns out, is a perfect case to illustrate how misleading such a simple wage competitiveness analysis can be. Indeed, as analysed below, a broader analysis of Belgian economic indicators shows that the competitive position of Belgium is actually very good.

A broader analysis of Belgian competitiveness

Let's start by drawing productivity into the picture. Higher wages are affordable and raise no problem for competitiveness if workers' productivity is also high. Looking at productivity levels in industry (see graph below), it turns out that Belgian workers are actually the champions of Europe. The average worker in Belgian industry allows business to enjoy the creation of 89.000 euro of added value a year. Belgium, together with Denmark, has the highest productivity of all European member states. Belgian productivity reaches a level that is substantially higher than in Germany or France.



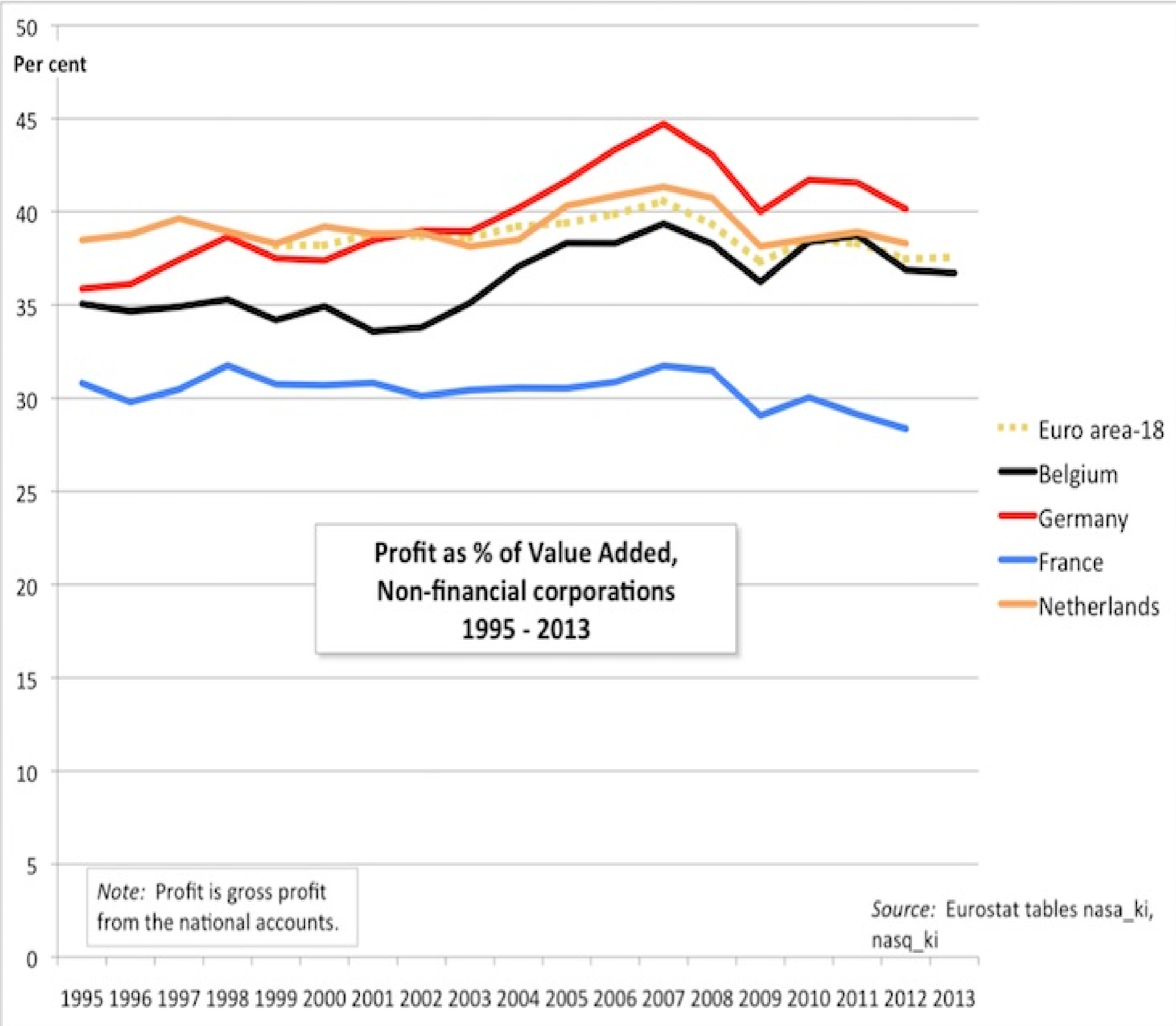
Source: Eurostat

The picture remains favourable when balancing productivity levels with wage levels. For each 100 euro of wage an industrial company in Belgium is paying to its workers, it is gaining 158 euro of added value. This is again one of the better outcomes of Western European economies. And again, it is substantially higher than in Germany where business obtains 137 euro on added value by paying 100 euro in wages.

Source: Eurostat

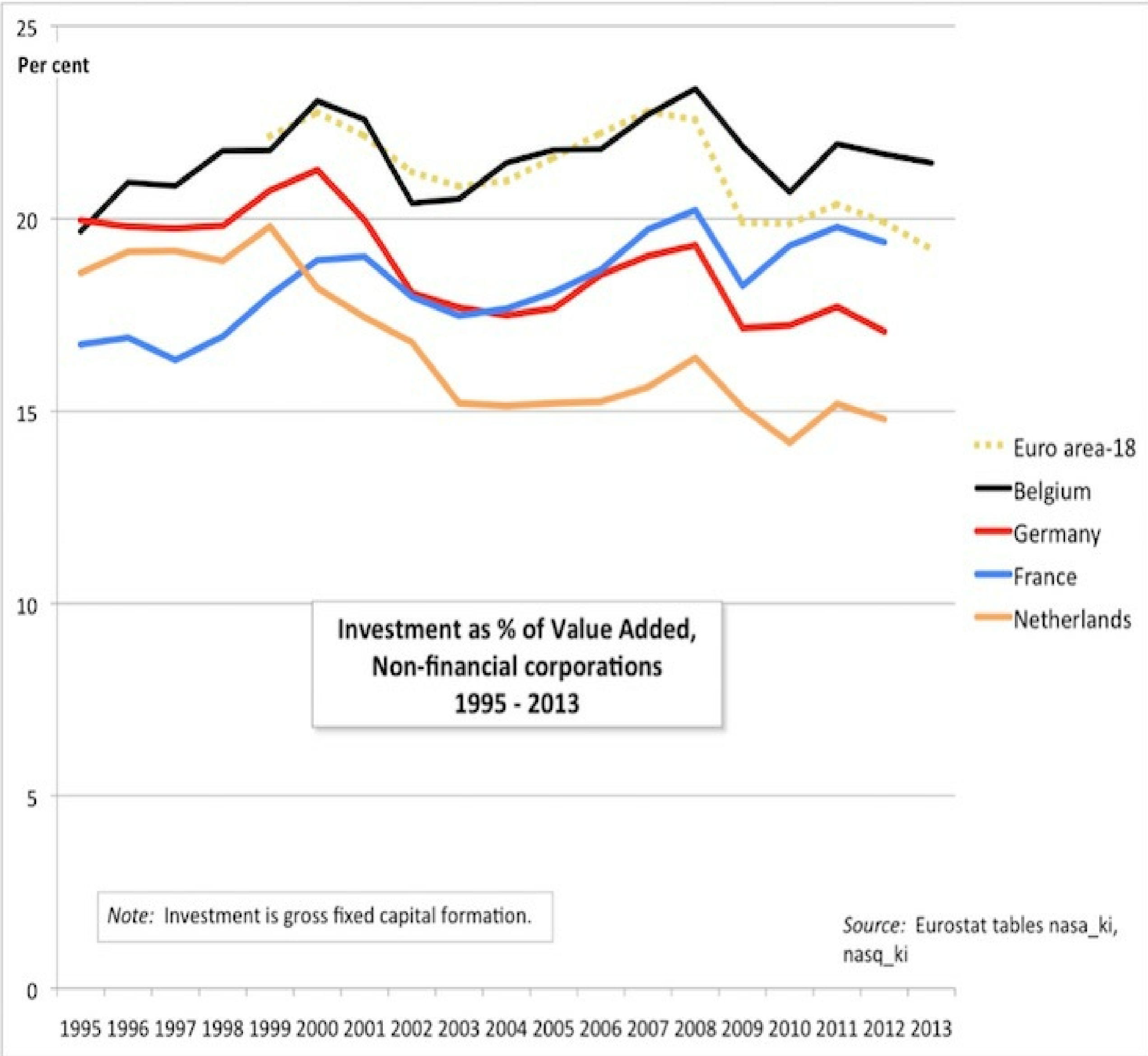
Another way to gauge the soundness of business competitiveness is to look at profit rates. If an economy has below average profit rates, this can be a sign the economy is not producing the right products at the right costs. The next graph shows that profit rates of non-financial corporations in Belgium have been in line with the euro area average since the middle of the previous decade. After a small dip during the 2008-2009 crisis, profits have also returned to their high pre-crisis levels. Here, German business does outperform Belgium somewhat but the difference is minor (a profit rate of 40% of gross added value versus 38% in Belgium).

PROFIT RATES IN % OF GROSS ADDED VALUE OF NON FINANCIAL CORPORATIONS

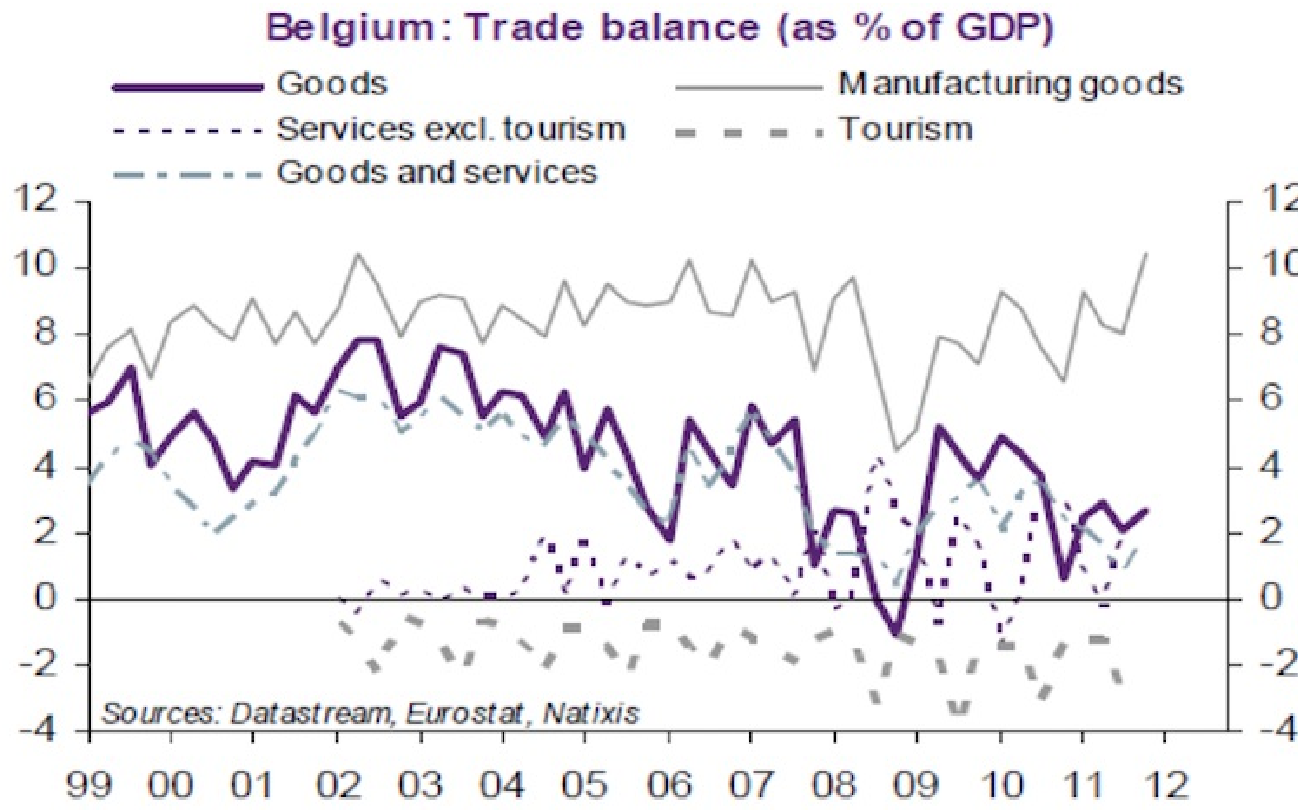


Next is the question of investment performance. Economies can only export and satisfy external demand if they build the capacity to produce goods and services. Without (sufficient) investment, no (sufficient) production and no (sufficient) exports. On this comparison, Belgium returns to the 'Champion's League' since the investment performance of its business sector is again outstanding when compared to the rest of Europe. Belgium's investment rate is higher than the euro area average. It is actually substantially higher than the investment efforts of business in Germany, which makes one wonder whatever happened to the well-known (and German based) slogan of 'today's wage moderation being tomorrow's investment'?

INVESTMENT RATE OF NON FINANCIAL COMPANIES



With labour productivity, profit rates and investment rates at high levels, it should come as no surprise that Belgium is also recording robust surpluses on its external trade. It appears Belgium is recording a surplus on its trade balance of manufactured goods that is as high as 10% of GDP. Germany, the export champion of the world, is only doing slightly better with a surplus of 12% of GDP.



Obsession with wage competitiveness: What will be the results?

To conclude, the Belgian government's obsession with wage competitiveness is resulting in a policy mix that is seriously misguided. It is one thing to apply a responsible fiscal policy in order to address the elevated level of public sector debt, the latter indeed constituting the Achilles heel of the Belgian economy.

It is, however, quite another thing to abuse a crisis situation in order to organise a massive redistribution of income from wages to profits. The economic evidence shows that there is no need whatsoever to do this. Beefing high profits up even more does not make any sense. On the contrary, doing so will deliver a further blow to public finances since workers pay taxes on their wages whereas business has all the means at its disposal to avoid paying taxes on its profits, as is again and abundantly being testified by the ongoing scandal of 'Lux Leaks'.

One thing is for sure: if the conservative government chooses to remain deaf to the economic arguments of the trade unions, the Belgian economy, under the combined impact of excessive fiscal austerity and wage austerity, will soon face the twin risks of prolonged depression and of low inflation becoming outright deflation.

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