

# **Social developments in the European Union 2012**

**Fourteenth annual report**

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Edited by  
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European Trade Union Institute (ETUI)  
European Social Observatory (OSE)

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# **A new European interventionism? The impact of the new European economic governance on wages and collective bargaining**

**Thorsten Schulten and Torsten Müller<sup>1</sup>**

## **Introduction**

The new European system of economic governance, successively set up by the EU and its Member States in order to ensure the effective implementation of austerity policies and ‘structural reforms’, has fundamentally changed the framework conditions for national collective bargaining. Procedurally, the new system of economic governance, with its newly introduced mechanisms for monitoring, sanctions and intensified coordination, shifted decision-making powers increasingly from the national to the European level – thereby curtailing the national actors’ discretion over policy choices. As regards content, the one-sided focus on fiscal austerity and cost competitiveness considers wages – or more specifically downward flexibility of wages – as the central adjustment mechanism for the current macroeconomic imbalances. Both processes together have enabled European institutions such as the European Commission, the European Central Bank (ECB) and the European Council to directly intervene in national collective bargaining arrangements by pushing for wage cuts and freezes and the decentralisation of wage-setting arrangements. The new system of European economic governance therefore marks a paradigm shift in the EU’s approach to collective bargaining, from the acceptance of free collective bargaining to direct political intervention into national bargaining outcomes and procedures.

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1. The authors would like to thank Nacho Álvarez, Salvo Leonardi, ‘Paco’ Francisco Trillo, and an anonymous referee for their helpful comments.

The objective of this chapter is to trace this paradigm shift and its implications for national collective bargaining arrangements. Section one provides a brief overview of the development of the new system of economic governance and illustrates how European policy, step-by-step, has tightened its grip on national wage policies and wage-setting arrangements. Based on an analysis of the underlying political and economic rationale of the new interventionist approach, section two describes the various tools of intervention – both in terms of their procedural characteristics and their content. Section three represents the empirical core of this chapter, looking at the key areas of supranational political intervention into national wage policies: public sector and minimum wages, the decentralisation of multi-employer bargaining arrangements, and finally the impact of all these interventions on the overall pattern of wage developments. The concluding section four discusses the future of a European wage policy and the strategic options open to trade unions to counter the current strategy of European interventionism.

## **1. The role of wage policy under the new European economic governance**

The Treaty on the Functioning of the European Union (TFEU, Article 153.5), explicitly stated that the EU has no competences in the area of wage policy. This provision was introduced for the first time in 1991 with the so-called Social Protocol of the Maastricht Treaty. Later on it became part of the Social Chapter of the Amsterdam Treaty of 1997. Paradoxically, the exclusion of wage policy from the realm of EU competences was introduced at the same time as the decision to launch the European Monetary Union (EMU). The latter has led not only to a new stage of European economic integration, but has also created a new macroeconomic regime which sets new terms and challenges for national wage policies (Hein *et al.*, 2005).

The existing legal framework, however, has never prevented EU institutions such as the European Commission, the European Central Bank (ECB) or even the European Council from making general statements and recommendations about wage policy. The Broad Economic Policy Guidelines (BEPG), for example, which have been regularly drafted by the Commission and adopted by the Council since

1993, have always included demands for more moderate and more dispersed wage developments (Hein and Niechoj, 2007). Moreover, the so-called Macroeconomic Dialogue was established in 1999 as a forum for the exchange of views between the Council, the Commission, the ECB, and the European employers' and trade union organisations, aiming at a 'coordination of economic policy and improvement of mutually supportive interaction between *wage developments* and monetary, budget and fiscal policy' (European Council, 1999; authors' emphasis). Finally, it has been the European trade unions, in particular, which since the late 1990s have always emphasised the need for a European coordination of collective bargaining in order to prevent downward wage competition in Europe (Schulten, 2002 and 2003).

While these early European initiatives in the area of wage policy shaped a certain political and economic discourse at EU-level, they never led to legally binding policy initiatives. If at all, they had only very limited impact on the practice of wage policy, which remains almost exclusively the result of national wage-setting institutions. However, the situation started to change fundamentally with the emergence of the so-called 'new European economic governance'. The latter encompasses a set of new policy rules and procedures which have been developed in the wake of the economic crisis since 2008 and which aim to achieve a more binding European coordination of economic policy (Degryse, 2012).

A new system of European economic governance began to emerge in 2010 with the adoption of the Europe 2020 strategy, which included the introduction of the so-called 'European Semester' as a yearly cycle of European economic policy coordination. Every year the EU issues policy recommendations for all EU Member States on the basis of a detailed economic analysis. These recommendations must then be transformed into national 'reform programs' whose effectiveness will again be assessed by the EU.

The annual economic coordination cycle was further developed in 2011 with the adoption of a package of five Regulations and one Directive. The so-called 'Six-pack' contains two new major instruments in order to intensify economic policy coordination: one is the establishment of a new system of enhanced fiscal and macroeconomic surveillance through an alert mechanism for the early detection of macroeconomic imbalances based on a 'scoreboard' of economic indicators. The second is the

introduction of an automatic procedure for imposing financial sanctions on those countries that fail to comply with the policy recommendations issued on the basis of the alert system. As a consequence, the European policy recommendations for Member States lose their purely voluntary character and imply a much higher degree of accountability.

Within the new system of European economic governance, wage policy plays a prominent role. This has been underlined, in particular, by the adoption of the Euro Plus Pact in 2011 which explicitly defines wages as the main economic adjustment variable used to overcome economic imbalances and to foster competitiveness. Consequently, the Euro Plus Pact calls for a close monitoring of wages and wage-setting institutions at European level (European Council, 2011). Moreover, the new scoreboard of economic indicators, which have to be considered by the EU Member States, explicitly includes unit labour costs and defines a certain margin for 'permitted' wage and labour cost developments. Currently, all countries within the eurozone are allowed to have a maximum 9% increase of unit labour costs within a period of three years (12% for EU countries outside the eurozone) (European Commission, 2012a).

As a result of the new European economic governance, the EU's influence on national wage policies has grown substantially, especially since EU policy recommendations become more binding, because Member States which ignore them risk financial sanctions. The possible scope of the new European interventionism in the area of wage policies has become most obvious in those crisis-ridden countries which rely on financial assistance from the EU and/or the International Monetary Fund (IMF). In exchange for new credits, these countries had to introduce far-reaching policy reforms, which were laid down either in so-called 'Memorandums of Understanding' with the Troika of EU, ECB and IMF (in the case of Greece, Ireland and Portugal) or in 'Stand-By Arrangements' with the IMF (in the case of Hungary, Latvia and Romania). The policy measures these countries had to agree on comprised amongst other things far-reaching labour market reforms including changes in wage developments and the systems of collective bargaining<sup>2</sup>.

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2. For an overview on the broad range of labour market reforms imposed by the Troika or the IMF in the various European countries see: Clauwaert and Schömann (2012) and Hermann and Hinrichs (2012).

Strong European intervention was also felt in Spain, which receives international financial aid for its financial sector. Although this rescue plan is not for the complete economy, it was linked with a Memorandum of Understanding in which the Spanish government had to commit itself ‘to implement the Country-Specific Recommendations in the context of the European Semester’ including more fundamental changes in labour market regulation (European Commission, 2012b). Before that, it was the ECB which practiced a more ‘unofficial’ form of intervention by making the purchase of government bonds conditional on policy reforms. The same holds true for Italy, where in autumn 2011 a confidential letter from the top of the ECB was leaked to the public, in which the Italian government was requested to carry out far-reaching structural reforms, including the radical decentralisation of collective bargaining (Meardi, 2012a and 2012b, for the letter see Draghi and Trichet, 2011). Since autumn 2012, this kind of policy has become more official, after the ECB announced that it would buy unlimited quantities of state bonds if the affected countries agreed on certain political reforms.

Following the proposals made by the European Commission (2012c) for a ‘deep and genuine economic and monetary union’ as well as by the German Chancellor Angela Merkel (2013), the next step in the development of the new European economic governance would be the conclusion of competitiveness pacts between the EU and the Member States, in which the latter commit themselves to implement ‘structural reforms’ which include the areas of wage policy and collective bargaining. Following the logic of the Memorandums of Understanding, such a new system of competitiveness pacts has been rightly labelled as ‘Troika for everyone’ (Oberndorfer, 2013) which would transfer the current practices in bailout countries to the whole EU.

## **2. European interventions in national wage policies**

There are at least three main sets of arguments which serve as a legitimation for European interventions in the area of wage policies. Two are more at a macro level and reflect the dominant perception of the current crisis in the EU as a debt crisis and a crisis of competitiveness. First of all, the EU argues in favour of a strong austerity policy in order to overcome the debt crisis. This view became

even more pronounced with the adoption of the Fiscal Compact in March 2012, which can be interpreted as an attempt to make the austerity approach irreversible (Konecny, 2012: 389). Austerity policy always has an immediate impact on wage policy, as labour costs in the public sector often represent a significant part of public budgets. Thus, all current austerity programmes include demands for cuts and freezes of public sector wages.

Secondly, the growing economic imbalances between the so-called 'surplus' and 'deficit' countries in Europe are understood to be the result of diverging developments in national competitiveness, mainly caused by diverging trends in wages and unit labour costs. Before the creation of EMU, deficit countries would have solved their competitiveness problems by devaluing their national currency. Since within EMU this is per definition no longer possible, the less competitive countries need a policy of 'internal devaluation', increasing their competitiveness through a reduction of labour costs, which is thus understood as a 'functional substitute to currency devaluation' (Armingeon and Baccaro, 2012: 256). For the ECB, one 'main policy conclusion' of its 2012 report on 'Euro area labour markets and the crisis' is, that 'downward wage rigidities are an impediment to restoring competitiveness (and thus employment), particularly in those euro area countries that had accumulated external imbalances before the crisis' (ECB, 2012: 9). While currently the dominant view in the EU is to put the whole burden of rebalancing on the deficit countries, there is also a more Keynesian variant of this argument which states that the surplus countries (in particular Germany) should play a stronger role by promoting stronger wage growth (e.g. De Grauwe, 2012; Malliaropoulos and Zarkos, 2013). Both views, however, focus on wages as the core (or sometimes even only) adjustment variable in the EMU.

There is a third set of more micro-oriented arguments which have regained prominence against the background of the sharp increase of unemployment in many European states. These arguments are based on the traditional neoclassical view that unemployment is mainly the result of institutional rigidities in the labour market. A perfect example for such a view was presented in the DG ECFIN Report on 'Labour Market Developments in Europe 2012', which presented a long list of so-called 'employment-friendly reforms'; apart from various issues of labour market deregulation (e.g. decrease of unemployment assistance, reduction of employment protection, increasing the retirement age

etc.), the list also includes a sub-section on the ‘wage bargaining framework’, which calls on those responsible to:

- ‘decrease statutory and contractual minimum wages’;
- ‘decrease the bargaining coverage’;
- ‘decrease (automatic) extension of collective agreements’;
- ‘reform the bargaining system in a less centralised way, for instance by removing or limiting the “favourability principle”’;
- introduce/extend ‘the possibility to derogate from higher level agreements or to negotiate firm-level agreements’;
- promote measures which ‘result in an overall reduction in the wage-setting power of trade unions’ (European Commission, 2012d: 103-104).

Considering the international research on the macroeconomic performance of different collective bargaining systems<sup>3</sup>, DG ECFIN has rightly acknowledged in another paper that ‘there is no strong evidence in support of a single superior wage-setting model’ (European Commission, 2011: 17). Nevertheless, in its policy recommendations, DG ECFIN always takes a decentralised, company-based bargaining system as the benchmark, since this system seems to allow companies to better adjust to varying economic developments. Regarding this point, the Commission received support through the Euro Plus Pact, which calls somewhat intricately on Member States to ‘review the wage setting arrangements, and, where necessary, the degree of centralisation in the bargaining process’ (European Council, 2011: 16).

Moving from analysing the underlying rationale to assessing the practice of EU interventions in the area of wage policy, it should be noted that in recent years 18 out of 27 EU Member States have been affected by at least some EU initiatives (see table 1). For the EU there are two main channels of intervention which vary in the extent to which they are binding. The first channel relies on the Country-Specific Recommendations issued in the framework of the European Semester. Even though these recommendations are not legally binding, they may become more binding in future in combination with the new alert

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3. See for example Aidt and Tzannatos (2008) and Traxler and Brandl (2011).

mechanism, which includes the possibility of financial sanctions. The second channel relies on the exchange of reforms for financial support. Since the measures in the area of wage policy are laid down in agreements between the Troika or the IMF and national governments, this second channel of political intervention has a more immediate impact and is therefore more binding in character. However, the demands for certain measures usually come from the Troika, which insists on their implementation as a precondition for financial assistance. Therefore, one can say that in practice many national initiatives in the area of wage policy have often been ‘imposed’ by the Troika.

For most countries, however, the EU attempts to influence national wage policies have up to now been limited to (non-binding) Country-Specific Recommendations in the framework of the European Semester. So far, the EU has used these instruments for twelve Member States. In many cases, the recommendations have still been relatively vague, calling for moderate development of wages in general (Bulgaria, Finland, Italy and Slovenia) or minimum wages in particular (France and Slovenia). While in the case of Sweden the EU de facto demands an extension of the low wage sector, in the case of Germany it called for wage developments to stay in line with productivity growth, which can be understood as a plea for a somewhat higher wage growth.

Much more precise recommendations have been given regarding the reform of wage-setting systems. In the case of Belgium, Italy and Spain, the EU has asked for a decentralisation of collective bargaining by making it easier for companies to derogate from multi-employer agreements. Finally, Belgium, Cyprus, Luxembourg and Malta are strongly criticised as the only countries in the EU which still have a national system of automatic wage indexation (Mongourdin-Denoix and Wolf 2010). Here the EU has demanded – if not the abolition – at least a fundamental reform of these systems in order to make the indexation less strict and binding.

The second more binding channel of political intervention has been applied to six states which have been under international bailout programmes (Greece, Hungary, Ireland, Latvia, Portugal and Romania). In all six cases, EU interventions affected both the current development of wages as well as the structure of collective bargaining. In addition, the Troika has made explicit reference to the Country-Specific

Recommendations developed in the framework of the European Semester with respect to Spain.

In terms of content, the Troika has first of all demanded significant cuts and subsequently freezes of public sector wages in order to reduce public deficits. Furthermore, the Troika has called for cuts (in the case of Greece and Ireland) or freezes (in the case of Latvia, Portugal and Romania) of national minimum wages. Both measures were also intended to have a dampening effect on wage developments in the private sector. However, in the case of Greece, the Troika has even called for a freeze of seniority allowances in private collective agreements. Finally, in Greece, Portugal and Romania, (and Spain), the Troika has pushed for essential changes in the national wage-setting systems aiming at a radical decentralisation of collective bargaining and a sharp restriction of the criteria for the extension of collective agreements.

Table 1 European interventionism in the area of wage policy 2011–2012

Recommendations/agreements	Countries addressed
<b>1. Country-specific Recommendations in the framework of the European Semester</b>	
Decentralisation of collective bargaining	Belgium, Italy, Spain
Reform/abolition of automatic wage indexation	Belgium, Cyprus, Luxembourg, Malta
Moderation of minimum wage developments	France, Slovenia
Moderation of general wage developments	Bulgaria, Finland, Italy, Slovenia
Wage developments in line with productivity growth	Germany
Addressing high wages at the lower end of the wage scale	Sweden
<b>2. Country-specific agreements between EU-ECB-IMF or IMF and national governments within the framework of a 'Memorandum of Understanding'</b>	
Decentralisation of collective bargaining	Greece, Portugal, Romania
More restrictive criteria for extension of collective agreements	Greece, Portugal, Romania
Reduction/Freeze of minimum wages	Greece, Ireland, Latvia, Portugal, Romania
Reduction/Freeze of public sector wages	Greece, Hungary, Ireland, Latvia, Portugal, Romania
Wage freezes in private sector	Greece

No recommendations in the area of wage policy:  
Austria, Czech Republic, Denmark, Estonia, Lithuania, Netherlands, Poland, Slovakia, United Kingdom

Source: Authors' composition on the basis of EU 2020 country specific recommendations for 2011 and 2012 (available from the EU web page: [http://ec.europa.eu/europe2020/index\\_en.htm](http://ec.europa.eu/europe2020/index_en.htm)) and the 'Memorandum of Understanding' between EU-ECB-IMF or IMF and national governments (available from the IMF web page: <http://www.imf.org>).

### **3. Impact of the new European interventionism on recent developments in national wage policies**

In the wake of the current crisis, the emergence of a new European interventionism has already shaped the development of national wage policies in many European countries, and in particular in those countries which are currently under the economic surveillance of the Troika. Here, international pressure has also fostered the development of a new type of state interventionism at national level, which in every case has included the same measures: pay cuts or freezes in the public sector, a restrictive minimum wage policy, and the fundamental reconstruction of the collective bargaining system leading to a radical decentralisation or even dismantling of multi-employer bargaining. Even though the 'one-size-fits-all' approach prescribed by the Troika led to a convergence of national wage policies in the countries under economic surveillance, the specific measures introduced in the various countries vary in accordance with the existing institutional framework. The objective of this section is to analyse in more detail the concrete implications of the new European interventionism in the three above-mentioned areas. Since the impact on public sector wages and the decentralisation of collective bargaining systems was particularly pronounced in the countries under economic surveillance, the key focus of the respective sub-sections is on these eight countries. The sub-sections on minimum wages and real wage developments open up the perspective to the whole of Europe in order to illustrate the broader impact of European interventionism on wage developments in Europe more generally.

#### **3.1 Cuts and freezes of public sector wages**

Public sector pay cuts and freezes were one main direct intervention tool used by national governments in an effort to reduce public spending, in order to stabilise government finances and to reassure bond markets (ILO, 2013: 20). Public sector wages were an easy target for direct political intervention because in many European countries the salaries of public sector employees are regulated not by collective agreements but by law, thus enabling governments to impose pay cuts and freezes unilaterally. Direct intervention in the area of public sector wages was furthermore given additional legitimacy by the Euro Plus

Pact, which emphasises the wage-leadership function of public sector wages in many countries, and therefore explicitly calls on the EU Member States to ‘ensure that wages settlements in the public sector support the competitiveness efforts in the private sector’ (European Council, 2011: 16).

Recent analyses of public sector wage developments during the crisis identify the following key tendencies (Glassner and Keune, 2012; Grimshaw *et al.*, 2012; ILO, 2013; LRD, 2012). First, wage cuts and freezes were by no means restricted to those countries particularly hard hit by the crisis. Between 2008 and 2012, public sector pay reforms have been adopted by at least 18 out of the 27 EU Member States. The fact that pay cuts and/or freezes were also imposed in countries which are characterised by a comparatively low level of debt (such as the Czech Republic), or which have remained relatively unaffected by the crisis (such as Poland) suggests that in some countries the crisis was merely used as a pretext to introduce austerity measures (Grimshaw *et al.*, 2012: 11). The second key trend is that in most EU countries, public sector pay cuts and freezes have been introduced unilaterally by the state. Even in those countries with a tradition of free collective bargaining in the public sector, such as Ireland, Portugal, Spain, Italy and the UK, ‘public sector employers have bypassed established collective bargaining procedures and imposed pay cuts and pay freezes unilaterally’ (Glassner, 2010: 23). Thirdly, in the majority of countries, pay adjustments have been implemented in two or three consecutive rounds. They were thus as a rule not introduced as a one-off emergency measure but as part of a longer and sustained strategy of putting pressure on public sector wages. And last but not least, the most severe measures have been introduced in those countries which received financial assistance from supranational institutions and which were obliged to cut public sector wages as part of the Memorandum of Understanding/stand-by arrangement concluded with the Troika or the IMF.

Table 2, which provides an overview of the measures implemented in those countries which were subject to direct supranational political intervention, shows that the most drastic measures have been introduced in Romania, Latvia and Greece with pay cuts of up to 30% and more.

**Table 2 Public sector pay cuts and freezes in EU countries under EU, ECB and/or IMF surveillance (2008-2012)**

Country	Wage cut / freeze	Unilateral state decision
Greece	<ul style="list-style-type: none"> <li>– Pay freeze for all earnings &gt;€2000 per month (2009)</li> <li>– Cuts of 12-20% in general public sector (2010)</li> <li>– Further cut of up to 17% over three years (2011-2013)</li> </ul>	Yes
Hungary	<ul style="list-style-type: none"> <li>– Pay cut of 7% (2008-2010)</li> <li>– Abolition of 13<sup>th</sup> month salary in general public sector (2009)</li> <li>– Pay freeze (2010-2012 or longer)</li> </ul>	Yes
Ireland	<ul style="list-style-type: none"> <li>– Pay freeze for civil servants (2008-2010)</li> <li>– General pay freeze (2010-2014)</li> <li>– 5-7% cut in net pay as a result of pensions levy inversely related to level of income (2009)</li> <li>– 5-8% cuts progressively related to level of income (2010)</li> </ul>	Yes
Italy	<ul style="list-style-type: none"> <li>– Pay cut of 5-10% for high wage earners (2010)</li> <li>– Pay freeze and reduced productivity bonuses (2010-2014)</li> <li>– Suspension of automatic pay increases for certain groups of employees such as magistrates, police force, state lawyers, military personnel etc. (2010-2013)</li> </ul>	Yes
Latvia	<ul style="list-style-type: none"> <li>– Unspecified pay cuts (2008)</li> <li>– 15-30% pay cuts (2009)</li> <li>– Pay freeze (2010-2012)</li> </ul>	Yes
Portugal	<ul style="list-style-type: none"> <li>– Pay freeze for civil servants and employees in public companies (2010-2013)</li> <li>– 5% pay cut for higher paid civil servants (2010)</li> <li>– 3.5-10% pay cut for salaries &gt;€ 1500 per month (2011)</li> <li>– 13<sup>th</sup> and 14<sup>th</sup> monthly pay abolished or reduced (2012-2013)</li> </ul>	Yes
Romania	<ul style="list-style-type: none"> <li>– 25% pay cut but cut in additional payments can mean cuts up to 50% (2010)</li> <li>– Abolition of a wide range of bonuses and 13<sup>th</sup> monthly pay (2011)</li> </ul>	Yes
Spain	<ul style="list-style-type: none"> <li>– 5% pay cut for civil servants (2010)</li> <li>– Pay freeze for civil servants (2011-2012)</li> <li>– 14<sup>th</sup> monthly pay abolished for all public sector employees (2012)</li> </ul>	Yes

Sources: Glassner and Keune, 2012; Grimshaw *et al.*, 2012; ILO, 2013.

In Romania, the salaries of public sector employees were cut by 25% in 2010. However, since the government furthermore raised VAT from 19 to 24%, and also introduced cuts in bonuses and additional payments (such as food allowances and rent subsidies), the effective wage decrease was close to 50% (Glassner, 2010: 19). In Greece, nominal wages were cut by an average of 14% between 2009 and 2010, which together with the 17% pay cut between 2011 and 2013 amounts to a total pay cut of approximately 30% (Busch *et al.*, 2013: 12). In Latvia, public sector wages were cut by 15% in spring 2009 in return for the €7.5 billion loan provided by the IMF and the EU. Particularly hard hit by the cuts in public expenditure were teachers, whose wages were cut by almost one third from September 2009 onwards (Glassner, 2010: 17). These measures were particularly painful because these dramatic cuts were followed by a pay freeze between 2010 and 2012. The pay cuts in the other countries range between 5 and 15%, with salaries subsequently being frozen at the lower level.

However, when assessing the real extent of the reduction in disposable income for public sector workers, it is important to bear in mind that these figures only reflect cuts in nominal wages. Often these cuts occurred in combination with further measures such as the abolition of 13<sup>th</sup> and or 14<sup>th</sup> monthly wages and other bonuses and cuts in social security entitlements. The latter happened for instance in Greece with a reduction of supplementary pensions by 10 to 20% and in Hungary, where the government reduced housing, student and pharmaceutical subsidies (ILO, 2013: 28).

### 3.2 Cuts and freezes of minimum wages

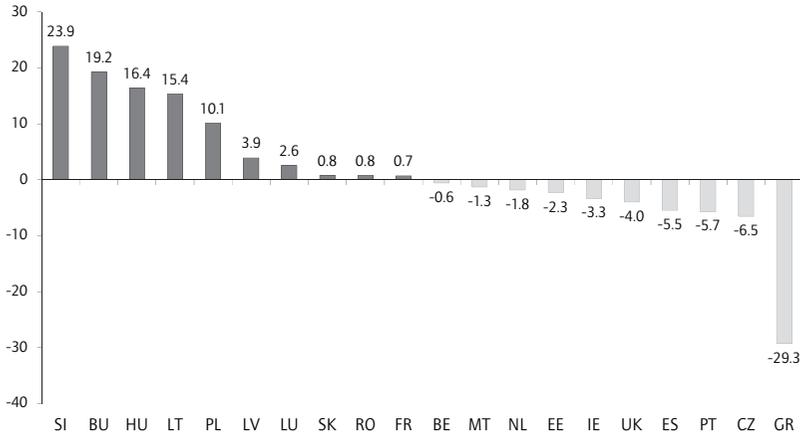
Besides public sector wages, national minimum wages offer a second opportunity for political intervention. This is all the more true for those many European countries in which the development of minimum wages not only determines the wages of those at the bottom of the wage scale, but also influences overall wage developments. This 'spillover effect' of national minimum wage developments is particularly strong in countries with comparatively weak collective bargaining systems and a low bargaining coverage (e.g. in many Eastern European countries), but also in countries like France with relatively high minimum wage levels (Aeberhardt *et al.*, 2012). Moreover, national minimum wages are an

obvious instrument for state intervention, as in most of the 20 out of 27 EU Member States where a national minimum wage exists, it is statutorily determined by the state. The only exceptions are Belgium and Greece where the national minimum wage is set by a national collective agreement for the whole private sector (Schulten, 2012b).

Considering the impact of minimum wages on overall wage development, they also play a prominent role in the new interventionist strategies at European level (for the following: Schulten, 2012a and 2013). The first country affected by this was Ireland, which under pressure from the Troika cut its minimum wage by one euro from 8.65 to 7.65 Euro per hour (corresponding to a decrease of nearly 12%) in February 2011. After a change in the Irish government, however, the minimum wage cut was retracted and the former rate of 8.65 Euro was re-established in July 2011. The Troika had agreed to this because the Irish government decided to reduce social security contributions for employers in return. More recently, however, the IMF (2012a: 27) has again emphasised that a cut in the Irish national minimum wage 'should be considered'.

In other countries like Latvia, Portugal and Romania as well as more informally in Spain, the Troika has pushed for freezes of national minimum wage levels. These countries also had to agree that for the coming years they will only increase the minimum wage in accordance with the Troika. Finally, the most radical intervention so far took place in Greece, where the Troika decreed a radical cut of the minimum wage of 22% (and even 32% for young workers below the age of 25) which came into effect in February 2012. Since the Greek minimum wage is determined by a national collective agreement the Troika intervention is even more problematic, since it openly violates the principle of free collective bargaining; both Greek employers and trade unions have jointly rejected such an intervention. After the Greek government was also criticised by the ILO (2012a) for its various attempts to undermine the autonomy of collective bargaining, the Troika is now demanding that the Greek minimum wage be determined on a statutory basis (IMF, 2012b: 17).

Figure 1 Development of real national minimum wages, 2010-2012 in %\*



\* Increase or decrease from 1 January 2010 to 1 January 2013

Deflator of consumer prices

Source: WSI Minimum Wage Database 2013

Considering the overall development of minimum wages during the past three years (2010-2012), in 10 out of 20 EU Member States the real value of the minimum wage, deflated by consumer price developments, decreased (figure 1). The decrease was particularly strong in countries which were under the surveillance of the Troika (Greece, Portugal, Spain and Ireland) as well as in the UK and the Czech Republic. On the other hand, there were a few Eastern European countries where the real minimum wage value showed remarkably high growth rates. Among them was also Hungary, where the unusually strong increase of the minimum wage mainly served to compensate the effects of a new flat-rate tax reform, which led to a significant tax increase for low wage earners (Szabó, 2013).

### 3.3 Decentralisation and dismantling of multi-employer collective bargaining

Apart from direct interventions in wage developments through cuts and freezes of public sector and minimum wages, in many European countries the more fundamental changes concerned the wage-setting

and collective bargaining institutions. Although the current economic crisis reinforced the decentralisation of collective bargaining throughout Europe (Glassner *et al.*, 2011), this process was most pronounced in those countries which were subject to direct supranational intervention. As the Troika has asked in almost all cases for structural changes in the national collective bargaining systems, the affected countries have been more or less willing to accept these demands in exchange for financial assistance.

Following a ‘one-size-fits-all’ approach, there are at least six main measures promoted by the Troika which have led to a radical decentralisation and in some cases even dismantling of multi-employer bargaining. These measures include:

- the abolition or termination of national collective agreements;
- facilitating the derogation of firm-level agreements from sectoral agreements or legislative provisions, for instance through opening or hardship clauses or by generally giving firm-level agreements priority over (cross-)sectoral agreements;
- suspension of the favourability principle, affecting the relation between sectoral and company agreements;
- the introduction of more restrictive criteria for the extension of collective agreements;
- the reduction of the ‘after-effect’ of expired collective agreements; and finally
- the extension of the possibility for non-union employee representatives to conclude collective agreements at company level.

Depending on the degree of centralisation and the regulatory framework of the national bargaining systems before the reforms, the countries have generated a specific mix of measures in order to promote decentralisation (see table 3)<sup>4</sup>. Three groups of countries can be distinguished. The first group comprises Ireland and Romania, which before the reforms were characterised by a comparatively high level of bargaining centralisation involving national cross-sectoral agreements which defined the terms of reference for lower-level negotiations (Visser, 2011: 41). In these two countries, the austerity-driven changes

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4. For a detailed list of measures and legal changes in the various countries see Appendix 1.

led to an almost complete breakdown of multi-employer bargaining. In Ireland the change was the result of the government's withdrawal from negotiations over public sector reform in the light of deteriorating public finances in 2009, which after 22 years of cross-sectoral wage determination brought the return of company-level bargaining (O'Kelly 2010; Doherty, 2011). In Romania, cross-sectoral bargaining was essentially abolished by the government's unilateral introduction of the Social Dialogue Act in 2011 (Trif, 2013). Further pressures towards decentralisation resulted from the government tightening the rules on the extension and application of sectoral agreements and increasing the threshold for the representativeness of trade unions as a precondition for negotiating agreements.

The second group of countries consists of Greece, Italy, Portugal and Spain, which represent the 'Mediterranean model' of labour relations marked by a long tradition of well-established sectoral bargaining structures (Meardi, 2012a). All Mediterranean countries have enjoyed comparatively high levels of collective bargaining coverage of 80 to 90%, which was backed by direct – or in the case of Italy indirect – erga omnes regulations and extensions of collective agreements (Schulten, 2012c). Although the multi-employer bargaining structures remained formally intact, their scope and actual operation have been increasingly undermined by the various legal changes that have been introduced in response to the demands placed upon these countries by the Troika. The most radical decentralisation took place in Greece (Voskeritsian and Kornelakis, 2011; Patra, 2012) and Spain (Nieto, 2012). Both countries gave company agreements a general priority over sectoral agreements, and abolished the 'favourability principle' which thus allowed company agreements to undermine sectoral standards. In the case of Italy (Leonardi, 2012) and Portugal (Naumann, 2012), the decentralisation of collective bargaining is still being encouraged in a more organised form, as the possibilities for downward derogation from sectoral standards at company level remain dependent on the commitment of the bargaining parties at sectoral level. However, in Italy the case of Fiat has shown that companies are able to withdraw from the sectoral bargaining system and to set up their own company agreement (Tomassetti, 2013). With the adoption of the Law No.148 of 14 September 2011, the Italian government moved well beyond 'controlled decentralisation' by further extending the possibilities for companies to deviate from sectoral agreements and legal requirements

with almost no restrictions. In Portugal, the bargaining system has been further weakened by the introduction of more restrictive criteria for the extension of collective agreements. Before the reform, all major collective agreements were declared generally binding in a quasi-automatic way. Finally, Greece, Portugal and Spain have facilitated the conditions for non-union employee representatives to conclude collective agreements, in particular in small and non-unionised companies.

**Table 3 Decentralisation of collective bargaining systems in EU countries under EU, ECB and/or IMF surveillance**

Measures	Countries affected
Abolition/termination of national collective agreements	Ireland, Romania
Facilitating derogation of firm-level agreements from sectoral agreements or legislative (minimum) provisions	Greece, Portugal, Hungary, Italy, Spain
General priority of company agreements/abolition of the favourability principle	Greece, Italy, Spain
More restrictive criteria for extension of collective agreements	Greece, Portugal, Romania
Reduction of the 'after-effect' of expired collective agreements	Greece, Spain
Possibilities for non-union groups of employees to conclude company agreements	Greece, Hungary, Portugal, Romania, Spain

Sources: Authors' composition based on Appendix 1

The third group of countries affected by changes in the national collective bargaining systems promoted by the IMF comprises Hungary and Latvia. Both countries have – as is the case in the majority of Central and Eastern European (CEE) countries – a rather fragmented, company-level single-employer bargaining system with a comparatively low level of collective bargaining coverage. Thus, there was not much scope for further decentralisation. While in Latvia the brunt of austerity measures was borne by the public sector in the form of extensive wage cuts (Kallaste and Woolfson, 2013), the legal changes introduced in Hungary primarily aimed at weakening the bargaining power of trade unions, for instance by curtailing the right to strike of the public services, by abolishing the only tripartite national forum for discussing recommendations on wage increases, and by allowing works councils to negotiate company-level agreements if there is no trade union present at the workplace (Szabó, 2013).

Considering the fundamental changes in the wage-setting systems of many European countries, it is in fact precisely in this area that the new European interventionism is most significant. In contrast to European market integration, which did not automatically lead to a convergence of national collective bargaining systems, there seems to be a new form of politically imposed convergence driven by the new interventionist policies of the Troika. As the EU's road map for change is a totally decentralised system of collective bargaining, the impact of the new European interventionism is most radical in the Mediterranean countries which seem to be pushed to converge towards a collective bargaining system as it exists in many Eastern European countries (Meardi, 2012a). However, such a system change implies not only a decentralisation but also a de-collectivisation of labour relations, since collective bargaining coverage is usually much higher in countries with strong multi-employer bargaining than it is in countries with mainly company-level bargaining. Most recent data from Spain, for example, indicates that in 2012 both the number of collective agreements and the number of employees covered by collective agreements has sharply declined (Ministerio de Empleo y Seguridad Social, 2012; Baylos and Trillo, 2013)<sup>5</sup>.

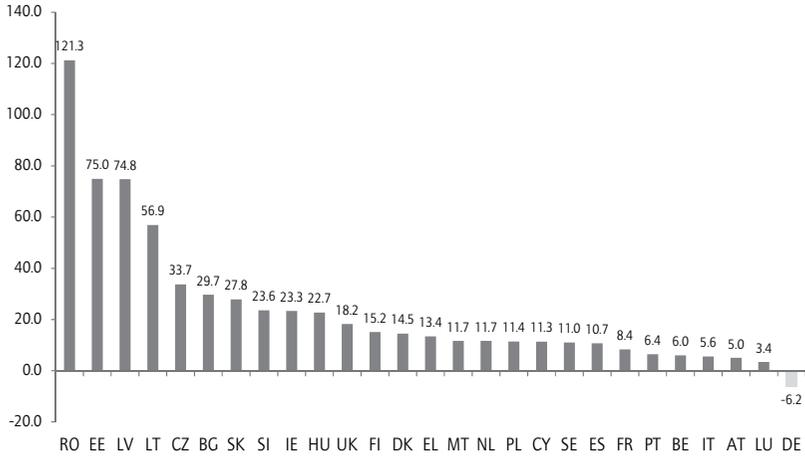
### 3.4 Changing pattern of European wage developments

Against the background of a strong state interventionism promoting wage freezes and cuts as well as a comprehensive reconstruction of collective bargaining systems in many European countries, the pattern of wage developments in Europe has changed fundamentally (see Figures 2 and 3). In the past decade up to 2009, almost all EU states registered positive real wage developments. The strongest increases took place in some Eastern European countries, followed by still remarkable wage growth in countries such as Ireland or Greece, and more moderate increases in countries like Italy, Spain or Portugal. The sole exception was Germany as the only country during that period with a strong decrease in real wages.

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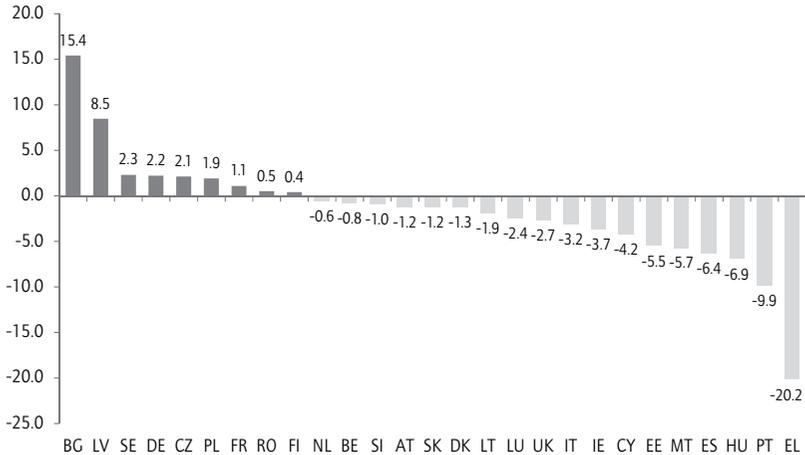
5. An unpublished calculation on the development of collective agreements made by Reinhard Naumann (Lisbon Office of the Friedrich Ebert Foundation) indicates that in 2012 there has also been a sharp decline of the bargaining coverage in Portugal. This is partly the result of the radical decline in the number of collective agreements which have been extended.

Figure 2 Development of real wages (2001-2009 in %)\*



\* Nominal compensation deflated by the national HCPI.  
 Source: AMECO Database, calculations by the WSI.

Figure 3 Development of real wages (2010-2012 in %)\*



\* Nominal compensation deflated by the national HCPI.  
 Figures for 2012: Forecast of the European Commission (Autumn 2012).  
 Source: AMECO Database, calculations by the WSI.

Since 2010 the picture has virtually reversed. Only a few countries have registered – mainly modest – real wage increases, while in 18 of the 27 EU countries real wages have fallen. By far the biggest cut has been in Greece with a fall of 20%, followed by Portugal with nearly 10%, Hungary with nearly 7%, and Spain with 6.4%. While the Troika welcomes this development as a necessary ‘adjustment process’ (e.g. European Commission, 2012d), from a more critical perspective it looks more like a strong European-wide downward wage spiral which obviously depresses consumer demand, fosters deflationary tendencies and therewith contributes to consolidating economic stagnation in Europe.

#### **4. Outlook: what future for a European wage policy?**

The new system of European economic governance with its newly introduced mechanisms for monitoring, sanctions and intensified coordination has led to a new European interventionism in the area of wage policy; this marks a paradigm shift from the acceptance of free collective bargaining to direct political intervention in national collective bargaining outcomes and processes.

Regarding the bargaining outcomes, the key objective of this new European interventionism is to ‘adjust’ in order to close the (cost-) competitiveness gap between ‘surplus’ and ‘deficit’ countries in Europe. The result of this one-sided focus on freezing and cutting wages has been increased wage competition, which in turn has led to a downward spiral of falling real wages in the majority of EU Member States. However, recent studies illustrate that the interventionist austerity approach, with its narrow focus on wages as the key adjustment mechanism, was not only ineffective in addressing the problem of macroeconomic imbalances, but that it even aggravated the debt and growth problems of deficit countries (Holland, 2012, Horn *et al.*, 2012). Even the IMF has recently considered that the austerity policies might have gone too far, since they are obviously depressing economic growth and are contributing to the sharp increase of unemployment (Blanchard and Leigh, 2013; IMF, 2012c).

The interventionist approach of cutting wages is questionable in at least two respects. Firstly, it views wages primarily as a cost factor and neglects the important role of wages in creating or stabilising domestic

demand. Thus, particularly in countries in which growth relies more heavily on domestic demand than on exports, the potential positive effects of falling wages and unit labour costs on net exports can be more than offset by the negative impact of falling wages on domestic demand. Secondly, the narrow focus on improving the deficit countries' cost competitiveness *vis-à-vis* surplus countries ignores the fact that due to their industrial structure and the difference in the complexity of their export baskets the two groups of countries are not in direct competition. Thus, wage cuts in the Mediterranean countries do little to improve their competitive position in relation to countries such as Germany, which is often used as the central benchmark. Rather than addressing the real problem of non-price competitiveness in the deficit countries, the competitive wage strategy triggers a race to the bottom leading their economies straight into a deflationary trap (Janssen, 2011: 4).

As regards bargaining procedures, the new European interventionism led to a frontal attack on established systems of multi-employer bargaining, in particular in those countries which received financial assistance from supranational institutions. As most of these countries traditionally had a comparatively high level of bargaining centralisation and high bargaining coverage, the austerity-induced interventionism led to a dismantling of existing wage-setting arrangements either by completely abolishing institutions of cross-sectoral wage setting (such as in Ireland and Romania) or by continuously hollowing out existing systems of sectoral collective bargaining, as was the case in Greece, Portugal, and Spain. To a lesser degree, this also applies to Italy, where, however, the trade unions (so far) have been more successful in fending off the most radical procedural reforms of the traditional system of co-ordinated bargaining.

As a result, there has been a process of convergence of collective bargaining structures within the group of 'crisis countries', with the Mediterranean countries moving closer towards the fragmented and decentralised model of collective bargaining that is characteristic of the majority of CEE countries (Meardi, 2012a). At the same time, however, the new European interventionism increased the divergence between the 'crisis countries' and the so-called 'core countries' of the EU (comprising Austria, the Benelux countries, France, Germany and the Nordic states), where collective bargaining institutions remained fairly stable and where the crisis – if at all – reinforced the already existing

trend of controlled decentralisation, without, however, substantially undermining the dominant role of sectoral-level bargaining (Keune, 2011: 143-144). Nevertheless, the fact that so far only the Mediterranean countries are affected by this convergence trend does not mean that the 'core countries' are immune to the political pressure to decentralise their collective bargaining systems. In the most recent Country-Specific Recommendations, Belgium, for instance, was requested to decentralise its bargaining system by 'facilitating the use of opt-out clauses from sectoral collective agreements to better align wage growth and labour productivity developments at local level' (European Council, 2012: 14). Moreover, if the currently proposed system of European competitiveness pacts becomes reality, the experiences made in the 'neoliberal laboratory of Southern Europe' might spread across the whole EU (Oberndorfer, 2013).

The overall objective of the new European interventionism is to force EU Member States to overcome all the 'rigidities' that hamper the downward flexibility of wages, including the trade unions' bargaining power. DG ECFIN could not have been clearer in its report on labour market developments in 2012, in which it classifies 'the overall reduction in the wage-setting power of trade unions' (European Commission, 2012d: 104) as a desirable outcome of labour market reforms. Against this background, it becomes increasingly clear that the new European interventionism must also be seen as a political project to weaken European trade unions.

Against the background of increased mass unemployment in many European countries, it is, of course, rather difficult for trade unions to counter such a strategy. However, there are at least three core elements which mark an alternative approach towards a European wage policy. First of all, European trade unions (but also employers<sup>6</sup>) need to defend the principle of collective bargaining autonomy against the increasing state interventionism at European and national level (Janssen, 2013). One way to do this is to use judicial channels by filing formal legal

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6. That the defence of free collective bargaining is not only a trade union issue is demonstrated by a statement by the Council of European Employers of the Metal, Engineering and Technology-Based Industries which 'insists though that the EU institutions must respect the autonomy of social partners/employers and workers and not intervene with wage setting at any level' (CEEMET, 2012).

complaints at national, European and international level in order to insist on the adherence to formal commitments which the country in question has made by ratifying fundamental social rights conventions. One such example is the complaint submitted to the ILO by several Greek trade unions, concerning the austerity measures taken in Greece over the last two years in the context of the Memorandum of Understanding agreed with the Troika. In this case, the ILO Committee of Freedom of Association found that the Troika request to suspend and/or derogate from collective agreements and to decentralise collective bargaining violated ILO Conventions 87 and 98 (ILO, 2012a). As a consequence, the Committee highlighted the need to respect the principles of freedom of association and free collective bargaining. Even though the ILO cannot force national governments to change legislation, the Committee's verdict lends important moral and political support to the trade unions' position so that the European policymakers cannot continue to ignore the strong political signals coming from international and European institutions such as the ILO and the Council of Europe (ETUI, 2013).

A further central element of a trade union counter-strategy is to strengthen the unions' own attempts towards a European coordination of collective bargaining. The traditional trade union wage coordination rule, according to which *real* wages should at least increase in line with productivity growth (Schulten, 2002), is still very important as a bottom line to prevent downward wage competition. In addition, a more offensive approach might turn the currently dominating European wage policy on its head by strengthening multi-employer collective bargaining institutions in order to support a more sustainable wage-led growth regime in Europe (Stockhammer and Onaran, 2012). Moreover, another element might be the development of a 'European minimum wage policy' in order to make sure that every worker in Europe receives a wage which ensures a decent standard of living (Schulten, 2012b).

Such an alternative approach towards a European wage policy has recently been supported, for example, by the ILO which in its recent 'Global Wage Report' emphasises that in order to avoid the risks of an austerity-induced recession, it is important to stimulate domestic demand by, amongst other things, strengthening wage-setting institutions (ILO, 2012b: 62-63). There is also some support for this within the

European Commission, as DG Employment at least has taken a much more nuanced approach than have their colleagues from DG ECFIN by explicitly acknowledging the function of wages in generating domestic demand and strengthening social inclusion (European Commission, 2012e and 2012f).

Finally, there is a need to overcome the currently dominant narrative of European policymakers and national governments, according to which wages are seen as the core adjustment variable to correct economic imbalances in Europe. Instead of the narrow focus on wages, there should be a much broader approach for alternative macroeconomic policy coordination in Europe, whereby a European wage coordination would have primarily the function of avoiding downward wage competition and of contributing to a more sustainable, demand-led economic development model (EuroMemoGroup, 2013; Hein *et al.*, 2005 and 2011).

Appendix 1 **Major changes in collective bargaining systems in EU countries under EU, ECB and/or IMF surveillance**

<p><b>Greece</b></p>	<p><b>Law No. 3899/2010 of 17 December 2010:</b> Introduction of new type of 'special company-related collective agreement' in companies which face serious financial difficulties: These new company agreements may provide for wages and other working conditions that are less favourable than those provided for by the respective sectoral collective agreement, but not less favourable than the minimum conditions agreed in the national collective agreement. The new company agreements could be signed either by the unions at company level, or – where they do not exist – by the sectoral union organisations.</p> <p>Introduction of stricter criteria for extension of sectoral agreements: Extension is allowed only when the employers covered by the agreement represent at least 51% of the workforce in the respective sector.</p> <p><b>Law No. 4024/2011 of 27 October 2011:</b> Introduction of a general priority for company agreements over sectoral agreements and a general abolition of the favourability principle. In companies without trade unions or with fewer than 50 employees, company agreements can also be concluded by 'other associations of employees' which represent at least 3/5 of the workforce.</p> <p><b>Law No. 4046/2012 of 14 February 2012:</b> Reduction of the after-effect of expired collective agreements to three months.</p>
<p><b>Hungary</b></p>	<p><b>Revision of Labour Code of 26 October 2011:</b> Introduction of the right to conclude collective agreements for works councils, provided that there is no trade union at company level whose membership covers at least 10% of the employees. The revised Labour Code furthermore allows collective agreements and individual work contracts to regulate working conditions differently to what is stipulated in the law – this includes the possibility of agreements derogating from the law to the benefit of the employer.</p>
<p><b>Ireland</b></p>	<p><b>December 2009:</b> Breakdown of the 22 years-old centralised pay bargaining system after the employers withdrew from the national social partnership agreement.</p> <p><b>2010-2013:</b> Reform of the so-called Registered Employment Agreements (REAs) and Employment Regulation Orders (EROs) which determine minimum wages in a certain limited number of sectors (e.g. sectors such as agriculture, construction and electrical contracting).</p>
<p><b>Italy</b></p>	<p><b>National collective agreement of 22 January 2009:</b> Introduction of a general opening clause for wage regulations deviating from sectoral agreements at company level (the agreement was not signed by the largest Italian trade union federation CGIL).</p> <p><b>National collective agreement of 28 June 2011:</b> All sectoral agreements shall contain opening clauses, according to which at the enterprise level there may be deviation from sectoral standards under certain circumstances (economic difficulties, restructuring, introduction of significant new investment). Such divergences must be agreed in an enterprise collective agreement signed by the majority of the Rappresentanze Sindacali Unitarie (RSU) (unitary workplace union structures). The workforce must confirm the diverging company agreement if one of the signatory trade unions or at least 30% of the employees request it.</p>

	<p><b>Law No. 148 of 14 September 2011:</b> Company collective agreements can deviate downwards from sectoral agreements and certain labour law provisions. Possibilities for deviating from collective agreements at enterprise level concern almost all aspects of labour and employment conditions (including wages and wage structures, working time, atypical employment and employment protection). The company agreement must be signed by a majority of the representative trade unions in the enterprise.</p>
<b>Portugal</b>	<p><b>Law No. 23/2012 of 25 June 2012 (approved Draft Law No. 46/XII of 2 February 2012):</b> In companies with 150 or more employees, collective agreements can be concluded by works councils, if the trade unions have authorised them to do so.</p> <p><b>Council of Ministers' Resolution No. 90/2012 of 10 October 2012:</b> Introduction of stricter criteria for the general extension of collective agreements, according to which the employers covered by these agreements have to represent at least 50% of the employees of a certain sector.</p>
<b>Romania</b>	<p><b>Law No. 62/2011 of 10 May 2011:</b></p> <ul style="list-style-type: none"> <li>– Abolition of the national collective agreement</li> <li>– Abolition of the automatic extension (<i>erga omnes</i>) of sectoral agreements, extension is only possible if more than 50% of all employees in the sector work for companies that are members of the signatory employers' organisations.</li> <li>– A trade union can only negotiate company agreements if it represents more than 50% of the workforce in the company</li> <li>– If there is no union in the company, negotiation-based agreements can be concluded with other employee representatives.</li> </ul>
<b>Spain</b>	<p><b>Royal Decree 10/2010:</b> Improved options for making use of hardship clauses at company level which allow temporary deviation from sectoral agreements. If agreement cannot be reached, an arbitration board can be called in.</p> <p><b>Royal Decree 7/2011 of 10 June 2011:</b> Extension of possibilities of using opening clauses at company level to derogate from sectoral agreements.</p> <p><b>Law 3/2012 of 6 July 2012 (approving Royal Decree 3/2012 of 10 February 2012):</b></p> <ul style="list-style-type: none"> <li>– Introduction of a general priority of company agreements over sectoral agreements.</li> <li>– Possibility of deviating from sectoral collective agreements by means of company agreements. Company-level options for such possible divergences concern almost all aspects of employment and working conditions (including wages and wage structures, working time, social benefits etc).</li> <li>– In companies without union representation, company agreements can be concluded by non-union groups of workers.</li> <li>– Limitation of the after-effect of expired collective agreements to one year (previously unlimited).</li> </ul>

Source: Authors' composition on the basis of Busch *et al.* (2013), Clauwaert and Schömann (2012), European Labour Law Network (<http://www.labourlawnetwork.eu/>).

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