Chapter 8
The impact of the European Semester on collective bargaining and wages in recent years

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1. Introduction[1]

The question of whether the EU has competence over collective bargaining and wages is of fundamental importance for the trade union movement. The answer is more complex than it may seem and forms the basis on which the European Trade Union Confederation (ETUC) has developed strategies to cope with economic governance over the past few years. However, in order to fully understand the trade union position, we need to look briefly at what the European semester is and how it works. This will provide an analytical framework for the ETUC's approach and a proper understanding of its two phases. The strategy that is being implemented to counteract and (re-)balance the policies imposed via the European semester and to make the latter more socially-oriented is addressed in Section 2. In Section 3 we look at the improvements and results achieved by trade unions within this framework. Looking first at the EU as a whole, we then examine the five target countries of the DECOBA project – Belgium, France, Germany, Italy and Spain – more closely. Finally, we draw conclusions confronting recommended policies with trade unions' views and demands.

2. Does the European Union have competence over collective bargaining and wages?[2]

The 2008 crisis made it self-evident that, from the adoption of the single currency, the economies of the European Member States became ever more interwoven. Growth would spread from one country to another, but so too would any imbalance. The Economic and Monetary Union needs more coordinated policies among the national levels, especially within the framework of the euro area. This assumption pushed the governments of the Member States to design a new form of coordinated exercise of public power in the economic domain. In 2011, the European semester for economic policy coordination (referred to below as 'the Semester') was formally introduced.[3]

1. This chapter is based mainly on positions and working documents of the ETUC, developed over the period 2014–2017 (that is, semester cycles of 2015, 2016, 2017 and start of 2018) in the frame of the daily work on collective bargaining, wage policy and the European semester.
2. The description of how the European Semester works in this paragraph is based mainly on Arrigo et al. (2016).
3. See Section I-A, Council Regulation 1466/97/EU of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, as amended by the Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies. The Regulation 1175/2011 is one of the legislative instruments of the so-called Six Pack'.

The Semester is an innovative decision-making process – halfway between the Community and the intergovernmental method – through which the European Member States design their policies for budgetary surveillance, fiscal consolation and economic coordination. In a nutshell, it aims at achieving the following objectives in a single and consistent framework of action: deepening and completing the single market, while maintaining stable macroeconomic conditions.

Within the governance of the single currency, each Member State runs a stability or convergence programme.[4] This implies a transferral of a certain degree of sovereignty to the supranational level with a view to coordinating economic and social policies, as well as completing the single market. A particular feature of the Semester process is a certain degree of shared decision-making among countries, while holding each government accountable with regard to the other Member States. For this to happen, the Semester goes through a complicated series of interwoven cycles[5] and documentation. The cycle starts in September and lasts until July.[6] For the sake of simplicity, one can summarise them in four main steps:

First, the European Commission sets the political priorities for the coming year in the so-called 'Autumn Package',[7] which comprises the following documents:

(i) The Annual Growth Survey lays down the broad economic guidelines. The document focuses on investment, structural reforms and fiscal consolidation.
(ii) The Joint Employment Report analyses the employment and social situation in Europe and the policy responses of national governments. For a long time this was a document of minor importance, but that has changed from the 2018 cycle onwards thanks to the introduction of the European Pillar of Social Rights (EPSR) and the consequent stronger focus on social performance. The latter is now monitored via the social scoreboard.[8]
(iii) The Alert Mechanism Report, based on a scoreboard of indicators, identifies countries that may be affected by economic imbalances and for which the Commission should undertake further in-depth reviews within the Country Reports. It is the first step in the Macroeconomic Imbalances Procedure, which aims to prevent or address imbalances that hinder the smooth functioning of national economies, the eurozone or the EU as a whole.

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4. All the countries of the European Union should indeed adopt the euro sooner or later, excluding Denmark and the UK – which is currently under negotiations for withdrawing from the European Union. For the time being, Greece is excluded from the semester process, being under a specific financial assistance programme.
5. There are indeed more and different cycles within economic governance. However, for the sake of simplicity, it is more opportune to refer to the European Semester as it was a single cycle. There is indeed no clear distinction among them as most documents serve the purposes of several cycles at the same time, such as the Country Reports. For a more complete explanation of the European Semester, see the following: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester_en
6. Since the beginning of the Juncker Commission, the timing of the semester was modified so to allow a better involvement of stakeholders, notably national parliaments and social partners.
7. For more info see the following: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/european-semester-timeline/setting-priorities_en.
8. For more details, see the conclusions of this chapter.

(iv) Recommendation for the euro area addresses issues critical to the functioning of the single currency area.
(v) Opinion on draft budget plans for euro-area countries assesses the compliance of national budget plans with the requirements of the Stability and Growth Pact (SGP).

The ‘Autumn Package’ is usually released at the end of November. However, the drafting process starts in September, at the end of which DG Employment holds a consultation meeting with the European[9] and national social partners on the broad economic guidelines, mainly the Annual Growth Survey.[10]

Second, on the basis of the political priorities set out in the ‘Autumn Package’, the European Commission analyses the financial and socio-economic situation of each Member State and identifies critical areas for reform via the Country Reports. Such documents – one for every member state – are published between the end of February and the beginning of March. During the drafting period, in order to enhance the ownership of the process, as well as to share analysis and objectives, the Commission involves the different stakeholders at European and national level. Notably, it organises informal consultations with the European social partners in Brussels,[11] undertakes fact-finding missions in each member state to discuss issues with governments and national social partners and liaises with those actors via its European semester officials (so-called ESOs).[12]

Third, on the base of critical areas identified by the Commission via the Country reports, reforms to be undertaken by each government are laid down in the National Plans.[13] It is crucial to stress the fact that, of course, every government is completely free to design its own policy measures in response to the abovementioned challenges. The National Plans are generally due between the middle or the end of April.

The fourth and final step is the Country Specific Recommendations (CSR). They represent the final output of the semester and embody the abovementioned shared decision-making among national governments. The CSR are proposed by the European Commission in mid May, on the basis of the ‘discrepancies’ between the objectives commonly set out and the actions proposed by each government in the National Plans. Basically, they can be regarded as a request to adapt government policies in order to make sure agreed objectives will be met. A couple of years ago the Commission committed to streamline the content of CSRs and reduce their number. To this end, the Commission has focused the CSRs on the countries’ most urgent challenges. The CSRs

9. The ETUC for the workers’ side, BusinessEurope, CEEP and UEAPME for the employers’ side.
10. The consultation documents of the European social partners are attached to the AGS and made publicly available on the following webpage: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/european-semester-timeline/setting-priorities_en.
11. Concerning these consultation meetings with the ETUC and its member organisations, see the following paragraph.
12. The list of ESOs for each member state can be found on the following webpage: https://ec.europa.eu/info/about-european-commission/contact/local-offices-eu-member-countries_en.
13. ‘National Plans’ is a new expression used by the Commission and include both National Reform Programmes (NRP) and Stability and Convergence Programmes (SCP).

are then discussed and endorsed by the European Council (in different compositions) and formally adopted by the Council around the first week of July. The Council has the power to endorse, drop or amend these draft CSRs. In general, 'it is expected to, as a rule, adopt the recommendations proposed by the Commission or publicly explain its position'.[14] Once adopted, the CSRs are 'politically binding' and

> are to be taken into account by Member States in the process of national decision-making. A failure to implement the recommendations might result in further procedural steps under the relevant EU law and ultimately in sanctions under the SGP and the MIP. These sanctions might include fines[15] and/or suspension of up to five European Funds, namely the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF). (European Parliament [Hradiský] 2017)

So far, the Commission has not issued any sanctions against Member States, even when CSRs were not implemented. Nevertheless, experience has made it crystal clear that, when a country find itself in a difficult situation – and, as a consequence, its bargaining power is low vis-à-vis the European partners – the CSR become more substantial and the country comes under more pressure to implement it. On the other hand, very often CSRs are welcomed by the receiving government, which sees them as a means of undertaking desired reforms while minimising the 'political shock', as responsibility can be attributed to the usual suspect, namely the European Union.

From what we have just said two elements indicate the answer to the opening question:

(i) the European Commission has a mandate for analysing, monitoring and proposing policies;
(ii) decision-making power rests in the hands of the European Council (in other words, the national governments themselves).

The reason for these roles is extremely simple. As mentioned above, the semester is half way between the Community and intergovernmental methods, as it presents a number of peculiarities: (i) it was created by international treaty, other than the treaties of the EU, that have not been signed by all the Member States, such as the Euro Plus Pact and the Fiscal Compact; and (ii) it makes use of the European institutions – giving them new roles, other than those established by the Treaties – to put in place intergovernmental programmes. However, by doing so, the related domains (under which collective bargaining and wages also fall) are still a national competence but have been put under a common umbrella with a view to reaching commonly agreed objectives.

14. European Parliament [Hradiský] 2017, At a glance. The legal nature of Country Specific Recommendations, European Parliament, IPOL-EGOV, 2017. The briefing can be found here: http://www.europarl.europa.eu/RegData/etudes/ATAG/2014/528767/IPOL_ATA(2014)528767_EN.pdf.
15. The Commission threatened Member States (Spain and Portugal) with fines for the first time in 2016, see: https://www.euractiv.com/section/euro-finance/news/commission-threatens-spain-and-portugal-with-fines/. However, the fines were subsequently dropped, see: https://www.ft.com/content/dff5e6d2-540c-11e6-9664-e0bdc13c3bef.

This brings us to an answer to the question kept in mind from the beginning. Do the European institutions have competence over collective bargaining and wages? They do, but only to a certain extent. This has been the state of affairs since the Member States signed off on the treaties establishing the new economic governance. In this frame, collective bargaining systems and wages are indeed scrutinised as factors contributing to the EU's economic performance. Thus, while the Commission is responsible for analysis and monitoring,[16] the Council is accountable for the recommendations issued. This system has been designed, of course, to avoid any further extension of the core competences of the European Union itself. At the end of the day, therefore, national governments are still responsible for the policies implemented in their own country,[17] even though those national competences have been – to a certain degree – shared with their peers.[18]

However, acknowledging this does not mean that the resulting interference in collective bargaining and wages is acceptable or justified. These are areas traditionally reserved for the autonomy of social partners, areas from which, traditionally, governments have refrained. Only autonomous negotiations between the social partners can guarantee a fair balance of the interests of businesses and workers. Nevertheless, as we are currently experiencing, the 'institutional environment' conducive to collective bargaining may change. The governments or, better, the national parliaments, in their capacity as legislators, can surely decide otherwise. It is then up to the trade unions to step up, mobilise and take action to defend their fundamental prerogatives on collective bargaining and wages from this wave of state interventionism. This is why the European trade union movement has decided to get more involved in talks with the Commission and governments within the framework of Economic governance. The aim is to influence its content to strengthen the social dimension and, by doing so, to better defend workers' interests. In a nutshell, influencing decisions rather than simply reacting after they are already taken.

3. From reacting to influencing: the trade unions' response to the European semester for economic policy coordination

The European Semester, and in particular the CSR, addresses many topics within the core activities of trade unions. The list indeed does not end with collective bargaining and wages. Other fields of concern for the unions addressed by the Semester over the years are those encompassed in the so-called structural reforms. Notably, employment and labour market, pensions, unemployment benefits and the welfare system in general. Last but not least, the budgetary and fiscal reforms, which have negatively impacted public expenditure – especially public services – and investment.

16. This is, by the way, a political exercise itself as the benchmarks used as well as the evaluation of social and economic policies can be driven by a political or ideological thinking.
17. Of course, together with the national parliaments.
18. A concrete example may be helpful for understanding this dichotomy. Over the past few years, the Commission has been putting forward a CSR on the need to make the Austrian pension system sustainable in the long term, a recommendation always endorsed by the Council. Nevertheless, so far the Austrian government has opposed this request, considering it unjustified.

In the first years of the crisis, the fight against austerity measures was conducted mainly at national level. The situation remained unchanged when the Semester was introduced. The trade unions strongly opposed it, regarding it as a method for imposing austerity and cuts on countries weakened by debt. Another peculiarity of the Semester is its ‘democratic deficit’. As an intergovernmental process, it dispenses with supranational democratic accountability with regard to the decisions taken. The involvement of the European Parliament was and remains a mere (and late) formality rather than a real exercise of control. The same happened with the European social partners who were consulted solely in merely formal settings in which they could express their views, but with no ability to influence policymaking. Under these conditions, the trade unions were able to do nothing more than react to and reject decisions that, usually, had already been taken.

Between 2013 and 2014 the ETUC started working on the Semester dossier in a more structured way. Informal coordination was established in order to reach common positions with a view to preparing for the consultations. In the meantime, within the framework of the ETUC Collective Bargaining and Wages Coordination Committee, a first ‘Semester toolkit’ was being developed with the aim of monitoring the Semester’s impact on collective bargaining and wages in the EU countries and sharing information in a two-way flow: between the national unions and the secretariat, on one hand, and among affiliates themselves, on the other. Although the feedback generally came from between 15 and 18 countries – that is, approximately half the EU Member States – the toolkit proved to be a valuable source of information for a comparative analysis of the situation, thereby providing sound arguments for inclusion in the ETUC documents for the consultations. The toolkit was based on three pillars: monitoring of trade union involvement in the Semester at national level; monitoring of respect for fundamental trade union rights; and trade union assessment of the CSR, as well as of actions undertaken by governments. The findings obtained by means of these tools found their way into three annual documents.

In late 2014 the European trade unions decided to change their approach. The decision was not an easy one. Simply reacting to the different Semester documents and rejecting austerity measures did not deliver results for workers and citizens. It even undermined the unions’ position to some extent as, in many countries, criticisms were raised claiming that the trade unions had been unable to properly fulfil their role of opposing austerity. The new strategy was to develop stronger internal coordination and to establish a structured dialogue with the Commission, especially with DG Employment. This second goal might have exposed the trade unions to the charge of ‘fraternising with the enemy’, legitimising the process and – at least partly – ‘healing’ its democratic deficit with no guarantee of being able to influence it. However, after almost six years of crisis and three of the New Economic Governance, it was high time to step up union efforts and shift from a reactive to an active stance.

The ETUC launched a project to refine the tools developed in the previous toolkit and extend the areas of work. More stable coordination across such areas of work was established and reinforced, including collective bargaining and wages, economics and taxation, employment and labour market, social protection, education and skills, migration, youth, gender and equal opportunities. Other fields may be added in the near future. In the meantime, each trade union organisation was asked to appoint a responsible person to coordinate inputs from the national unions to the ETUC, liaising with the Commission's European Semester Officers based in that country and participating in the consultation meetings that would take place with the Commission and Council committees in Brussels. By December 2017 (the time of writing), the group comprised 51 TUSLO (trade union semester liaison officers) from 28 countries and four European sectoral federations. Together with the ETUC secretariat, they are part of a structured dialogue with DG Employment. Consultations are held regularly in advance of the drafting of the Annual Growth Survey (end of September) and Country Reports (between end of November and beginning of December). A follow-up assessment meeting takes place after the latter are released in order to raise critical priorities not taken into consideration by the Commission in its analysis.

In parallel, three tools have been developed in the new toolkit (the so-called 'ETUC Semester Toolkit 2.0' [19]) to prepare and support the ETUC and its affiliates through these meetings. The first is the document 'ETUC for growth and social progress. Priorities for the broad economic guidelines'. It concerns the definition of common trade union priorities for the whole EU to be addressed in the following Semester cycle and to be submitted at the consultations on the AGS. This paper is developed by the secretariat, together with the members of the ETUC permanent committees in charge of the relevant dossiers. The draft is then adopted by the ETUC Executive Committee and so becomes an official common position of the European trade union movement.[20]

The second supports the trade union semester liaison officers in compiling the so-called national trade union inputs for country reports.[21] This identifies the most urgent challenges that should be addressed by each government and puts forward the trade unions' key demands (policy measures to be applied). The ultimate goal is a written exchange with the Commission aimed at influencing the Country Reports with clear and evidence-backed demands. The drafting lasts almost two months (October and November) as trade unions generally go through their departments and constituencies for each of the dossiers involved. The various national inputs are then fed into the ETUC report on trade union inputs for country reports, which is forwarded to the Commission in preparation for the early stage consultation meeting, which takes place generally between the end of November and the beginning of December. A second consultation meeting is usually held after the Country Reports are published in order to raise urgent issues which have not been taken into consideration.

The third tool is an online survey monitoring the involvement of trade unions in the Semester at national level at the various milestones of each Semester cycle. Such

19. The ETUC semester toolkit 2.0 was developed within the framework of of the EU-funded project 'ETUC Semester 2.0 – Enabling a trade union influential presence in the European semester'. The dedicated webpage is accessible to ETUC members only, while the online toolkit itself can be exclusively used by TUSLOs.

20. After its adoption, the final document is officially sent to the Commission and it is attached to the AGS. For instance, the 2018 version is publicly available here: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/european-semester-timeline/setting-priorities_en.

21. A sort of brief country report drafted by trade unions.

monitoring is based on the ETUC definition of quality involvement[22] and performs an extensive analysis of: (i) the format of the consultations; (ii) relevance and the timely disclosure of information; (iii) the appropriateness of the interlocutors – at political and technical level; and (iv) the consideration given to trade union analysis and positions. Eventually, at the end of each cycle, the ETUC secretariat, supported by the trade union semester liaison officers, releases an assessment of the CSR and the whole cycle to take stock of improvements and results. The abovementioned project came to an end in September 2017. A follow-up project to further strengthen this strategy was launched in December 2017, as some good results have been achieved – at both European and national level – through such dialogue with the Commission.[23]

However, all this work was possible *also* thanks to the political support provided by the 'fresh start' instigated by Commission President Jean-Claude Juncker, who committed himself to relaunching the social dialogue. This was indeed clearly visible in the attitudes of Commission officials, who were much keener to listen to and discuss priorities and policies with the trade unions throughout the entire cycle than in previous years.

4. Collective bargaining and wages in the Semester over 2014–2017: business as usual[24]

4.1 A brief overview of the EU as a whole

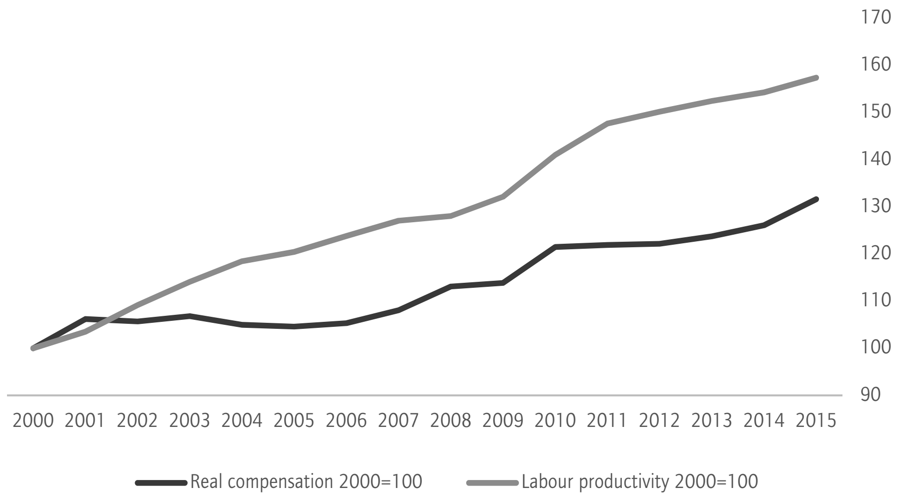
The importance of the European Semester with regard to wages and collective bargaining has remained stable. From 2011 to 2016 – excluding 2013 – the number of country-specific recommendations in these areas varied between 11 and 14. In 2017, they again numbered 14, which means they cover more than half of the EU Member States, considering that Greece was under a financial assistance programme and the United Kingdom is involved in talks on leaving the EU. Looking only at the recommendations focusing on wage-formation mechanisms – generally aimed at fostering the decentralisation of collective bargaining – it is worth noting that over the past four years (2014–2017) they have numbered 11, 11, 12 and 14.[25] Nevertheless, some minor improvements have been recorded.

The 2015 Semester cycle

At the end of the 2014–2015 cycle, the situation was in any case improving slightly in many respects. The Juncker Commission showed more flexibility on budget deficits and

22. The extensive definition can be found in the ETUC resolution on trade union involvement in the EU Semester, adopted at the Executive Committee on 14–15 December 2016. The resolution is available here: https://www.etuc.org/documents/etuc-resolution-trade-union-involvement-eu-semester#.WoWje6jtyUk. The survey results can be found here: https://www.etuc.org/documents/new-start-social-dialogue-needs-change-pace-trade-union-involvement-economic-governance#.WorteqjtyUI.
23. Please see the next paragraphs for an evaluation of the results produced.
24. This paragraph is mainly based on previous ETUC documents. Some of them are publicly accessible on the ETUC website, while some others were developed for internal purposes and not available. The analysis of the macroeconomic impact of the CSR on wages has been performed by Ronald Janssen, then ETUC Chief Economist and currently at the OECD-TUAC.
25. For a deeper comparative analysis of social-related CSR in qualitative and quantitative terms, please see S. Clauwaert (2017).

Figure 1 **Wage and productivity developments in Poland 2000–2015**



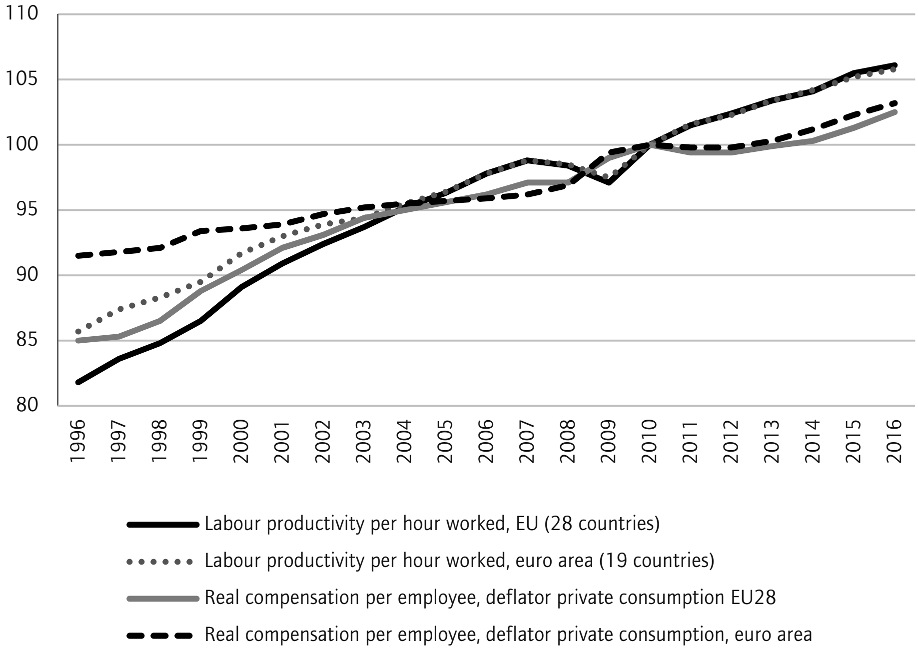
Source: The calculation was made by ETUC economist Matthieu Méaulle in preparation of the ETUC campaign 'Europe needs a pay rise'. Data on wages were taken from AMECO database: Real compensation per employee, deflator private consumption: total economy (RWCDC). Data on labour productivity were taken from: EUROSTAT database, Labour productivity per hour worked (ESA 2010). Base 100 was set according to the oldest data available.

CSR were generally a bit more positive than in previous years, although this was not the case with regard to collective bargaining and wages. In general, the Commission's advice on pay was still based on the mantra that 'wages are to evolve in line with productivity' but its application of this key idea was unbalanced.

Some Member States, affected by the problem of real wages systematically lagging behind productivity developments, did not receive any wage recommendation at all. One of the most striking examples was Poland. As shown in Figure 1, from 2000 to 2015, real wage growth in Poland had fallen short of productivity developments by a stunning 30 percentage points.

Recommendations to improve wage dynamics were also conspicuously missing for those countries experiencing a growing number of working poor or large low-paid segments, such as Estonia and the United Kingdom. However, besides the abovementioned Member States, the key recommendation on wages and productivity was also disingenuous for many others, in particular for western European euro-area countries. Here, too, the Commission suggested that wages had outpaced productivity whereas, in reality, it was the other way around. Looking at the EU and the euro area as a whole (see Figure 2), the general trend is clear, with wages lagging around 10 per cent behind productivity developments. Nevertheless, the general policy was then to recommend that Member States compete against each other by squeezing wages, thereby – dangerously – de facto establishing the economies with the lowest wages as the benchmark for all. Turning a

Figure 2 **Growth trends in average real wages and labour productivity in Europe and the Euro Area, 1996–2016**



Source: This calculation was made within the framework of the ETUC campaign 'Europe needs a pay rise'. Wage growth is calculated as a weighted average of year-on-year growth in average monthly real wages in 36 economies. The base year is set as 1999 for reasons of data availability. Source: ILO Global Wage Database; ILO Global Employment Trends (GET).

blind eye to the risks of a beggar-thy-neighbour policy entailed the danger that this race to the bottom would end up in very low inflation or even deflation, for the euro area as a whole and/or for individual countries.[26]

Furthermore, minimum wages were regarded as hampering economic growth due to their (presumed) adverse impact on job creation and competitiveness. Besides some of the DECOBA countries – which we will talk about later on – such a view was expressed in the cases of Portugal, Slovenia and Bulgaria. This totally ignored a large amount of research, not to mention experience showing that minimum wages, when introduced or raised, do not destroy jobs, but on the contrary foster positive trends.[27] On top of

26. This did indeed happen and the missing ingredient, as testified by ECB forecasts, was – surprise surprise – wage growth.

27. See, for instance, Amlinger *et al.* (2016). The authors remark that 'the negative effects on the labour market that were predicted by many economists did not materialise. On the contrary, employment in Germany has seen a continuous increase. Only so-called 'mini jobs' (a special form of marginal part-time employment) show a strong decline, but many of these were transformed into regular jobs subject to social insurance.'

that, in absolute terms the minimum wage remains low in these countries, especially in Bulgaria, where it is the lowest in the EU.[28]

In other words, after seven years of economic crisis, austerity and falling or stagnating wages, the Commission was still recommending a policy based on either wage cuts or wage 'moderation' when Europe desperately needed something else. This assumption was well underlined by an ETUC press release:

> 'The Commission continues to overlook the fact that wages in 23 Member States are lagging behind productivity. The Commission fails to identify, or react to, the redistribution from wages to profits. Europe needs a wage rise for fairness and to increase demand, mainly by strengthening collective bargaining.'[29]

At the same time, besides suggesting overall wage squeezes for entire economies, the Commission was also using the formula of 'wages in line with productivity' to promote the fragmentation and decentralisation of collective bargaining and wage formation across individual sectors and firms, regions and skills. Moreover, social partner autonomy in setting wages was being challenged also by the newly proposed 'competitiveness boards' – without any prior consultation with the trade unions. These bodies – built upon the example of Belgium's National Labour Council – were meant to advise the social partners and thereby to narrow their margin of manoeuvre for negotiations. Reacting to the so-called Five Presidents' Report,[30] former ETUC General Secretary Bernadette Ségol expressed strong opposition, reaffirming who should control wage setting:

> 'There is no way trade unions would accept a body separate from the social partners giving advice on wage negotiations. (...) Wage setting is the role of autonomous social partners. What the European Commission (...) fails to mention is that the
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> [similar] authority in Belgium is run by employers and trade unions – it is not a separate body handing down advice to social partners to follow.'[31]

The 2016 Semester cycle

At the beginning of the 2016 cycle, the European Commission promised a more socially-oriented Semester, respecting the autonomy of the social partners. The 2016 Country Reports then provided for an in-depth investigation of the socio-economic situation in each Member State. Moreover, as had been announced in the Communication on Steps Forward Completing Economic and Monetary Union,[32] the 2016 Country Reports also measured social performance. The benchmarking was supposed to promote social

28. For a comparison of minimum wages per hour worked see ETUI Benchmarking Working Europe 2017, p. 41.
29. https://www.etuc.org/press/country-specific-recommendations-2015-eu-needs-increase-wages#.WYSapVGrRdg
30. The Five Presidents' Report is a document setting the way forward for the European Union, drafted by Commission President Jean-Claude Juncker, in close cooperation with Council President Donald Tusk, Euro Group President Jeroen Dijsselbloem, European Central Bank President Mario Draghi and European Parliament President Martin Schulz. It was published on 22 June 2015 and available at: https://ec.europa.eu/commission/publications/five-presidents-report-completing-europes-economic-and-monetary-union_en
31. https://www.etuc.org/press/trade-unions-employers-should-set-wages-not-5-presidents-%E2%80%98competitiveness-authorities#.WYSazFGrRdg
32. https://ec.europa.eu/transparency/regdoc/rep/1/2015/EN/1-2015-600-EN-F1-1.PDF

convergence but the social targets were biased. Moreover, it is worth highlighting that 'best practices' as regards collective bargaining and wage setting were unilaterally selected by the Commission. This was part-time the detriment of the overall coherence of the analysis, generating paradoxes. For instance, the Estonian collective bargaining system, characterised by the highest level of decentralisation in the EU, was considered to be the most 'efficient', while Croatia was considered 'inefficient' because national collective bargaining proved able to protect workers against less favourable working time arrangements provided by law. Once again, this was a sign of a rigid ideological conviction that structured forms of collective bargaining hamper reforms, ignoring their success as a democratic and balanced way to co-regulate the labour market.

Unfortunately – and despite some concrete improvements in the social field – the ensuing country-specific recommendations kept going in the same direction. That wave of CSR dogmatically proposed the same failed economic policies of previous years, while prompting further interference in collective bargaining and wages throughout Europe. Belgium, France, Portugal and Spain received recommendations questioning their wage-setting systems and employment protection legislation. The biased reading of the centralised collective bargaining model proved difficult to throw off. Eventually, in countries deviating from the Stability and Growth Pact rules, the Commission advanced the outdated macroeconomic solutions which had been causing stagnation and severe social consequences for so long. Even though the country reports had recognised that the weak recovery countries were experiencing was driven mainly by private consumption, the CSR did not provide much support for the missing ingredient to relaunch the European economy that the ETUC had been demanding for years, namely a generalised upward wage dynamic to boost domestic demand. Commenting on the draft CSR just released, the then-Deputy General Secretary Veronica Nilsson made crystal clear the severe disappointment of the trade unions:

> 'The ETUC is very concerned that the Commission is again interfering in the autonomy of the social partners and collective bargaining. It's wrong to claim that the increase in minimum wages in Portugal would harm employment and competitiveness as it is wrong to claim that the minimum wage in France hampers employment. On the contrary, what Europe needs is an increase in minimum wages, wage increases through enhanced collective bargaining to boost growth and tackle inequality, and action to end precarious employment. The Commissioners repeated as usual the need for structural reforms of the labour market which in the past have led to less collective bargaining, lower wages and higher unemployment. Europe does not need more of the same tried, tested and failed policies.'[33]

The 2017 Semester cycle

The 2017 Semester cycle began with some positive novelties. In October 2016, for the first time ever, the Council's Employment Committee (EMCO) undertook a sort of multilateral surveillance exercise, monitoring the involvement of social partners in the Semester at national level. National governments, Commission officials and

33. https://www.etuc.org/press/economic-package-commission-wrong-collective-bargaining-minimum-wages#.WcZy_sirRdg

representatives of trade union organisations and employers' associations gathered to perform a peer review of involvement practises in the Member States. Irrespective of the – positive – results,[34] the event was concrete evidence of the Juncker Commission's commitment to revamp the social dialogue.

The AGS[35] was issued in November, moving forward along this track. The ETUC expressed its appreciation for the Commission's emphasis on the key role that social dialogue can play in designing and implementing economic and social policies. Finally, the social partners were recognised as responsible macroeconomic actors once again. The Commission indeed acknowledged that social dialogue is crucial for well-functioning social market economies, as shown by the best performing Member States over recent years.[36] In particular, recalling the social partners' capacity to engage in this exercise could be a basis for implementing capacity-building for national social partners enshrined in the Quadripartite Declaration on a 'New Start for Social Dialogue',[37] as well as a driver for implementing the coming European Pillar of Social Rights.

To a certain extent, the AGS 2017 could be considered a first step to partially mitigating and reversing the policies implemented since 2008. Despite some positive changes and the fact that, generally speaking, the priorities the AGS put forward were more balanced than in the past, the narrative was still anchored in a general framework in which an alleged need for structural reforms, budgetary consolidation and attention to labour cost competitiveness still prevailed with regard to the social dimension.

Collective bargaining and wages are a clear example of this, depicted by the ETUC as 'schizophrenic'. In this respect, the improvements were self-evident compared with the previous years but, in global terms, there still were some causes for serious concern.

The Commission indeed, probably for the first time since the crisis, affirmed that 'too modest wage developments' can be counterproductive, leading to 'weaker aggregate demand and growth'.[38] This time the mantra 'aligning wages with productivity' was interpreted also in a direction that might lead to positive wage dynamics. In particular, it was stated that wage-setting systems – beyond being able to better respond to productivity changes over time – should ensure 'real income increases'. Furthermore, the Commission highlighted that, when fixing the minimum wage, a new element should be taken into consideration by governments and social partners, namely the impact on in-work poverty.

These references reflected some of the ETUC's top priorities, outlined in the document 'ETUC for Growth and Social Progress: Priorities for the Annual Growth Survey 2017',[39]

34. That exercise fed into the EMCO conclusions enshrined in the document 'Key messages on successful involvement of Social Partners in national European Semester processes'. The text is available here: http://data.consilium.europa.eu/doc/document/ST-14367-2016-INIT/en/pdf.
35. https://ec.europa.eu/info/sites/info/files/2017-european-semester-annual-growth-survey_en_0.pdf
36. European Commission, Annual Growth Survey 2017, p. 11.
37. http://ec.europa.eu/social/BlobServlet?docId=15738&langId=en.
38. Idem.
39. The document was adopted by the ETUC executive committee on 11 October 2016 and can be found here: https://www.etuc.org/system/files/eu_semester/file/161011_etuc_priorities_on_the_ags_2017_en_adopted.pdf

which also represented the basis of the upcoming ETUC Campaign 'Europe needs a pay rise'.[40] The daily work of the ETUC staff and affiliates in structured talks with the Commission was finally delivering results. Some of the Commission's policy priorities were – slowly – turning in the direction desired by the trade union movement.

Then Deputy General Secretary Veronica Nilsson hailed this new orientation and expressed the appreciation of the ETUC and its affiliates for Commissioner Thyssen's call for wage-setting to generate real income increases. She commented:

> Wage rises are crucial in increasing internal demand. Without more money in workers' pockets, Europe will be unable to achieve a sustainable recovery.[41]

However, many other ideological assumptions remained to counteract and limit the progress made. For instance, although decentralisation of collective bargaining was not addressed explicitly, the abovementioned positive aspects were counterbalanced by an insistence on the importance of having wage-formation systems able to ensure that differences in skills and economic performance across regions, sectors and companies are taken into account. This was another argument exhibiting a preference for fragmented collective bargaining systems. All this despite the seriousness of the social situation, which rather suggested a need to support or (re-)strengthen sectoral collective negotiations at national level; this powerful tool could have helped to quickly address the problem of income inequality. At the same time, the Commission was also backing state interventionism related to reforms of wage-formation systems.[42]

Finally, regarding wages, the reference to wage developments that might lead to productivity erosion was strongly criticised by the ETUC and its affiliates. Indeed, as has been proved several times, real wages have been lagging well behind productivity in all European countries for years and, taking into consideration the sharp fall of the wage share in GDP since the 1980s,[43] the reasons for trade union disappointment and concern are self-evident. Once again, the European trade union movement, although recognising the improvements made, was forced to call for the Commission to step up efforts and take more concrete actions toward the so-called 'social triple A Europe'.

The situation did not change much with the 2017 Country Reports. The divergence of priorities and opinions between the two bodies drafting these documents – DG ECFIN (Economic and Financial Affairs) and DG EMPL (Employment, Social Affairs and Inclusion) – became even clearer than in the AGS 2017. More positively, it became self-evident that DG Employment was gaining more ground in all the documents and, by doing so, was slowly rebalancing the European Semester, drawing greater attention to the social dimension of the economy. Some of the priorities presented by the ETUC and member organisations during the consultation meetings with the European Commission were taken into account. However, the necessary U-turn desired by the trade unions did

40. For more information see the campaign website at: https://payrise.eu/
41. https://www.etuc.org/press/etuc-semester-package#.WbP-acirRdg
42. A fear that would have soon came true, for instance, in Belgium. For more details, see G. van Gyes and S. Vanderhercke in this volume.
43. See Figures 4 and 5 in this chapter.

not materialise. The Country Reports touched upon collective bargaining systems in nine countries. This was mainly because the issue had been addressed extensively in previous years, and the Commission's position in favour of decentralisation was still considered largely valid (we shall look at a number of examples shortly).[44]

In Estonia the collective bargaining system, which in 2016 the Commission considered the most efficient in the EU because it had been completely decentralised, was just one year later accused of promoting *too rapid* wage growth.[45] Nevertheless, no mention was made of the possibility of developing sectoral negotiations, which can help better manage wage dynamics. The same was true of Romania's Country Report, but for different reasons. Romania was described as suffering from poverty and inequalities and collective bargaining should have been considered a factor in democracy building and the enhancement of wages and working conditions. However, the Commission made only a timid reference to the weakness of collective bargaining and social dialogue.[46] In Cyprus, despite the clear demands put forward by the unions about restoring and respecting collective bargaining and extending collective agreements, the Commission interfered again in the wage-setting mechanism, but more worryingly, also in the democratic process. It claimed only limited progress had been made with the binding mechanism restraining the growth rate of public employees' wages and expressed disappointment because the legislative proposal designed to make this mechanism – introduced in collective agreements until 2018 – permanent had been 'rejected by the House of Representatives'.[47]

To a certain extent, the only 'positive' exception to the general picture was Lithuania. There, the Commission recalled that both trade unions and employers had raised concerns over the Labour Code reform. On this basis, the Commission then recognised that a more proactive involvement in the designing process on the part of the social partners would benefit the effectiveness of such a reform. After the pressure exerted by the ETUC with regard to the demands of its Lithuanian affiliates, the Commission successfully persuaded the government to reopen talks with the social partners and the new reform was approved, containing a number of amendments proposed by the social partners themselves.

Regarding wages, the narrative remained more or less the same. Despite the need to boost domestic demand, pay rises were neither encouraged nor welcomed, with a few exceptions,[48] where wage increases were considered acceptable and even desirable by the Commission, as in line with macroeconomic fundamentals. More concerning was the misreading of the minimum wage rises, notably in the eastern European Countries. The European Commission kept insisting on its ideological assumption that higher minimum wages may affect job creation and so encourage informal work or bogus self-employment. The ETUC, on the other hand, asserted that the utmost attention should be paid to the negative social consequences of low incomes. For instance, again with

44. See below for the cases of Belgium, France, Italy and Spain.
45. See Estonia's 2016 and 2017 Country Reports.
46. See Romania's 2017 Country Report.
47. See Cyprus' 2017 Country Report.
48. Germany (see below) and the Netherlands.

regard to Estonia – as EAKL had feared – the Commission expressed concern because the minimum wage was 'increasing fast, outpacing overall wage growth over recent years' because these 'increases can have a significant impact on the wage bill in the poorest regions', despite the fact that the minimum wage stood at a mere 38 per cent of the average wage, one of the lowest levels in the EU. This is not only unacceptable for the trade unions and workers, but is detrimental to EU countries' commitment to implement UN Sustainable Development Goal No. 10, which pledges to 'progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average' by 2030. The paradox is highly worrying, especially from a political point of view. The same failed austerity policies that have hindered Europe from making a more rapid, not to mention fairer economic recovery and which are one of the main instigations of the anti-EU right-wing populism emerging all over the continent are still reaffirmed and recommended in too many Member States.

The Country-Specific Recommendations in 2017 made further, if minor steps forward in the direction asked for by trade unions, but still were generally unsatisfactory. Once again, they were not pro-wage growth and failed to encourage collective bargaining.

Wage growth was recommended in a few countries with an excessive surplus, such as Germany and the Netherlands. That was positive, but showed that governments still see wages as a factor in macroeconomic adjustment, while the ETUC sees them as a driver of social justice and growth. In some countries, CSRs may ultimately be harmful for wage development due to the doubts raised about the efficacy of wage formation in the public sector (Cyprus, Romania and Croatia), the performance of statutory minimum wages across the economy (as in Portugal) or labour cost trends (as in Finland and Estonia). This applies to countries in which the purchasing power of wage earners has diminished and wages have underperformed productivity gains in recent decades.

The reference to transparency in minimum wage–setting mechanisms in Bulgaria and Romania was welcome. Transparency in minimum wage setting appeared in several country reports but only two countries received a recommendation. However, some progress can be discerned in the fact that recommendations to redesign minimum wage settings cited the need to involve social partners.

On collective bargaining, an improvement on the previous cycle was that this time the governments showed considerable self-restraint with regard to intervening in collective bargaining arrangements. But in countries such as Spain, Romania and Portugal, CSRs (even without directly referring to it) harmed the autonomous deployment of industrial relations institutions.

To sum up, one can say that, while the EU economy is recovering, collectively agreed wages do not reflect the positive economic outlook. Reduced employment protections are one reason why collectively agreed wages are underperforming and inflation is on the rise again. Having said that, it is crystal clear that CSRs in 2017 have failed to capitalise on the potential for coordinated and multiemployer collective bargaining to boost internal demand, on one hand, and to tackle inequality and reinstate social justice, on the other.

If the EU's ambitions were to achieve 'structural reforms … to foster social justice, mitigate income inequalities and support convergence towards better outcomes' and that 'social priorities and consequences [had to] be taken into account when designing and implementing the reform agenda', the results of the 2017 cycle have been very modest and often very negative to workers. Changes are urgently needed to bring social progress to the forefront and become a driver for policies that can improve the quality of work and living conditions all over Europe. Positive wage dynamics enabling upward wage convergence are necessary both for stimulating the European economy and for rebuilding a fairer society.

4.2 A closer look at the 'DECOBA countries'

So far, we have looked at the general picture. In this section the analysis will focus closely on the five countries that comprise this project: Belgium, France, Germany, Italy and Spain. In particular, we will see whether and how the collective bargaining and wage dynamics policies recommended by the European Commission evolved over the period of study.

Belgium

Belgium has long been one of the Commission's favourite targets when it comes to collective bargaining and wages. Its centralised system of sectoral negotiations has been considered a threat to the country's productivity. According to the Commission this is evident from comparing productivity and labour cost trends with neighbouring and partner countries, notably Germany.

In the preamble of the 2015 CSR, the Commission states 'there is a need to align wage growth more closely with productivity and to make wage setting more flexible so as to increase the economy's potential for adjustment … closing the gap entirely will require additional action which hinges on reforms of the wage-setting system'. However, the CSR asked that this be delivered 'in consultation with the social partners and in accordance with national practices'.

In 2016 the Commission expressed its intention to release fewer, shorter and more focused Country-Specific Recommendations.[49] In the Belgian case, the result was that only a few of the previous year's measures were mentioned, but this was enough to let the recipient understand that wage formation reform was still on the agenda: 'Ensure that wages can evolve in line with productivity.'

In 2017 no such recommendation was made. Indeed, in this year's Country Report for Belgium the Commission celebrated the long-awaited – or, better, long-recommended – reform of collective bargaining. After years of sustained attacks and despite the strong opposition of the Belgian unions, the government imposed such a reform. The new wage-setting framework has narrowed the room for negotiations between social

49. However, as many practitioners have affirmed, while the number of recommendations has been reduced, they have become longer, generally by condensing more policy measures in each recommendation.

partners and granted the government the possibility to take corrective measures in order to fix detrimental cost-competitiveness developments.[50]

This happened despite that fact that, according to the ETUC's own calculations within the framework of the campaign 'Europe needs a pay rise',[51] as well as those provided by the three Belgian trade union organisations (for the ETUC report on trade union inputs for Country Reports 2016[52]), it is not correct in affirming that wage growth would have outpaced productivity gains, in either in the long run or the short.

France

France has proceeded along almost the same path as Belgium. Wage dynamics were assessed as producing negative effects on the country's competitiveness, notably – again – compared with Germany, and the wage moderation policy applied in 2015 was considered insufficient to compensate these trends. Also, questions have been raised about both its collective bargaining system and the SMIC[53] for years. In particular, the Commission considered its system of collective bargaining to be inefficient due to its presumed rigidity, which did not allow firm-level collective bargaining to flourish. It then asked for a reform that would have permitted a wider use of derogations from sectoral collective agreements.

The 2015 CSR contained the following: 'Reform, in consultation with the social partners and in accordance with national practices, the wage-setting system to ensure that wages evolve in line with productivity. Ensure that minimum wage developments are consistent with the objectives of promoting employment and competitiveness.' A year later the CSR on wage-setting reform disappeared as the French government was undertaking a reform meant to ease the derogations from sectoral collective bargaining.[54] It was due to be approved in the second half of the year. Some time later, the 2017 Country Report welcomed the adoption of the labour reform but recognised that its effects would depend on the use the social partners make of it. This is of particular significance for the trade unions. It clearly proves that the European Commission implicitly recognises what the ETUC has said several times: the social partners are best placed to decide for themselves the appropriate level of collective bargaining and what to negotiate at the different levels. Therefore, it is necessary that their autonomy be respected.

In 2016, the recommendation on the SMIC was still in place ('Ensure that the labour cost reductions are sustained and that minimum wage developments are consistent with job creation and competitiveness'), but finally removed in 2017. The reason for this change is very likely that the French minimum wage – also recognised in the same Country Report – represents a tool that effectively tackles in-work poverty. It is indeed one of the very few that stands at 60 per cent of the national average wage, a benchmark often used also by the trade unions as a minimum living wage.[55]

50. For more details, see G. van Gyes in this book.
51. See the related website at https://payrise.eu/
52. Available here: https://www.etuc.org/system/files/eu_semester/file/etuc_report_on_trade_unions_inputs_for_country_reports_2016_en.pdf.
53. Salaire Minimum Interprofessionnel de Croissance; in other words, the French minimum wage.
54. For more details, see Rehfeldt and Vincent in this book.
55. For instance, see the ETUC Resolution on low and minimum wages, available here: https://www.etuc.org/documents/etuc-resolution-common-strategy-low-and-minimum-wages#.WcghvMirRdg.

Germany
The German case is very interesting. Germany is the only country – of those analysed in this project – whose wage moderation policy has been repeatedly challenged by the Commission on the grounds that wages need to increase faster. This is particularly true because Germany's wage moderation policy has had an adverse effect on the competitiveness – in particular, in terms of labour costs – of neighbouring countries

In 2016, the Commission limited itself to noting that wages were rising less than economic fundamentals might lead one to expect, but no recommendation was issued. This policy was consistent with Germany's export-driven economy. The Country Report read as follows: 'over the whole period (2000–2015), the growth rate of wages (both in nominal and real terms) undershot the euro area average', as shown by Figure 3 (European Commission).

However, in the same year, the general analysis also highlighted that Europe's fragile recovery was due mainly to domestic factors, especially consumption and the rise of positive wage dynamics. In 2017, therefore, the wage narrative has suddenly changed, at least for Germany. The Country Report explicitly said that 'the social partners do not appear to be making full use of the existing scope for sustained wage increases'.[56] Moreover, with this analysis the Commission indirectly[57] admitted also that the German wage moderation policy has been producing spillover effects in the euro area in recent years. This has affected particularly Belgium's and France's cost competitiveness (especially labour costs).

By contrast, the German collective bargaining model was not challenged over the period in question. The reasons can be found in the features and trends characterising the German collective bargaining system deeply analysed by Schulten and Bispinck in this book.

Italy
The 2015 CSR demanded a reform aimed at fostering company-level bargaining, recommending that Germany 'establish, in consultation with the social partners and in accordance with national practices, an effective framework for second-level contractual bargaining'.[58]

One year later, Italy's Country Report kept stressing that the Italian collective bargaining system was still inefficient, not providing enough room for firm-level bargaining (and use of derogations from sectoral collective agreements). Nevertheless, subsequent waves of CSR did not address collective bargaining. The reform remains a highly sensitive open issue and is mentioned in the preamble but the reference to the role of the social partners did not encourage unilateral intervention by the government. This happened thanks to the platform for autonomous reform of collective bargaining and

56. European Commission, Germany's Country report 2017, p. 5.
57. Indirectly because this is what can be obtained by *reading between the lines* of Belgium's and France's Country Reports.
58. As explained in the chapter on Italy in this book, a law enabling firm- and local-level collective bargaining has already been in place in Italy since 2011 (Law 148/2011, Art. 8) but the social partners agreed not to make use of it as it was imposed by the government.

Figure 3 **Nominal and real wages (annual average growth, %)**

Source: European Commission, Germany's Country Reports 2016.

industrial relations put forward by CGIL, CISL and UIL, the three main Italian trade union confederations. Such a proposal had already been signed off by some employers' organisations and was under discussion with Confindustria and the government itself.

In Italy, the outstanding reform of the collective bargaining system is not the object of a specific recommendation, but is mentioned in the preamble. The preamble mentions the need to move on with the consensus of the social partners and improves on the National Reform Programme in which the government envisaged unilateral intervention.

In the 2017 Country Report, the Commission complained that the inter-confederal agreement on trade union representativeness and collective bargaining was not yet operational. It also stressed that – despite the fiscal incentives granted by central government, notably in terms of tax reductions for occupational welfare – firm-level bargaining was still not picking up. This translated into a recommendation requiring that Italy 'strengthen the collective bargaining framework to allow collective agreements to better take into account local conditions', with the involvement of the social partners themselves.

The wording has been changed slightly and the role of the social partners is acknowledged. However, the Commission keeps promoting state interventionism and interference in a domain that should be reserved to the autonomy of the social partners. This interference is intended to promote a reform of the collective bargaining system toward decentralisation, without taking into account the position of the social partners, and especially of the trade unions.

Spain

In 2015 the Commission recommended that the Spanish government promote the alignment of wages and productivity. Again, in other words, it suggested fostering decentralised collective bargaining.

Despite its acknowledgment of the extremely worrying social situation, the 2016 Country Report kept insisting on this. The Spanish collective bargaining model was still considered inefficient because it was too ‘rigid’ – as in the case of Belgium, France and Italy. While wages were considered to be moving in line with the country’s economic performance, they were rising less than they could have done compared with GDP and productivity growth. This time, however, there was no recommendation related to the mantra of aligning wages to productivity in the following round of CSR.

In the 2017 Country Report, the European Commission has again addressed the issue and expressed disappointment because firm-level negotiations have not picked up despite the recent reforms. However, this did not take into consideration the leeway with regard to unilateral modification in terms of pay and working time granted to the employers. As the Spanish author complains (in this volume), this was mainly due to the fact that these unilateral modifications are not subject to registration by the labour authority.[59]

5. Summary and conclusions

Having examined the European Semester cycles from 2014 to 2017, it is now time to draw some conclusions. The positive change in the Commission’s narrative and the greater attention paid to the social dimension of the economy[60] and the involvement of social partners in decision-making[61] – at least at EU level – cannot be denied.[62] This is clearly the result of the strong commitment of President Juncker to recovering the original values of the European social model. Nevertheless, the road ahead toward a ‘triple A Social Europe’ is still long. The Spanish case represents a clear example of trade union disillusionment. The ETUC and its Spanish member organisations had welcomed the Country Report’s analysis of the negative impact of high rates of precariousness in the labour market but this did not translate into an appropriate policy response when it came to the recommendations. Here, measures to ‘promote hiring on open-ended contracts’ imply the removal of ‘uncertainty in case of legal dispute following a dismissal, along with comparatively high severance payments for workers on permanent contracts’.[63]

59. For a deeper analysis of this worrying problem, see Rocha in this book.
60. This is the case, for instance, with regard to those recommendations aimed at fighting undeclared work in Portugal and Romania.
61. For instance, Annual Growth Survey 2018, p. 9: ‘Social partners are essential stakeholders in the reform process. The timely and meaningful involvement of social partners in the design, sequencing and implementation of reforms can improve ownership, impact and delivery.’
62. This is the case, for instance, with regard to those recommendations aimed at fighting undeclared work in Portugal and Romania.
63. Spain’s Country Specific Recommendations 2017.

The troubled path to the 'social triple A' is even clearer when it comes to collective bargaining and wages, particularly with regard to the five countries analysed here. One can easily see how intensively the European Semester has insisted on reforming wage formation systems by fostering the trend toward decentralisation. Germany may be an exception in that it did not receive such recommendations over the period in question. However, this can be ascribed to the fact that its system was already characterised by decentralisation and fragmentation. Italy is the only country in which national sectoral bargaining is still under attack, whereas with regard to Belgium, France and Spain, the Commission dropped the relevant recommendations once reforms were implemented. However, in these four countries the Commission is still complaining because firm-level bargaining is – *surprisingly* in its view – not taking off. In fact, this is happening for a reason, as the unions have tried to explain. Indeed, in economies dominated by small and medium-sized enterprises, the demand for decentralisation of collective bargaining to make it more responsive to quickly changing business needs is ideological. SMEs rarely have the capacity and skills to negotiate collective agreements. For them company bargaining represents a cost and impediment. By contrast, sectoral bargaining is a tool for setting wage levels and preventing unfair competition. Moreover, the Commission has also admitted that social partners make poor use of derogations even when they are allowed to. As stated by the ETUC on many occasions, this is not surprising. The social partners are indeed best placed to decide what to negotiate about and at what level. This is why institutions should stop unwanted interference in free collective bargaining.

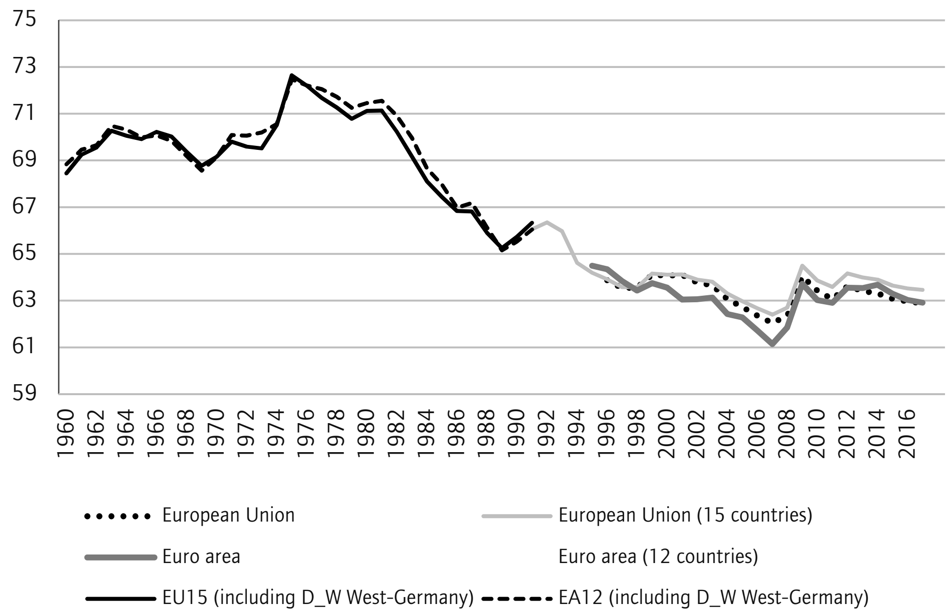
Another paradox in the Commission's narrative is the predictability of wage dynamics. As previously noted, at one point the European Commission considered the Estonian bargaining system to be the most efficient as it was totally decentralised. Some months later it complained that negotiated pay rises were not responsive to productivity and economic performance. Again, sectoral collective bargaining is an example of how unions and businesses can be responsible macroeconomic actors. This testifies once again that strong social partners represent added value for the economy and society as a whole. Even the Commission itself acknowledged this recently.[64] Nevertheless, concrete support for strengthening national sectoral collective bargaining, where necessary, has not yet been forthcoming.

In addition, it is worth stressing the inconsistency between the Commission's analysis and the policies it recommends. In countries with outstanding problems of income inequality, national sectoral bargaining is the most efficient instrument for a rapid redistribution of wealth, especially after more than 30 years of a constantly falling wage share, as shown in Figure 4.

This situation particularly affects countries that have been under Troika programmes (Ireland, Spain, Portugal) and in many central and eastern European countries, but it

64. See, for example, European Commission, DG Employment, 'Industrial Relations in Europe 2014'. The foreword by Commissioner Thyssen reads as follows: 'As in previous years, the verdict (...) is unambiguous: countries with strong social dialogue institutions are among the EU's best performing and most competitive economies, with a better and more resilient social situation. Social partners can identify balanced and tailor-made policy solutions in response to complex socio-economic developments.' This assumption is repeated further in the text. The report is available here: http://ec.europa.eu/social/BlobServlet?docId=13500&langId=en.

Figure 4 **Changes in the wage share in Europe, 1960–2016**



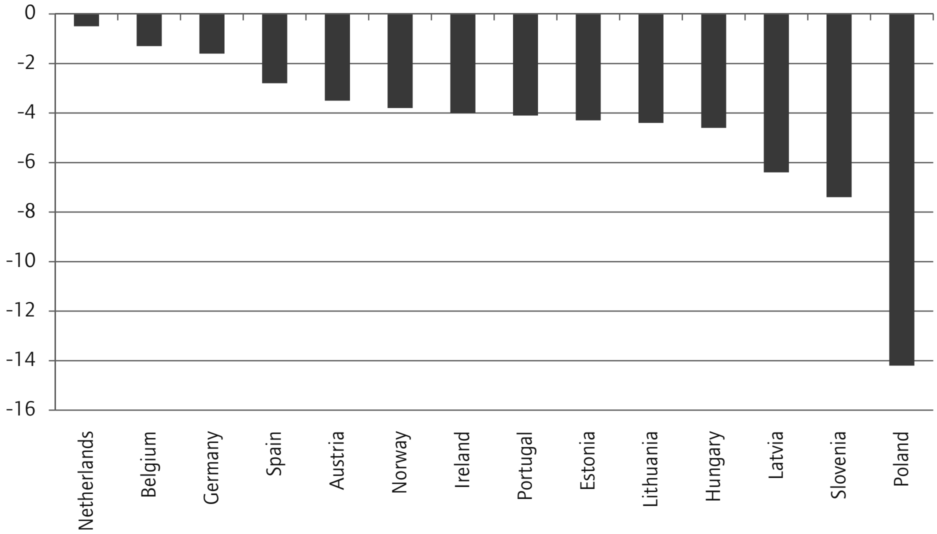
Source: Ameco.

also affects western European members of the euro area (Austria, Belgium, Germany and the Netherlands), as can be seen from Figure 5.

At least concerning wages – and social policies in general – such a situation seems to be positively evolving, looking at the general narrative of the 2018 Autumn Package.[65] Here, social progress comprises the distributional effects of reforms and upward convergence in working and living conditions. In particular, both the AGS and JER came closer to the ETUC position on wage policy. The AGS affirms that 'growth in real wages, as a result of increased productivity, is crucial to reduce inequalities and ensure high standards of living. More dynamic wage developments, when translated into greater domestic demand, would support further the ongoing economic expansion.'[66] The JER (finally) acknowledged that 'wage growth remains subdued in most countries. (...) In addition, in the period 2014 to 2016, real wage growth lagged behind productivity growth. This is a long-term trend: in the EU, from 2000 to 2016, real productivity per person employed grew by 14.3 per cent, while real compensation per employee grew by 10.2 per cent.'[67] The Commission attributes this to the remaining slack in the labour

65. This was published on 22 November 2017 and can be found here: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/european-semester-timeline/setting-priorities_en.
66. Annual Growth Survey 2018, p. 10.
67. Draft Joint Employment Report 2018, p. 8.

Figure 5 **Declining labour shares in the EU, 1995–2014 (percentage points)**



Note: See also R. Janssen, Why pay rises are a plus for the economy, academic paper developed for the ETUC campaign 'Europe needs a pay rise', available here: https://payrise.eu/get-the-facts/.
Source: OECD ECO Working Paper 2017/5.

market, weak productivity growth and low inflation expectations. However, what they do not mention is that, again, this is often because trade union power has been eroded or restrained by recent reforms in many countries, collective bargaining has been weakened or dismantled at the multi-employer level or, as in the case of the public sector, because wages have been cut or frozen and collective agreements have not been renewed for years.

It may be argued that if unions and/or employers' organisations are weak or not representative enough to negotiate wage increases and conclude sectoral agreements, this is not the fault of the European Commission or of governments. This is not completely true. Collective bargaining, and social dialogue in general, needs a supportive framework – either legal or institutional – enabling social partners' negotiations. This is of course in place in those Member States with strong industrial relations traditions, but is missing or has been dismantled due to recent reforms in many others. As well explained by ETUC General Secretary Luca Visentini – in his speech given at the conference 'End Corporate Greed. Europe – and the world – needs a pay rise', 'without such frameworks, we will never be able to address the gap in wages and working conditions between Western and Eastern Europe, nor social dumping'.[68] Thus, the ETUC, via its pay rise campaign, is spreading the key message that Europe needs wage increases achieved through collective bargaining, notably national sectoral negotiations.

68. The complete speech can be found on the ETUC website.

The European trade union movement has expressed appreciation for the efforts so far on the part of the Commission[69] to put social policies back at the top of the political agenda, but it is high time that something was delivered. The trade unions are strongly committed and supportive with regard to the social initiatives that will be further developed in the coming months by the EU institutions, notably the European Pillar of Social Rights[70] and related legislative initiatives.[71]

For too long policymakers have overlooked the vital functions of collective bargaining, especially at national sectoral level. In this perspective the European Pillar of Social Rights is an unprecedented occasion to finally reverse this trend and create upward social convergence across the EU Member States. The 20 principles put forward by the Commission clearly indicate the role the social partners may (and have to) play in effective implementation via social dialogue and collective bargaining. The Commission promised that the 2018 cycle will be the first round of the new 'social semester', which is intended to launch implementation of the 20 principles. As recognised by the ETUC,[72] the Autumn Package represents a first step in the right direction. However, the expectations of the European trade union movement are high. In the ETUC's view, the EPSR – in order to be effective – should help to better shape future Semester cycles. The way forward to rebalancing economic governance by strengthening its social dimension – that is, making it an economic and social governance – is to increase the value attached to the JER and the social scoreboard.[73] They are in fact the two main tools through which the EPSR is expected to be implemented. The hope is that the JER (along with the social scoreboard) can be put on the same level as the AMR (and its MIP scoreboard) so to drive more socially-oriented policies. Of course, this is clearly a political decision by European leaders to show that they are willing to put their fine words into practice. The ETUC's ambition is to see CSRs demand the implementation of EPSR principles and thereby to improve the grave social situation in which the EU finds itself.

However, for this to happen, the following conditions must be met. First, governments should agree to receive more CSRs, if necessary. Streamlining and reducing the number of CSRs can no longer be acceptable if this would limit (or even exclude) the adoption

69. The fact that the EMCO peer review of social partners' involvement in the European semester is becoming a cyclical practice testifies to such efforts. A second exercise was held on Wednesday 22 November 2017, this time targeting 12 countries: Bulgaria, Croatia, Estonia, France, Hungary, Italy, Lithuania, Latvia, Slovenia, Slovakia, Spain and Romania. This multilateral surveillance is supposed to lead to CSRs to enhance the social partners' involvement at national level in the milestones of the European semester for some countries with weak practices.

70. The formal proclamation of the Pillar by European governments took place at the Social Summit for Fair Jobs and Growth in Gothenburg (Sweden) on 17 November 2017.

71. Four pieces of legislation are currently under discussion at EU level: (i) the work–life balance directive; (ii) the written statement directive (now referred to as the 'transparent and predictable working conditions directive'; (iii) revision of the posting of workers directive; and (iv) a Recommendation on universal access to social protection. The first three initiatives are currently under negotiation in the trilogue (involving the Commission, Parliament and Council), while the proposal for a recommendation on social protection will be published on 13 March 2018, together with the 'Social Fairness Package', including a proposal for a recommendation on a European social security number and a proposal for a regulation on the European Labour Authority.

72. For a complete evaluation of the Autumn Package see the ETUC position on the Broad Economic Guidelines for the European Semester cycle 2018, adopted at the Executive Committee on 13–14 December 2017, available here: https://www.etuc.org/documents/etuc-position-broad-economic-guidelines-european-semester-cycle-2018#.Wo7QJqjtyUk.

73. For more details on the social scoreboard see https://composite-indicators.jrc.ec.europa.eu/social-scoreboard/.

of social CSR.[74] Secondly, putting social priorities at the same level as financial and economic priorities entails two things: on one hand, to pay more attention to the social consequences of the latter, while, on the other hand, investing in social measures. Trade unions need to mobilise to make sure that these social reforms receive the necessary funding. Restricting the latter to the meagre resources available under the European funds would jeopardise the realisation of the ambitious objectives the EU has committed itself to.[75] Member States have to dedicate a share of their own budgets to social measures. This implies that the Commission and Council guarantee enough fiscal flexibility to Member States so that they can undertake them properly. In a nutshell: allocating enough money to such social reforms will turn political commitments into concrete actions.

Over the past decade, social policy has not been on policy-makers' agenda and the few improvements recorded in recent years are still too meagre to alleviate the resentment and anti-European feeling that have grown among EU citizens across the continent. Reversing such disillusionment requires that all these social initiatives be delivered, bringing concrete benefits to workers and citizens. Europe finally has a chance to get back on track to progress toward the key objective of the European integration project: prosperity for all.

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74. In other words, social CSR programmes should not be dropped just because Member States have agreed to receive a few recommendations and all of them need to be dedicated to other policy priorities.
75. In this regard, we have to recall that, in the social field, EU Member States are committed not only to EPSR principles but also to the UN Sustainable Development Goals (SDGs). For more details see: https://ec.europa.eu/info/strategy/international-strategies/global-topics/sustainable-development-goals_en.

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