A new European interventionism?
The Impact of the New European Economic Governance on Wages and Collective Bargaining

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Trade Union Related Research Institutes
5th Annual Conference
Rome, 21-22 March 2013
Content

1. New European Economic Governance and the role of wage policy

2. State interventions in the area of wage policy

3. Consequences for current wage developments in Europe

4. Conclusion
EU and Wage Policy

EU Treaty: TFEU Art. 153 (5):
EU has no regulatory competences in the area of wage policy!!!

But …

Starting in the 1990s, EU institutions such as the EU-Commission and the ECB regularly issued (non-binding) recommendations on wage policy!
New European Economic Governance

2010: **Europe 2020 Strategy**: Introducing „European Semester“ as a yearly cycle of European economic policy coordination

2011: **Euro-Plus Pact**: Intensified economic policy coordination

2011: **Six-Pack**: Further strengthening economic policy coordination based on scoreboard of economic indicators and procedure for imposing financial sanctions
New European Wage Policy Interventionism

Political Basis: Euro-Plus Pact

- **Austerity and improvement of competitiveness** as key elements to overcome current crisis
- **Wages and labour costs** as central adjustment mechanism for national competitiveness
- **European “monitoring”** of development of national wages, labour costs and collective bargaining systems

EU-Council, March 2011

Thorsten Schulten & Torsten Müller
New European Wage Policy Interventionism

New European economic policy coordination (European Semester) including …

- **Mutual surveillance** based on „scoreboard“ of macro-economic indicators (including wages and unit labour costs)
- **Alert mechanism:** European Commission regularly assesses compliance with economic indicators
- **Recommendations for EU Member States** to correct macro-economic imbalances and to improve competitiveness
- **Financial sanctions** for Member States, which permanently ignore recommendations

Thorsten Schulten & Torsten Müller 22 03 2013
“While respecting the role of social partners and national systems for wage formation, wage-setting frameworks need to be monitored and where appropriate reformed to ensure that they reflect productivity developments and contribute to safeguarding competitiveness, and indexation mechanisms should be reconsidered. Minimum wage levels should strike an appropriate balance between employment creation and adequate income.”

Council conclusions on the Annual Growth Survey 2013

Dr. Thorsten Schulten & Dr. Torsten Müller

28.02.2013
New European Wage Policy Interventionism

Direct forms of intervention:

- Memorandums of understanding between national governments and the Troika consisting of EU Commission, ECB and IMF in the context of so-called „bail-out programmes“

- (so far informal) intervention of ECB by making the purchase of government bonds conditional on „structural reforms“ (including the areas of wage and collective bargaining policies)
Aims of the new European interventionism:

“Employment friendly reforms”:

- decrease bargaining coverage
- decrease extension of collective agreements
- reform the bargaining system in a less centralized way
- removing or limiting the "favourability principle"
- introducing/extending the possibility to derogate from higher level agreements
- overall reduction in the wage setting power of trade unions.
## Recommendations/demands in the area of wage policy

<table>
<thead>
<tr>
<th>Recommendations/demands</th>
<th>European Semester</th>
<th>Troika/IMF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moderate wage developments</td>
<td>BG, FI, IT, SI</td>
<td></td>
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<tr>
<td>Moderate developments of minimum wages</td>
<td></td>
<td>FR, SI</td>
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<tr>
<td>Freezes/cuts of minimum wages</td>
<td></td>
<td>EL, IE, LV, PT, RO</td>
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<tr>
<td>Freezes/cuts of public sector wages</td>
<td></td>
<td>EL, IE, HU, LV, PT, RO</td>
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<tr>
<td>Freezes of private sector wages</td>
<td></td>
<td>GR</td>
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<tr>
<td>Higher wage dispersion at the lower end of the wage scale</td>
<td></td>
<td>SE</td>
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<td>Wage developments in line with productivity</td>
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<td>DE</td>
</tr>
<tr>
<td>Decentralisation of collective bargaining</td>
<td>BE, ES, IT</td>
<td>EL, PT, RO</td>
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<tr>
<td>Stricter rule for extension of ca</td>
<td></td>
<td>EL, PT, RO</td>
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<tr>
<td>Reform/abolition of wage indexation</td>
<td>BE, CY, LU, MT</td>
<td></td>
</tr>
<tr>
<td>No recommendations</td>
<td>AT, CZ, DK, EE, LT, NL, PL, SK, UK</td>
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Content

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State interventions in the area of wage policy

1. Intervention in current wage developments

2. Transformation of collective bargaining regimes
State interventions in the area of wage policy

Public sector wages:

<table>
<thead>
<tr>
<th>Description</th>
<th>Countries</th>
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<tbody>
<tr>
<td>General freeze (since 2009/2010)</td>
<td>Greece, Spain, Portugal, Italy</td>
</tr>
<tr>
<td>Cuts between 5% and 10%</td>
<td>Spain, Portugal, Ireland, Italy</td>
</tr>
<tr>
<td>Cuts between 15% and 30%</td>
<td>Greece, Spain, Portugal</td>
</tr>
<tr>
<td>Abolition of annual bonuses</td>
<td>Portugal, Spain, Greece</td>
</tr>
</tbody>
</table>
State interventions in the area of wage policy

**National minimum wages:**

<table>
<thead>
<tr>
<th></th>
<th>Greek</th>
<th>Irish</th>
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</thead>
<tbody>
<tr>
<td><strong>Cuts</strong></td>
<td></td>
<td></td>
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<td>of the minimum wage</td>
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<table>
<thead>
<tr>
<th></th>
<th>Spanish</th>
<th>Portuguese</th>
<th>Romanian</th>
<th>Danish</th>
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<tbody>
<tr>
<td><strong>Freezes</strong></td>
<td></td>
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<td>of the minimum wage</td>
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</tbody>
</table>
Development of real minimum wages (2010-2012, in %)

*development of national minimum wages deflated by national consumer prices
Source: WSI Minimum Wage Database 2013
State interventions in the area of wage policy

Decentralisation of collective bargaining:

<table>
<thead>
<tr>
<th>Termination/Abolition of national collective bargaining</th>
<th>Ireland</th>
<th>Belgium</th>
</tr>
</thead>
<tbody>
<tr>
<td>More possibilities for companies to derogate from sectoral agreements</td>
<td>Greece</td>
<td>Spain</td>
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<tr>
<td>Priority for company agreements abolition of the favourability principle</td>
<td>Greece</td>
<td>Spain</td>
</tr>
<tr>
<td>Stricter rules for extension of collective agreements</td>
<td>Greece</td>
<td>Spain</td>
</tr>
<tr>
<td>Reduction of the after-effect of collective agreements</td>
<td>Greece</td>
<td>Spain</td>
</tr>
<tr>
<td>Company agreements signed by non-union representatives</td>
<td>Greece</td>
<td>Spain</td>
</tr>
</tbody>
</table>
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Development of real wages before the crisis (2001-2009, in %)

* Nominal compensation deflated by the national HCPI

Source: AMECO Database, calculations by the WSI
Development of real wages after the crisis (2010-2012, in %)

18 out of 27 EU states have seen a decrease of real wages !!!

* Nominal compensation deflated by the national HCP;
Source: AMECO Database, calculations by the WSI
Content

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Conclusion:

A new European interventionism in the area of wage policy

- Downward wage competition enforced by wage cuts and freezes, promoting economic stagnation and depression
- Demolition of multi-employer bargaining at national and sectoral level through a radical decentralisation and an erosion of erga-omnes and extension practices
Conclusion:

Alternatives:

- Defence of (national) collective bargaining autonomy
- Strengthening of European coordination of wage policy
  - Return to real wage developments in line with productivity growth
  - European minimum wage policy
  - Strengthening of multi-employer bargaining
- Wage policy as part of an alternative economic policy in Europe/Strengthening of macroeconomic dialogue
What role for the Turi-Network???

- Critical monitoring of the European Semester
- Alternative view on wage developments and collective bargaining
- Scoreboard with alternative indicators???, e.g.
  - Real wages in line with productivity
  - Minimum wage in % of average/median wage
  - Wage Dispersion
  - Strength of multi-employer bargaining
  - Collective bargaining coverage
  - Etc…
  - Development of profits

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Thank you very much for your attention!!!

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