Introduction

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At a shareholders' meeting of the largest Dutch retailer Ahold on 15 April 2015, 19-year old employee and trade unionist Soufian Afkir takes the floor and asks the CEO the following: 'You earned 3.7 million in 2013. That's 1,600 euros per hour. I earn 5.96 euros per hour. ... In comparison: to match your salary for one year, I have to work 299 years. Full-time' (Young and United, 2015). Pursing his lips, Ahold CEO Dick Boer answered briefly and indifferently that salary complaints belong to collective bargaining and should not be raised at a shareholders' meeting. End of discussion.

An anecdote, but one that exemplifies the analysis and points that will be raised in the present book. It is about wages and their crucial role in Europe's current economic performance, as well as the role of coordinated collective bargaining. In the current political and economic mainstream view in Europe wages are mainly an 'adjustment variable' for competitiveness. Thus, the political emphasis is on 'structural reforms' in order to increase the 'downward flexibility' of wage development (European Central Bank 2012).

This book proposes an alternative view on wages. It starts from the by now widely shared premise that growing inequality is a major threat and challenge for contemporary capitalist societies (Piketty 2014; Atkinson 2015). Therefore, a way out of economic stagnation in Europe and towards a more sustainable economic development model has to be based on an 'inclusive growth strategy', requiring a much more equal distribution of income and wealth (OECD 2014).

Although an inclusive growth strategy has many dimensions and involves various policy areas, wages as the main source of income for the mass of workers have to play a major role in any such strategy. It is indeed a matter of putting right the distorted pay differential between Afkir and Boer and defining wage bargaining as a (still) very useful instrument for solving the current European crisis. It is noteworthy in this regard that collective bargaining as we know it is the product of major crises in the past, not least the Great Depression of the 1930s. In this book we will therefore discuss the political and institutional preconditions for strengthening collective bargaining at both national and European level in order to allow more expansive and solidaristic wage developments. Transnational policy innovation is considered to be crucial in this regard.

1. A European tradition

In the member states of the EU, organisations representing employers and workers play an important role, influencing developments at the workplace and participating in wider social and economic governance. Although the nature and extent of this role varies considerably from country to country, social dialogue forms part of the *acquis communautaire*. It is promoted by the Treaty establishing the European Community. The Charter of Fundamental Rights of the EU also includes the right of workers to information and consultation within the undertaking (Article 27) and the right of collective bargaining and action (Article 28).

A key part of this European model of social dialogue is collective bargaining, an important way of determining wages, hours and other contractual conditions of employment through direct negotiations between the union(s) and the employer(s). The ILO Constitution and ILO Conventions No. 98 and No. 154 state that collective bargaining should be based on the following important principles:

– free and voluntary negotiations;
– the autonomy of the social partners, which 'does not allow inappropriate interference by the government or others. However, the government may provide a legal framework for collective bargaining, which may be complemented by rules or practices set by the social partners themselves' (Standaert 2005);
– equal status or equal rights for each partner involved in collective bargaining.

Regulation of the employment relationship by institutions of collective bargaining mediate economic and social pressures, distribute power among actors and offer solutions to coordination problems facing market economies (Hall and Taylor 1996). Collective bargaining has for workers a protective function (guaranteeing adequate pay and decent working conditions), a voice function (permitting the expression of interests) and a distributive function (securing a share in economic growth and the fruits of productivity) (Visser 2013).

Collective bargaining and especially pay bargaining was a pillar of Europe's well performing socio-economic model in the post-1945 period. A 'productivity' compromise between capital and labour formed its backbone. As Glyn *et al.* (1990) argue, wages and employment grew simultaneously in a virtuous circle linked by high investment levels, increasing productivity and rising wages. In historical perspective this compromise was made possible by a series of factors: the development of Keynesian macroeconomic demand management, 'Pax Americana' and Fordist mass production systems (Marglin and Schor 1990). Institutionalised forms of social dialogue were a core feature of the system.

The crown jewel of this organised social dialogue was a solidaristic wage formation policy (Schulten 2002). The concept is based on collective regulation of wages which 'uses a deliberate, centrally controlled force to counteract … the centrifugal force of the market, that is, its tendency towards wage differentiation' (Meidner and Hedborg 1984: 7). 'Fair' wages should not be set as a function of either the particular business situation or a specific balance of power in a company, but instead within a framework of multi-employer agreements based on a comprehensive system of job evaluation classifications and occupational pay scales. This wage formation should be underpinned by periodic pay rises, collectively negotiated at supra-company level, not linked to the profitability of individual enterprises, but instead geared towards the productivity increases of the economy as a whole. After a long period of a decreasing wage share in most European countries wage developments need to reverse that trend in order to promote a more wage- and demand-led growth strategy (Lavoie and Stockhammer 2013) Excessive wage differences were also furthermore compressed by the collective setting of wage differentials and pay rises. Middle class incomes and consumption were an essential driver of economic growth.

Wage bargaining thus generally developed at sectoral level. Coverage of collective agreements was high and often backed by legislation on extension to other employers and workers in the relevant sector (nonmembers of the signatory organisations). Sectoral bargaining was complemented by forms of cross-sectoral coordination of wage policies. Different forms of such coordination were applied: by the national confederations; state-sponsored councils setting a wage norm; or pattern bargaining (one instance of bargaining served as benchmark for the others). In general, this contributed to the creation of a well-performing social market economy and the provision of a more or less stable social climate at the workplace.

2. Challenged by finance-led capitalism

The oil shock crisis of the 1970s precipitated a worldwide economic downturn and accelerated latent socio-economic developments. Falling employment in manufacturing, the rise of service sector employment and the emergence of particular policy changes altered the way employment is organised in advanced industrialised economies. Instead of steady wage gains in line with productivity increases for the standard worker, real wages of the majority of workers stagnated or lost ground. Labour markets were 'liberalised'. The financialisation of corporate governance, globalisation of production processes, technological innovations and market 'deregulation' resulted in a finance-dominated capitalism, the main upshot of which was the redistribution of income at the expense of (low) wages and rising current account imbalances at the global and regional levels, in particular within the European Monetary Union since its inception in 1999 (Hein 2012).

These dominant trends since the rise of neoliberal economic policies in Europe have changed the landscape of social dialogue and collective bargaining in Europe. This change has been defined as 'competitive corporatism' (Rhodes 2001) or 'supply-side corporatism' (Traxler *et al.* 2001). The main features are summarised in Table 1.

Since the 1980s, wage policy has thus become increasingly market-driven and competition-oriented, including features such as wage 'moderation', a redistribution of income between capital and labour in favour of the former and increased inequality within the labour force at large (Brandl and Traxler 2011). This development followed the displacement of (forms of) Keynesianism with monetarist and neoliberal approaches, in a context of expanded market relations (commodification) and increased global competition (Streeck and Thelen 2005). Centralised

Table 1 **Main features of competitive corporatism since the 1980s**

Dominant economic policy	Monetarism Combating inflation Key role for 'independent' central bank Supply-side economics
Economic context	High unemployment International competitiveness
Wage bargaining	Wage moderation: decreasing labour costs (integrated with tax and income policies)
Bargaining system	Sector level still dominant, but trends of decentralisation (coordinated or uncoordinated)
Dominating interest	Employers Shift from taking wages out of competition to seeing wages as key component of competition Not only companies compete, but also countries (growing risk of social dumping) practices)
Main trade union approach	Inclusive bargaining (employment) and not only distributive bargaining (sharing productivity gains)

collective bargaining structures came under pressure. Social inequality, translated into income gaps and poverty rates, has been continuously rising in the majority of industrialised nations (Schelke and Hassel, 2012).

Institutionalised wage-setting systems were challenged and put under pressure, but nevertheless remained structurally resilient in many EU countries. Adaptation rather than destruction was the main institutional effect. Union density declined, but in continental Europe collective bargaining structures appeared fairly stable. Collective bargaining coverage remained high and decentralisation trends were often counterbalanced by increasing coordination efforts. Most countries retained forms of supra-company bargaining at sectoral, regional or national level. However, opportunities for lower-level derogations or adjustments increased in several countries, triggering processes of 'organised decentralisation' (Marginson 2014).

As a result, at the start of the current economic crisis two out of three workers in the European Union were still covered by a wage agreement. In continental Western Europe this coverage was even 70 to 80 per cent. However, in the central and east European countries that joined the EU in the 2000s a comparable system of collective bargaining developed only weakly. The United Kingdom, like many other English-speaking countries, meanwhile experienced further deterioration of its bargaining system, with diminishing coverage in the private sector. Germany was also confronted with a significant decrease of bargaining coverage.

3. Under European attack since the crisis

In 2008, a worldwide crisis set in due to the crisis in the housing sector in the United States (the credit crisis). At about the same time, EU member states such as Spain and Ireland were trapped by a stimulatory monetary policy in the euro zone that led to the overheating of their economies, including in the housing sector. The international financial crisis followed the crisis in construction and real estate, as many banks now held worthless paper derived from the housing market. Countries intervened by 'nationalising' banks or issuing state bank guarantees to prevent the collapse of the financial system and to limit the effects of the financial crisis on other sectors. A key aspect of the banking crisis was the rising (public and private) debt problems, which affected some European countries in particular, involving the European Union in a sovereign debt crisis. In 2009 Europe and the world as a whole somehow scrambled out of recession and some economic growth was realised. But this growth was too limited and unevenly distributed across the EU member states, causing new problems and bringing about a growth crisis in the euro area. This leaves the European Union now facing three interlinked financial and economic crises. Southern European countries in particular have been confronted with economic hardship (Shambaugh 2012; ECB 2012; European Commission DG ECFIN 2012).

For years, European initiatives have had relatively low impact on wage-setting due to a policy consensus that wage formation should be the result of national arrangements. In the wake of the crisis a paradigm shift took place, from the acceptance of free and autonomous wage bargaining to a strategy of direct political intervention (Schulten and Müller 2015).

The already mentioned 'Europe 2020' growth strategy, the successor of the unsuccessful Lisbon strategy, introduced a new tool of policy coordination at the EU level in 2010, the European Semester. The European Semester operates in a circular manner, starting with the Annual Growth Survey, setting out the broad EU economic policies, the national reform programmes presented by the member states, the Commission's proposals to the Council on country-specific recommendations and the Commission's assessment of the actions taken at national level in response to these recommendations, including Commission opinions on draft budgetary plans.

This new policy cycle was introduced at the same time that Europe and especially the euro zone was hit by the severe crisis triggered by Greece's debt refinancing problems on the financial markets, which led it to ask for support from its EU neighbours. In response the European Commission's surveillance of member states' macroeconomic policy was further strengthened. Three developments were of key importance for the paradigm shift from indirectly influencing wages through growing market competition towards direct policy intervention in wage-setting.

First, in March 2011 the governments of the then 17 euro-zone countries agreed the 'Euro-plus pact'. Six other countries signed subsequently (Bulgaria, Denmark, Lithuania, Latvia, Poland and Romania). The Czech Republic, Hungary, Sweden and the United Kingdom remained outside the agreement. The pact includes, on one hand, a commitment to ensure that wages increase only in line with productivity and on the other hand the objective of monitoring and benchmarking trends in unit labour costs. While formally stating that it will respect member states' autonomy, the pact also stipulates as part of its monitoring the review of wage-setting mechanisms, in particular the degree to which bargaining is centralised, the effects of wage indexation mechanisms and the impact of pay developments in the public sector. Second, the so-called 'Six Pack' of regulations on economic governance adopted by the European Council in October 2011 introduced the possibility of imposing sanctions on countries persistently running macroeconomic imbalances. The regulations as a result indirectly reinforce the powers of the Commission to supervise wage policies and unit labour costs. This regulation gives the EU the opportunity to insist on 'reforms' of wage-setting systems as a possible corrective measure. Third, and most starkly, the Memorandums of Understanding between the 'Troika' of European and international institutions (the ECB, the European Commission and the IMF) and national governments in countries receiving financial assistance packages have had a much more direct impact by requiring changes in wage-setting mechanisms as part of the financial package deals.

The semester approach is also backed by joint monitoring. In relation to wage-setting systems this is done in the context of the employment

Table 2 **European intervention in wage policy, 2011–2015**

1. Country-specific recommendations within the framework of the European Semester	
Decentralisation of collective bargaining	Belgium, Italy, Spain
Moderation of minimum wage development	Bulgaria, France, Portugal, Slovenia
Moderation of general wage development/nominal wages in line with real productivity	Belgium, Bulgaria, Croatia, Finland, Italy, Luxembourg, Slovenia, Spain
Wage development in line with productivity growth/to support domestic demand	Germany
Addressing high wages at the lower end of the wage scale	Sweden, Slovenia
2. Country-specific agreements between EU/ECB/IMF or IMF and national governments within the framework of Memorandums of Understanding	
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
Nominal wage development in line with real productivity	Cyprus, Portugal
3. No recommendations in the area of wage policy	
Austria, Czech Republic, Denmark, Estonia, Lithuania, Netherlands, Poland, Slovakia, United Kingdom	

Source: Update of Schulten and Müller (2015).

performance monitor and benchmarks. Indicators are nominal unit labour costs (and labour productivity) and the benchmark is the EU three-year trend average of unit labour costs, again stressing cost competitiveness.

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

Measures	Affected countries
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, Spain
More restrictive criteria for extension of collective agreements	Greece, Portugal, Romania
Reduction of the 'after-effect' of expired collective agreements	Greece, Spain
Possibilities to conclude company agreements by non-union employees	Greece, Hungary, Portugal, Romania, Spain

Source: Schulten and Müller (2015).

The policy shift resulted, on one hand, in the EU issuing country-specific recommendations on wages and collective bargaining from 2011 within the framework of the 'semester' approach. On the other hand, considerable changes were implemented in the (bail-out) countries in relation to wage-bargaining systems (partly or entirely at the instigation of the Troika).

The policy rationale was based on the view that divergence in wage developments/labour costs was a major reason for the economic imbalances that became so obvious during the crisis in Europe. As the leaders of the European Union Jean-Claude Juncker, together with Donald Tusk, Jeroen Dijsselbloem and Mario Draghi, asserted in a joint paper on the future of economic governance in Europe, the crisis is mainly a 'crisis of competitiveness', in which wage and labour costs play a major, if not the key role (Juncker *et al.* 2015). Greater flexibility in wage adjustment is expected in countries with large internal or external imbalances to support adjustment processes. Decentralisation of collective bargaining was in this regard seen as a measure for better aligning wages with productivity at local and firm level. On this view, pay demands and collectively-agreed wages were 'excessive' in the period before the crisis and 'internal devaluation' was needed to restore competitiveness.

4. Outline of the book

The focus of the present book is this recent policy shift in European economic governance in which wages and wage formation systems have come under attack. In its various chapters the book provides:

- an evaluation and critical review of the policy theory underpinning this new policy approach;
- an (empirical) assessment of its impact;
- an outline and evaluation of other views on the role that wages and collective bargaining can play in a (different) EU socio-economic perspective.

The first part of the book confronts the new European economic governance with current wage developments and institutional trends 'before' and 'after.'

Chapter 1 by Guy Van Gyes and Sem Vandekerckhove (KU Leuven-HIVA, Belgium) provides a methodological overview of the existing data (problems) on collectively-agreed wages in Europe. Noélie Delahaie (IRES, France), Sem Vandekerckhove (KU Leuven-HIVA, Belgium) and Catherine Vincent (IRES, France) in Chapter 2 discuss trends in both collectively agreed wages and actual wages since the early 2000s. In this work, the TURI database on collectively agreed wages in Europe is used. The southern part of Europe has probably been hardest hit by the changes in wage formation and collective bargaining since the crisis and the development of Europe's new economic governance. From the broader perspective of economic governance, Chapter 3 by Jesús Cruces Aguilera, Nacho Álvarez and Francisco Trillo, Foundation 1° de Mayo, Spain and Salvo Leonardi (IRES, Italy) discusses the 'real' practice of 'internal devaluation' strategies by looking at trends in Italy, Spain and Portugal. Chapters 4 and 5 bring in additional evidence to complete the current European landscape of collective bargaining and pay developments. Szilvia Borbély and László Neumann (SZGTI, Hungary) write in chapter 5 about similarities and diversities in the development of wages and collective bargaining in Hungary, Slovakia and the Czech Republic, while in Chapter 4 Søren Kaj Andersen and Christian Lyhne Ibsen (FAOS, Denmark), Pekka Sauramo (Finnish Labour Institute for Economic Research) and Kristine Nergaard (FAFO, Norway) debate changes in wage policy and collective bargaining in the Nordic countries. The issues of German wage leadership and the need for more coordination due to increased labour migration are raised. Chapter 6 by Lewis Emery, LRD, United Kingdom, zooms in on a particular case: multi-employer bargaining in the United Kingdom, where this practice has long been in decline. What has been the impact of this loss, where is it still used and how is multi-employer bargaining discussed?

The second part of the book embarks on a theoretical and analytical discussion of particular reforms and policy alternatives. Chapter 7 by Torsten Müller (ETUI, Brussels), Thorsten Schulten (WSI-HBS, Germany) and Sepp Zuckerstätter (AK, Austria) discusses the implied EU policy views on collectively agreed wages and economic performance. The chapter outlines the narrow conception of competitiveness as cost competitiveness, on which the 'internal devaluation' approach is based. It goes on to show that cost competitiveness – that is, wage costs – is only part of the story and that the neglect of non-price competitiveness and the underlying growth models of national economies (role of exports and domestic demand and the structure of the export basket) highlight two things: first, the one size fits all 'austerity' approach based on wage cuts and bargaining decentralisation cannot work and second, that an alternative and broader view of the role of wages is needed that takes into account the different structures of national economies.

In Chapter 8 Maarten Keune (AIAS-UvA, The Netherlands) summarises the main effects of the current assault on multi-employer bargaining in the EU. Less governance capacity and more inequality are the main negative effects. Odile Chagny and Michel Husson (IRES, France) show in Chapter 9 that Europe is facing a crisis of wage coordination. This is why the debate on an optimal wage rule should now be a priority. A European wage rule should aim to combine three objectives: a fair distribution of productivity gains to the wage-earners, the reduction of structural disparities of wages across sectors and maintaining relative price competitiveness across countries. However, this rule is hampered by current incompatibilities in the euro zone. There is no convergence in productivity efficiency and inflation. The latter has to do with the productivity transfers to wages in services, which leads to less inequality, but also to more inflation.

The last two chapters of the book discuss possible institutional instruments to optimise this kind of wage coordination. Thorsten Schulten (WSI-HBS, Germany), Torsten Müller (ETUI, Brussels) and Line Eldring (FAFO, Norway) discuss the prospects and obstacles of a European minimum wage policy, while Thorsten Schulten (WSI-HBS, Germany), Line Eldring, (FAFO, Norway) and Reinhard Neumann, (Ruben Rolo, Portugal) clarify the role of extension mechanisms for the stability of multi-employer bargaining systems. The conclusion wraps up the main findings and policy views.

5. Re-focusing EU growth strategy

The book as a whole can be read as a plea for a substantial refocusing of the current EU socio-economic growth strategy. Early in 2010 the European Union launched its Europe 2020 Strategy, which in the words of the European Commission was aimed at making the EU a front runner in developing a growth model beyond simply increasing GDP. Referring to the roots of the European social market economy, the ambition was to ‘come out stronger from the crisis and turn the EU into a smart, sustainable and inclusive economy, delivering high levels of employment, productivity and social cohesion’ (COM(2010)2020 of 3 March 2010). By taking as a socio-economic premise that we now need more than ever a focus on inclusive targets to obtain sustainable growth, the first chapters show how macroeconomic governance, renewed within the Europe 2020 growth strategy, has delivered the opposite by limiting the policy view all too much to a cost perspective on wages and to empirically wrong beliefs on the coordinating and governing role of collective bargaining systems of wage setting. The later chapters bring arguments into the European debate on how an alternative view on wages and collective bargaining can play a key role in a renewed, successful inclusive growth strategy for Europe.

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