

The erosion of social Europe under ill-designed crisis management policies – impact on industrial relations

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Wrong diagnosis, failed adjustment policy, social and labour market disaster and prolonged recession

The root-cause of the crisis is not a debt problem (exception Greece) – wrong diagnosis, wrong therapy

The Eurozone crisis is due to economic imbalances that were accumulated in a decade

Adjustment is needed but more through the capital channel: one reason of the crisis was bad allocation of capital

Instead of this, therapy is focused on **adjustment through wage reduction** (not addressing the real cause, but creating harmful side-effects and also not fair) and time horizon is also flawed, result: double-dip recession

Eurozone crisis 2010-2012

Different cases: ES, IE credit bubble (consumption, housing; in IE oversized banking sector)

GR: state household overspending + current account deficit,

PT: current account deficit, lack of competitiveness

Germany vs South Europe (roots also in income inequality within Germany: lack of domestic demand >> exports).

As main therapy, European economic governance aims at `restoring` competitiveness and rebalancing key indicators, as:

- Nominal Unit Labour Cost in focus; Three year average; Threshold: 9% for Euro Area (12% for others).
- Change of export market shares in the world market over 5 years (threshold: -6%)

EU crisis management

Yes, adjustment was needed, but the focus on austerity policy and on ‚wage competitiveness‘ is not only unjust, but economically wrong.

Next graphs show why:

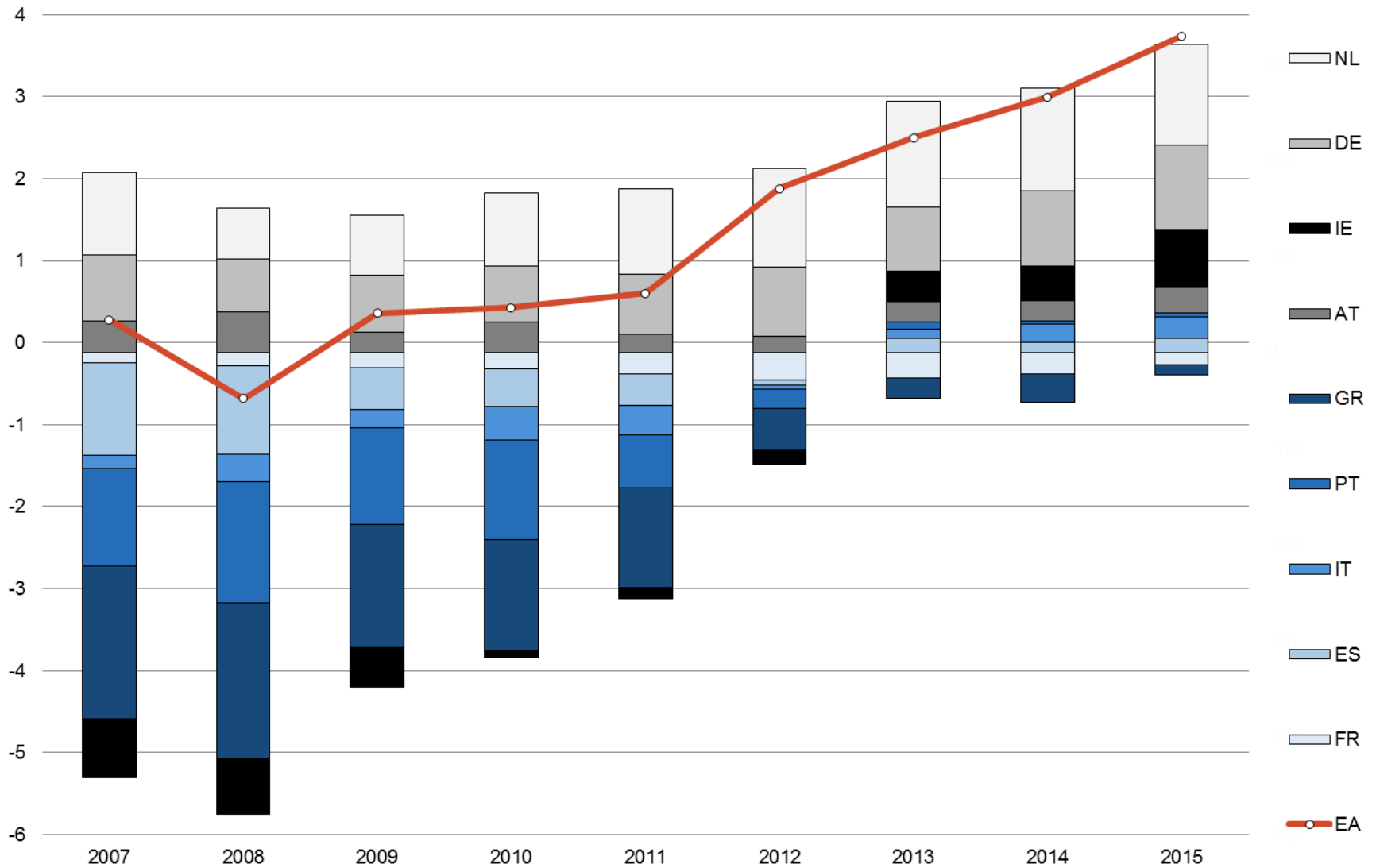
Yes there was a problem with divergent current account balances; BUT Germany and the Netherlands did nothing to reduce their huge surplus, southern Europe was pushed for one-sided adjustment (an enduring CA adjustment would have required industrial policy and investments, not wage cuts).

In terms of GDP performance Europe is divided and polarised (but on average it only reached 2008 level in 2015!!)

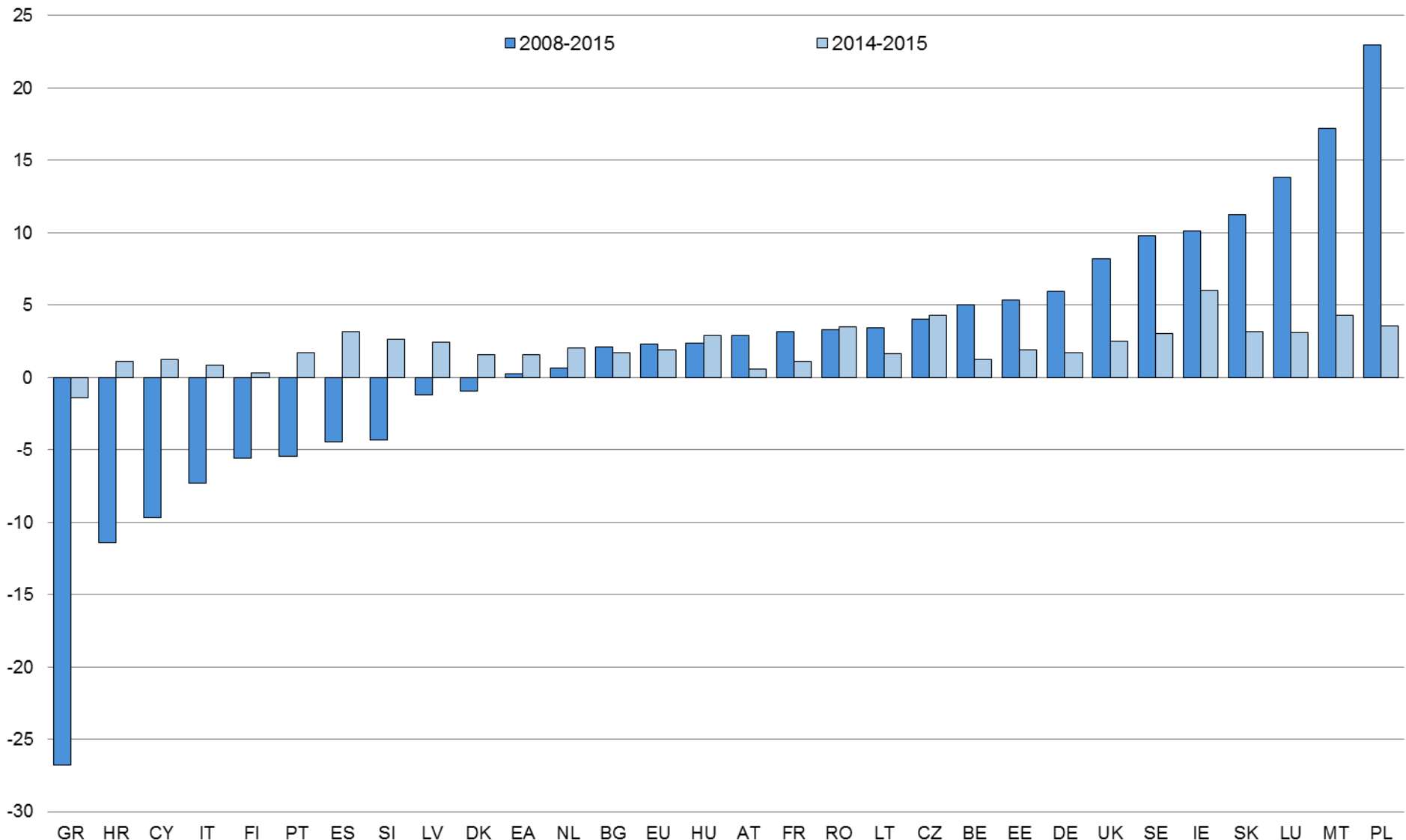
National debt have grown further, in particular in the ‚deficit countries‘

So, what was then achieved with all the pain??

Current account balance euro area (with the rest of the world) (% of GDP) and selected euro area member states



Change in real GDP, 2008 to 2015 (%)

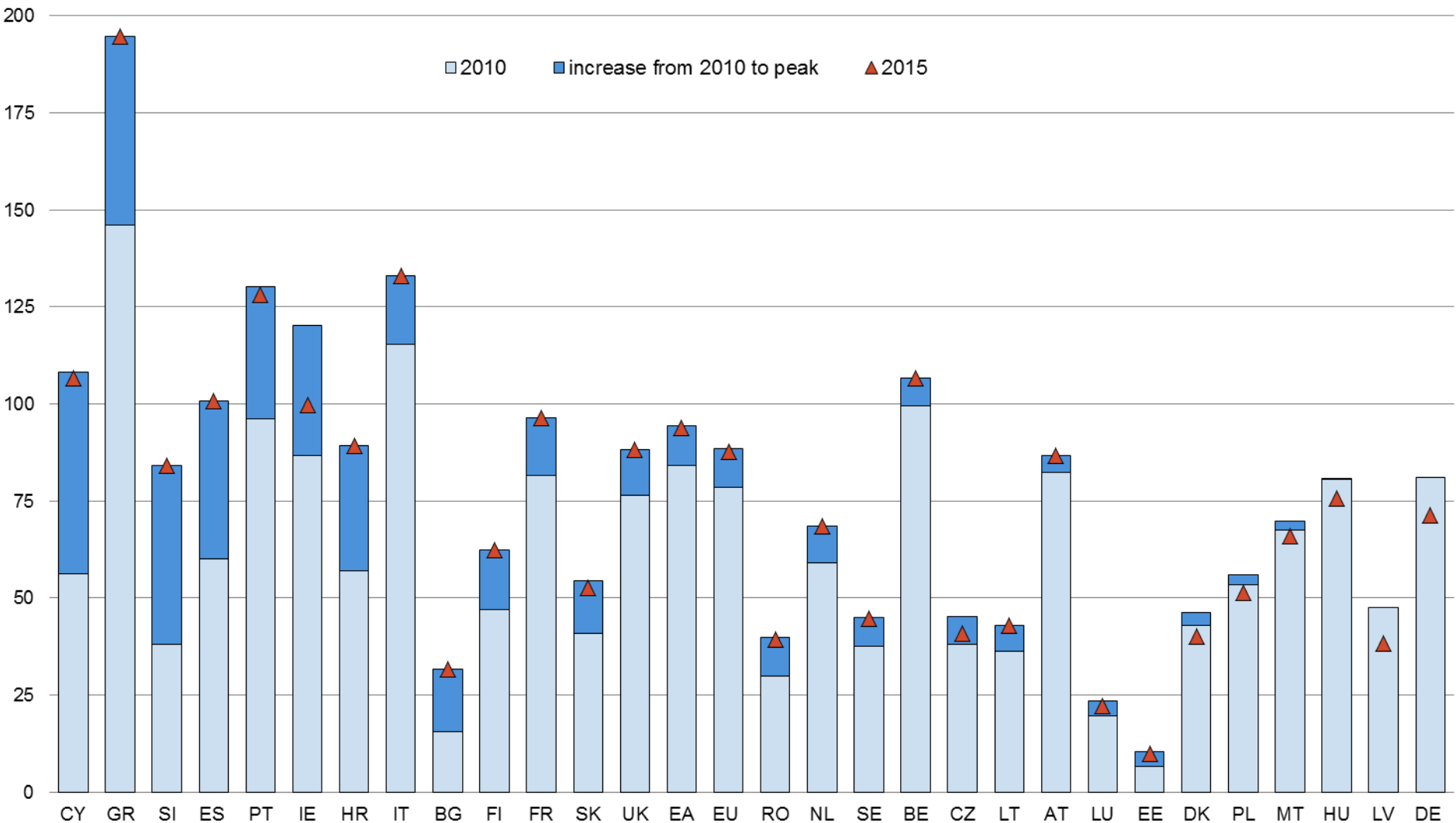


Source: etui.
estimates.

Calculated from AMECO database, GDP at 2010 constant prices. Note: 2015 figures are

etui.

Gross government debt as a share of GDP (%), EU28 member states, 2010, 2015, increase from 2010 to peak



EU crisis management in practice

Policy of internal devaluation:

- Direct intervention into wage developments by **cutting** and **freezing** public sector and minimum wages
- Structural reforms of wage setting institutions to increase **downward flexibility** of wages

New European Economic Governance:

- European Semester/European Imbalances procedure: half of the EU Member states received recommendations
- Troika /Memorandum of Understanding

EU crisis management

Attempts to make CSRs more binding:

➤ **Competitiveness pacts**: bilateral reform contracts between countries and Commission. Initiative blocked by Council in Dec. 2013

➤ **Competitiveness boards**:

1. “assess whether **wages are evolving in line with productivity** and compare with developments in other euro area countries”
2. “social partners should continue to play their role ...but they should use the opinion of the authorities as **guidance during wage setting negotiations**” (“Five Presidents’ Report” June 2015)

Intervention into national collective bargaining

DG ECFIN 2012: “Employment friendly reforms”

- Decreasing bargaining coverage
- Decreasing extension of collective agreements
- Decentralizing bargaining systems
- Removing or limiting the favourability principle
- Introducing/extending possibilities to derogate from higher level agreements
- Overall reduction of wage-setting power of trade unions

Continuity DG ECFIN approach

DG ECFIN 2015:

*“Moreover, major reforms in the labour market, such as **decentralised wage bargaining** and more flexible wage arrangements, ... as well as past wage moderation will also **support job creation.**”*



	CSR Recommendations	Justification	2015
B E	Align wages with productivity	Unit labour costs too high: wage-setting should be more flexible to improve capacity for adjustment of economy	
B G	More transparency in minimum wage setting	Current increases of minimum wages potentially distortive for labour markets	
E S	Align wages with productivity	More sectoral and company agreements are needed to ensure that wages stay in line with productivity	
FI	Align wages with productivity	Continue with moderate wage developments as agreed in 2013 agreement which improved cost competitiveness	
F R	Align wages with productivity Reform of wage-setting system Moderate minimum wage development	wage-setting should be more flexible through more company level agreements and scope to derogate from branch agreements. Indexation of minimum wage was criticised as not conducive to competitiveness	
H R	Align wages with productivity Reform of wage-setting system	wage-setting system not flexible enough to adapt to economic changes; in particular extension and after-effect of collective agreements criticised	
IT	Reform of wage-setting system	Need for decentralisation of bargaining through improved scope for second-level bargaining	
L U	Align wages with productivity Reform of wage-setting system	Problem of divergence of productivity across sectors: more flexible wage-setting so that sectoral real wages are in line with sectoral productivity	
P	Align wages with productivity	wage-setting should be more flexible to align wages with productivity at sectoral and firm level: increase scope to derogate	

Measures in countries under international surveillance

Termination/abolition
of national collective bargaining



More possibilities for companies to
derogate from sectoral agreements



Priority for company agreements
abolition of the favourability principle



Stricter rules for extension of
collective agreements



Reduction of the after-effect of
collective agreements



Company agreements signed by
non-union representatives



Country-specific recommendations (2011-2015)

	Europ. Semester	Troika / IMF
Moderate wage developments	BG, FI (2012), IT, SL	
Moderate minimum wage developments	FR, PT, SL	
Freezes/cuts of minimum wage		EL, IE, LV, PT, RO
Freezes/cuts of public sector wages		EL, IE, HU, LV, PT, RO
Freezes of private sector wages		EL
Higher wage dispersion at the lower end of the wage scale	SE	
Wage development in line with productivity	BE, DE, ES, FI, FR, HR, LU, PT	
Decentralisation of collective bargaining	BE, ES, IT	EL, PT, RO
Stricter rules for extension of coll. agreements		EL, PT, RO
Reform/abolition of wage indexation	BE, CY, LU, MT	CY (since 2013)
No recommendations	AT, CZ, DK, EE, LT, NL, PL, SK, UK	

Intervention into national minimum wages



22 % cut (32% cut for young workers under 25) in 2012

Freeze until the end of the assistance programme

Freeze 2011-2014

No MW rise without approval of Troika

1 € cut in 02/2011 rescinded in 07/2011

Freeze since 1997

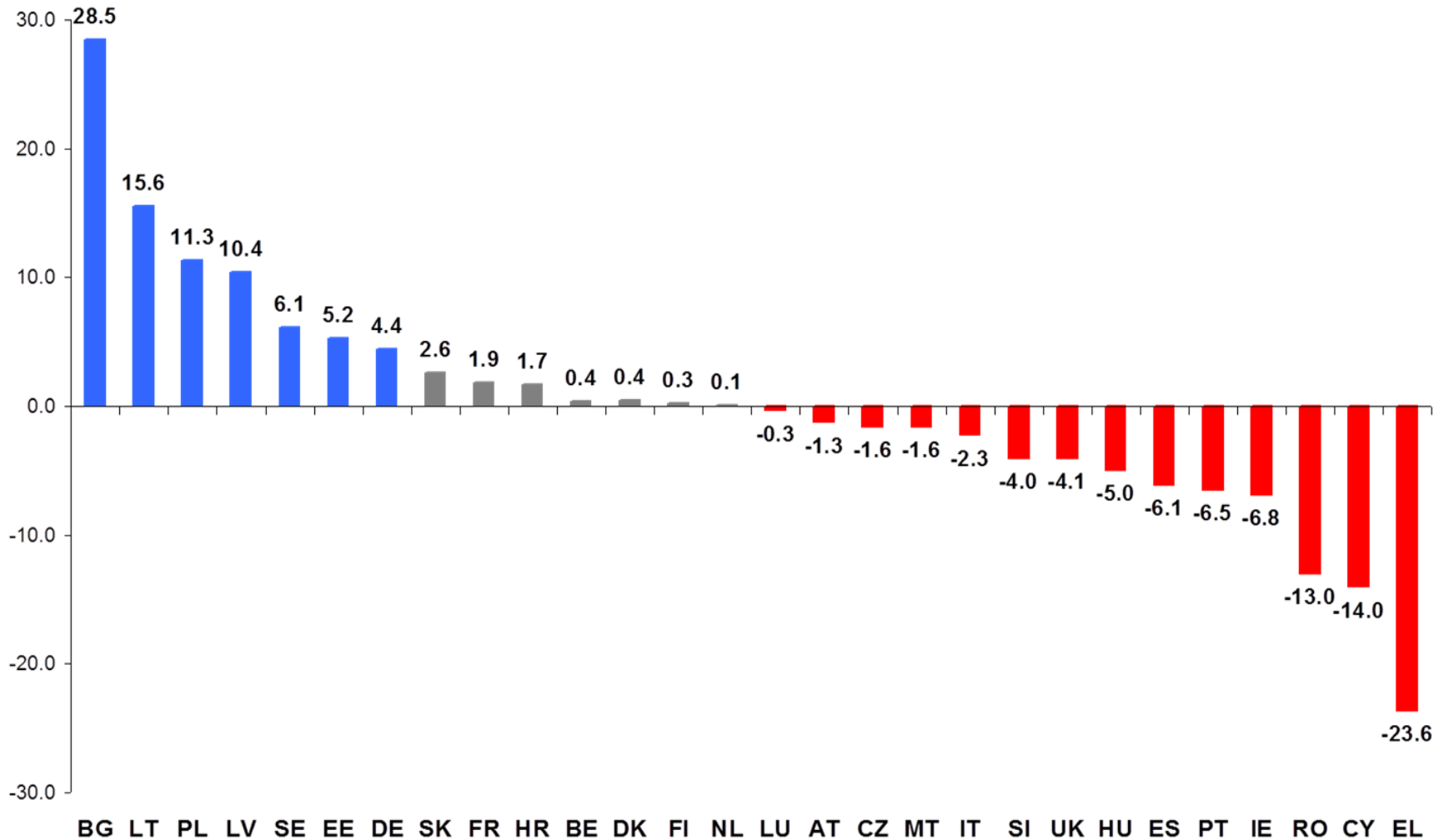
Suspension of automatic Indexation

No MW rise without approval of Troika

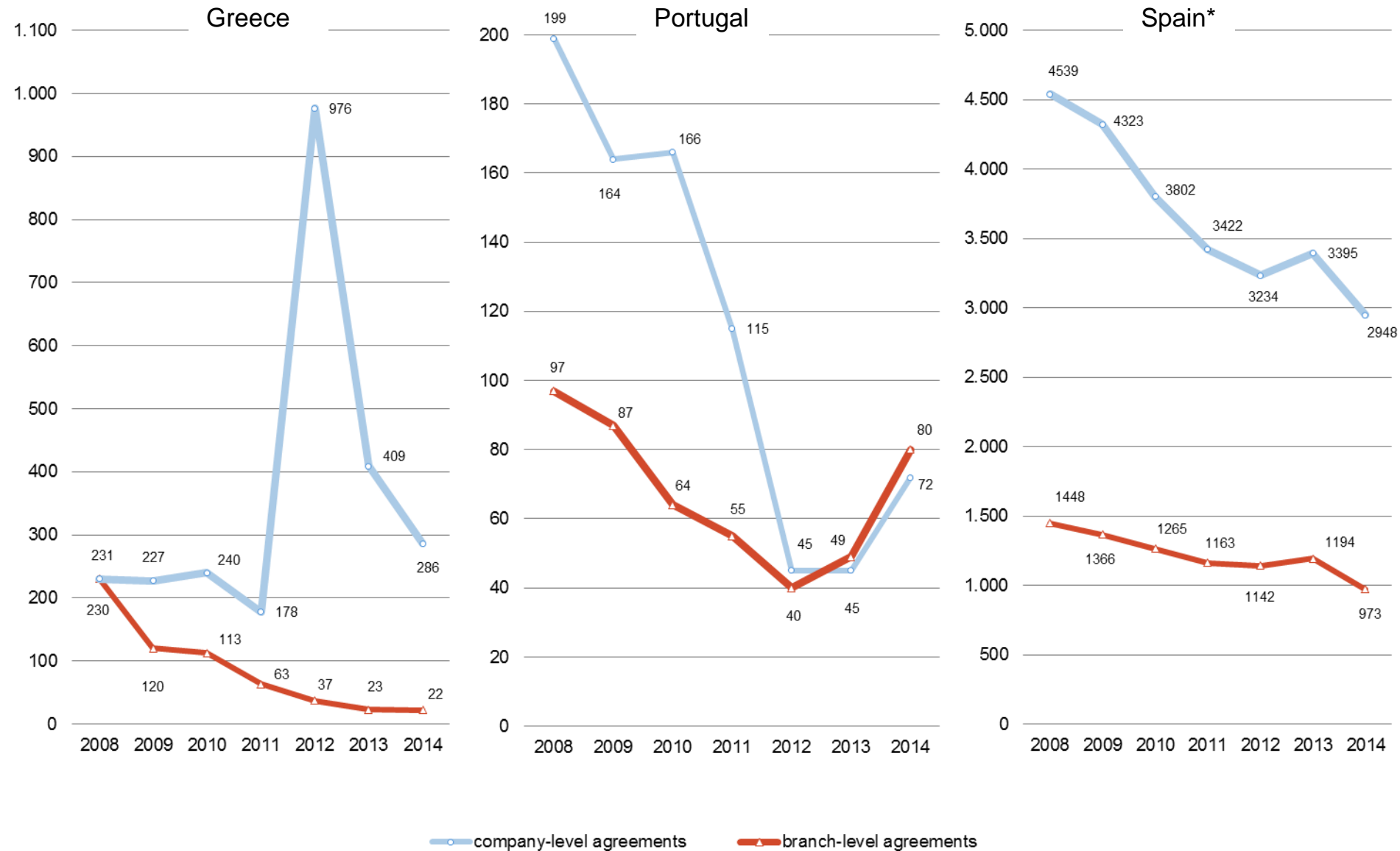
Abolition of additional benefits in public service (2008-13)

	Greece	Hungary	Portugal	Romania	Spain
13th/14th monthly pay					
Cuts in pension entitlements					
Accommodation allowance					
Medication allowance					
Food allowance					

Real compensation in the EU 2010-2014



Newly concluded CA in Greece, Portugal and Spain (2008-2014)



Source: Labour ministries of Spain, Portugal and Greece in Cruces *et al.* (2015), Schulten *et al.* (2015). * Number of collective agreements registered in the year in question; provisional data for 2014.

Decollectivisation of industrial relations

	Portugal		Spain	
	2008	2013	2008	2013
Agreements	295	94	5987	3161
Of which company	95	48	4539	2274
Extension	137	9		
Workers covered	1.8 mio	242,000	12 mio	8.5 mio

CEE NMS interference into CB 2008-2015

