Fundación 1º de Mayo

The New European Economic Governance and its impact on the National Collective Bargaining Systems

Executive Summary

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1. THE LAUNCHING OF THE NEW EUROPEAN ECONOMIC GOVERNANCE

The financial crisis triggered in United States by the subprime market and the collapse of Lehman Brothers spread to the majority of European Union (EU) countries between 2008 and 2009. This became soon an economic crisis, then a sovereign debt crisis, which shook the whole Euro zone leading many EU member countries to what is generally known as a "double-dip recession," i.e.: a second dip in economic activity following the first recession which officially ended in mid-2010.

In the second half of 2013, there were slight signs of economic growth that raised certain optimism about the recovery of the crisis. These expectations proved to be premature, however, as the economic activity at the Euro zone registered a new stagnation in the second quarter of 2014, even of decline in countries such as Germany and Italy[2]. In this regard, there is a growing concern that this worsening of the economic situation could lead, if prolonged, to a new recession in the Euro zone (the third in five years)[3].

The labour impacts of the crisis −particularly in terms of job destruction, increase of unemployment rates and of discouragement and dropping out from the labour market− have caused a significant deterioration of the living and working conditions for broad segments of the population in Europe. This not only has adverse consequences at microeconomic level, on individuals and their families, but can also weaken previously stable societies, as opportunities to advance in a good job and improve one's standard of living become the exception rather than the rule[4].

Regarding policy responses, the first two years of the crisis were characterised by a coordination effort among the G-20 countries aimed at actively boosting recovery, as well as implementing the reforms needed to strengthen regulation of the financial system and increase the credit flow to productive companies. However these goals were postponed in 2010 by the EU governments, in the wake of the sovereign debt crisis, in favour of other priorities such as the recapitalisation of credit institutions, the

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[2] *Eurostat newsrelease indicators* 125/2014, published on 14/8/2014. Available at http://epp.eurostat.ec.europa.eu (accesed on October 1, 2014).

[3] As example, a report of the International Monetary Found (IMF) points out that "for the euro area, risks surrounding the growth projection are tilted to the downside. Specifically, the risk of protracted slow growth and persistently low inflation is high. And should the risk materialize, the effects would reverberate throughout Europe". IMF (2014) *World Economic Outlook: Legacies, Clouds, Uncertainties*. IMF (p.53). Available at http://www.imf.org/external/pubs/ft/weo/2014/02/index.htm (accesed on October 10, 2014).

[4] Torres, R. (Coord.) (2012) *Eurozone job crisis. Trends and policy responses*. International Labour Organization.

implementation of austerity and budget adjustment policies, and the strengthening of economic governance[5].

The discussion about economic governance has been on the agenda for decades, often in connection with renewed interest in deeper European integration, but public debate had paid only sporadic attention to this issue. This has changed however since the onset of the current crisis, and the topic has now the full interest of academics, policy-makers and social partners. The reason is that this crisis has severely shaken the European Union, highlighting the weaknesses of its economic and monetary architecture, like the lack of an economic government able to tackle economic downturns, or the role of the European Central Bank[6].

The *New European Economic Governance* (NEEG) began to emerge in 2010 with the adoption of a "European 2020 strategy", which included the introduction of the so-called "European Semester" as a yearly cycle of European economic policy coordination. This was the point of departure for a set of initiatives and rules developed in the following years, aimed to strengthen economic and budgetary coordination for the EU as a whole and for the euro area in particular.

In spite of the lack of a univocal definition, the NEEG can be considered as the new manner of how economic policy is made on the European level (or within the Eurozone) by self-organisation of self-reflexive interdependent actors. It contains the new forms and mechanisms of economic policy's coordination as well as the new institutional setting. Summarily put, it has been developed through a complex set of initiatives, including: (a) new instruments, such the Macroeconomic Imbalance Procedure, "Rescue" mechanisms, and the European Semester with growth survey; (b) new agreements (Fiscal compact, Europe 2020, Euro+ Pact); (c) new and/or stricter rules (1/20-debt-rule, expenditure rule, min. fiscal effort, more sanctions); and a new institutional setting (Commission and ECB more important; Troika; Eurogroup).

The consequence of this chain of events is that, in barely three years, the concepts of what the EU and the Eurozone need to do to reform economic governance have undergone a radical change, as well as the framework of public action at national and European level[7].

2. A CONTROVERSIAL PROCESS

The process of design and implementation of the New European Economic Governance has been highly controversial among academics, policy-makers and social partners[8].

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[5] Papadoulou, E., and Sakellaridis, G. (Eds.) (2012) *The Political Economy of Public Debt and Austerity in the EU*. Nissos Publications; Theodoropoulou, S., and Watt, A. (2011): *Withdrawal symptoms: an assessment of the austerity packages in Europe*. European Trade Union Institute.

[6] Verdun, A. (2013) "The building of economic governance in the European Union", *Transfer* 19 (1), pp 23-55.

[7] For a detailed analysis, see: Degryse, Ch. (2012) *The new EU Economic Governance*. European Trade Union Institute (ETUI), WP 2012-14.

[8] Degryse, Ch., and Pochet, Ph. (2011) "Worrying trends in the New European Governance", in Natali, D.; and Vanhercke, B. (Eds.) (2012) *Social Developments in the European Union 2012*; Kowalsky, W. (2011):"Unions for a change of course in Europe. Unions and Europe- an imminent parting of the ways?", in Kowalsky, W., and Scherrer, P. (2011) (Eds) *Trade unions for a change of course in Europe*. ETUI.

A first scope of discussion relates to the ***diagnosis of the crisis***. The development of enhanced economic governance has been justified by three main sets of arguments[9]. Two are more at a macro level and reflect the dominant perception of the current crisis in the EU as a debt crisis and a crisis of competitiveness. According to this, firstly it has been argued that a strong austerity police is essential in order to overcome the debt crisis. Secondly, the growing economic imbalances between the so-called "surplus" and "deficit" countries in Europe are understood to be the result of diverging developments in national competitiveness, mainly caused by diverging trends in wages and unit labour costs. The main policy conclusion defended by the European institutions is that downward wage rigidities are an impediment to restoring competitiveness (and thus employment), particularly in those Euro area countries that had accumulated external imbalances before the crisis.

A third set of arguments more micro-oriented have regained prominence against the background of the sharp increase of unemployment in many European states. These arguments are based on the traditional neoclassical view that unemployment is mainly the result of institutional rigidities in the labour market; in this regard, the standard recommendation to address this problem is boosting structural "employment-friendly reforms" targeted to increase the flexibility to the labour market institutions.

A second point of debate about NEEG concerns its institutional form and ***questions to democracy*** which it raises. It has been noted that the fact that the European Commission may be given the right to interfere in national budgets raises a problem of democracy legitimacy. Furthermore, it has been highly criticized that many relevant decisions have been taken without having been submitted to public consultation or parliamentary debate, showing a "democratic failure" of the implementation of the new governance[10]. Also, European trade unions have denounced the profound deterioration of the tripartite social dialogue and its replacement by the unilateral governance of the anti-crisis policies.

The consequence of this situation is that an increasing number of citizens in Europe perceive their national governments not as their representatives, but as those of other states, of or international institutions, organizations or even private agents (like the global financial players)[11].

Thirdly, the ***content of the enacted policies*** under the NEEG has been called into question for being too "austerity-oriented". The EU's approach to fighting the economic, financial and sovereign debt crisis has been based on a threefold line of action of fiscal consolidation, financial sector stabilisation and profound structural reforms (mostly focused on labour markets). This approach is reflected in the priorities set by the Annual Growth Survey as well as in the European Commission's country-specific policy recommendations to Member States[12].

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[9] Schulten, Th., and Müller, T. (2013) "A new European interventionism? The impact of the new European economic governance on wages and collective bargaining" in Natali, D. and Vanhercke, B. (Ed.) *Social developments in the European Union 2012*. OSE and ETUI (pp. 185-186).

[10] Dewitte, B. (2011) "The European Treaty Amendment for the Creation of a Financial Stability Mechanism", *European Policy Analysis*, nº 6. Swedish Institute for European Policy Studies.

[11] Streek, W. (2014) *Buying time. The delayed crisis of democratic capitalism*. Verso (pp.156-164).

[12] Canton, E.; Grilo, I.; Monteaguado, J.; Pierini, F.; and Turrini, A. (2014) "The Role of Structural Reforms", *ECFIN Economic Brief*, Issue 34, June 2014.

The comparative analysis clearly shows that, in practical terms, European Economic policy guidelines have been based in the two basic premises of "reform and cuts"[13]. In this regard, this obsession with cost competitiveness has not helped a lot to boost a sustainable economic recovery. On the contrary, it is increasingly accepted among economists and international institutions that the implementation of austerity plans in a concerted way and at an extreme pace in Europe has aggravated the debt and growth problems of the deficit countries, contributing to the sharp increase of unemployment[14].

Fourthly, another element of debate concerns the impact of the new European economic governance on ***collective bargaining systems***. The comparative analysis shows that the Labour Law reforms implemented by European governments under the new supranational interventionism launched by the NEEG, have substantially altered the landscape of the collective bargaining in the EU (particularly, in the southern countries). The enacted measures have targeted not only bargaining outcomes, by putting direct pressure on wages, but also bargaining procedures by pushing more flexible wage-setting arrangements[15].

More specifically, a clear policy goal can be identified in many European governments: fostering the decentralization of the collective bargaining. Certainly, this is not a new phenomenon, but in the context of the current crisis substantial legal changes aimed to reinforce the decentralization of collective bargaining systems have been imposed in various peripheral countries of the European Union, leading to a process that has been defined as a "frontal assault on multi-employer bargaining systems prevailing in those countries[16].

Finally, there has been a rising criticism regarding the high ***social impacts of the enacted policies***. The austerity measures and structural reforms of labour markets have led to a profound internal devaluation, based on a downward spiral of wages in the European Union. This trend has had negative consequences both at microeconomic level −due to the decline of the incomes of people and households− and at macroeconomic level, due to the accumulative effect over the aggregate demand, leading to the current risk of deflation. However, even though there is a growing awareness about the danger of deflation among the mainstream economists and the institutional representatives, the link of this problem with the evolution of wages is conspicuously absent of the debate[17].

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[13] For example, see: Theodoropoulou, S., and Watt, A. (2011) *Withdrawal symptoms: an assessment of the austerity packages in Europe*. ETUI, WP 2011.02; Clauwert, S. (2014) *The country-specific recommendations (CSRs). in the social field. An overview and comparison Update including the CSRs* ETUI. Background analysis paper, 2014.01.

[14] International Monetary Fund (2012): *World Economic Outlook. October 2012. Coping with high debt and sluggish growth*. IMF. International Labour Organization (2012) *Global Employment Trends 2012. Preventing a deeper job crisis.* ILO.

[15] Schulten and Müller (op.cit.); Clauwert, S., and Schömann, I. (2012) *The crisis and national labour law reforms: a mapping exercise*. European Trade Union Institute; Bernaciak, M., and Müller, T. (2013) "Austerity policies and the changing context of collective bargaining in Europe", in ETUI (Ed.) *Benchmarking Working Europe 2013*. ETUI (pp 43-56); Clauwert, S., and Schomann, I. (2014) "Deregulation of labour law at any price", in ETUI (Ed.) *Benchmarking Working Europe 2014*. ETUI (pp 59-68).

[16] Marginson, P. (2014) "Coordinated bargaining in Europe: From incremental corrosion to frontal assault?", *European Journal of Industrial Relations, On-line first* (published on August, 15, 2014).

[17] Janssen, R. (2014) "Europe Does Not Understand Deflation And Wages", *Social European Journal*, 15/07/2014 (accessed on October, 9, 2014).

Likewise, it is worth noting the significant effects of the budgetary cuts in social expenditure on the living conditions of broad segments of the population. In this regard, the combined effects of the prolonged crisis and the austerity policies has led to the deepening of the divergences in employment and social developments across the Member States, particularly in the Euro zone, as well as to a rising levels of inequality and poverty (mainly, in the Southern countries)[18].

The implementation of the new governance agenda has also affected industrial relations processes, either in the private sector −with a strong decline of the collective bargaining and the numbers of agreements reached− or in the public sector[19].

Lastly, it is worth noting a sharp rising of the social unrest, which has led to an escalation of the industrial action and mass protests, particularly in those countries most affected by the adoption of the austerity packages.

3. THE "GOCOBA" PROJECT: A BRIEF SUMMARY

Any general assessment about the NEEG must take into account, however, the specific developments and impacts of its implementation at national level. This premise is the point of departure of the research project *"GOCOBA"*[20], supported by the EU (*DG Employment, Social Affairs and Inclusion*), whose main findings are summarized in the present work.

The general goal of this project has been to analyze the impacts of the New EU Economic governance on the national collective bargaining systems in six countries: Bulgaria, France, Greece, Italy, Portugal and Spain. More specifically, the project aimed to address four basic issues: (a) what has been the process of implementation of the NEEG in these countries; (b) what have been the main measures of the governance agenda related to national collective bargaining systems, in terms of structures, procedures, and contents; (c) what have been the main social impacts of the implementation of austerity measures; and (d) what could be done in order to improve economic governance and the role of industrial relations in its development.

The project has been carried out by five Trade Union related Research Institutes: Foundation 1º de Mayo (coordinator, Spain); Institute For Social And Trade Union Research (Bulgaria); Institute of Social and Economic Researches (France); Association Bruno Trentin (Italy); and Labour Institute of Greek General Confederation of Labour (Greece). The project also has been beneficiated from the collaboration of two experts, from the Austrian Chamber of Labour (Austria) and the University Institute of Lisbon (Portugal). Finally, it is worth noting the contributions of various experts and

[18] Yancheva, A.; Lagneaux F.; Maquet-Engsted, I,; Aujean, L.; Arranz, D.; Joseph, E. (2013) "Key employment and social trends in the face of a long delayed and fragile recovery", *Employment and Social Developments in Europe 2013*. European Commission. Frazer, H., Guio, A-C., Marlier, E., Vanhercke, B., and Ward, T. (2014): *Putting the fight against poverty and social exclusion at the heart of the EU agenda: A contribution to the Mid-Term Review of the Europe 2020 Strategy*. Observatorie Social Européen, OSE Research Papers, nº 15/October 2014.

[19] ETUI (op.cit.); European Commission (2013) *Industrial Relations in Europe 2012*. European Union.

[20] This is the acronym of the project *EU Economic Governance and impact on National Collective Bargaining Systems* (Agreement Number VS/2013/0356).

representatives of institutions of Institutions and social partners, who attended the three international events held in Athens, Paris and Madrid[21].

3.1. Main findings

The detailed findings of the project can be found in the published final report[22]. Nevertheless, it is worth highlighting in this introduction some of the most relevant conclusions achieved.

Democratic deficit of the governance process

The implementation of the NEEG at national level shows certain "democratic deficit" in most of the countries analyzed. The reason is that the enacted policies have been adopted unilaterally by the National Governments without have been subjected to an in-depth debate in the National Parliaments, or even avoiding the public debate (as it is shown by the famous *secret letters* sent by the European Central Bank to the governments of Italy and Spain).

For example, in Bulgaria "there was no a preliminary debate on the new economic governance and its implementation tools in the country. The government joined the Euro Plus Pact and Fiscal Compact without prior debate in the parliament and with the public. It also did not launch meaningful consultations with the social partners on the ways for the implementation of the new economic governance and on how to deal with its consequences"[23].

As for the involvement of the social partners, firstly it is necessary to take into account the different views regarding the enacted measures under the NEEG: very in favor in general terms in the case of the employers' organizations, and much more critical in the case of trade unions.

Against this background, the role of the tripartite social dialogue has not been homogeneous in the six countries. The most common trend has been the unilateral implementation of the anti crisis policies since 2010, without real involvement of the social partners, which has led to the paralysis of the tripartite social dialogue (as it can be stated in Bulgaria, Greece, Italy and Spain[24]).

The situation in Portugal is rather different, because the process implementation of the *Economic Adjusted Programme* in this country actively sought legitimation through the involvement of the social partners. It is important to remark, however, that the largest

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[21] In particular, we would like to thanks to the following people who attended the seminars as speakers: Savas Rombolis (Panteion University, Athens); Giannis Kouzis (Panteion University, Athens); Jean Paul Tricart (European Commission, DG Employment and Social Affairs and Inclusion); Jorge Aragón (Economic and Social Council, Spain), Francisco Trillo (University of Castilla La Mancha, Spain); Ronald Janssen (European Trade Union Conference); Ramón Gorriz (CCOO, Spain); and Jordi García (CEOE, Spain).

[22] Rocha, F. (Coordinator); Feigl, G.; Leonardi, S.; Pernot, JM; Stoleroff, A.; Tomev, L.; and Triafantafillou, Ch. (2014) *The New European Economic Governance and its impact on the National Collective Bargaining Systems.* Fundaciòn 1º de Mayo. Madrid, 2014 (available at www.1mayo.ccoo.es).

[23] Rocha et al (op.cit. p. 40).

[24] Although in Spain some signals of recovery of the tripartite social dialogue can be found in 2014.

trade union confederation, the *General Confederation of Portuguese Workers* (CGTP), has never accepted entering the game.

Also it its worth remarking the situation of France, where after the political change in 2012 consultation of −or even association with− the social partners has become very institutionalized, with the generalization of the so-called "Social Conferences".

The development of the austerity policies: one size fits for all?

The external intervention carried out under the NEEG has been conducted in the six countries through a twofold mechanism: the strict Economic Adjustment Programmes drawn in the *Memorandums of Understanding* signed with the national governments, as it happened in Greece and Portugal (and partially in Spain); and the country-specific recommendations posed to each Member State, according to the assessment of their particular weaknesses and imbalances.

With regard to the contents of the policies, the comparative analysis confirms the prevalence of the "austerity-oriented" approach based on a threefold line of action, as mentioned above: (a) *measures of harsh fiscal consolidation*, including reductions in wages, pensions, health, education, operational expenditure and public investment, and combined with increases of direct and indirect taxes; (b) a series of *structural reforms* of the labour and products markets; and (c) measures aimed to the *stabilization an the rescue −in some cases− of the financial system*.

In this regard, it can be said that the implementation of the NEEG has follow a narrow and homogeneous road of "reforms and cuts", without taking into consideration the economic, social, cultural and institutional frameworks at national level.

Nevertheless, it is also worth noting that the specific development of these policies also shows some degree of heterogeneity, being the two countries more strictly subjected to the external intervention −Greece and Portugal− those where the length and depth of the enacted austerity measures has been higher.

Strengthening the decentralization of the national collective bargaining systems

The launching of "employment-friendly reforms", aimed at fostering a greater flexibility or deregulation of the labour market institutions, has been a shared trend in most of the countries analyzed. These reforms have been repeatedly requested by various international institutions and the European authorities, but also by leading national think tanks and employers' organizations, who argued that one of the main reasons for the increased impact of the crisis on employment −particularly, in the Southern countries− lied in the *excessive rigidity* of the employment regulations.

One of the specific targets of the structural reforms has been fostering the "modernization of the collective bargaining systems". This is a widely used euphemism that, in practical terms, points to a higher political pressure in favor of the wage restraint and of more decentralized wage-setting mechanisms. Ultimately, what is intended to achieve with this policy is to replace the former instrument of currency devaluation with the direct devaluation of wages.

In this regard, although the legal changes addressing this topic certainly are not certainly new, they seem to have been reinforced and accelerated as a direct result of the new "supranational interventionism" in the field of wage-setting launched under the NEEG, especially in the peripheral countries (Table 1).

Table 1. Enacted measures related to the collective bargaining systems (2010-2013)

Decentralization of the collective bargaining	**BG**	**EL**	**ES**	**IT**	**FR**	**PO**
Faciliting derogation and/or modifications of firm-level agreements from sectoral agreements	X	X	X	x	X	X
Suspension of the favourability principle, affecting the relation between sectoral and company agreements		X	X			
More restrictive criteria for the extension of collective agreements	X	X				X
Reducing the duration of collective agreements		X		X		
Reducing the period of validity of an agreement after its expiry		X	X			X
The extension of the possibility for non-union employee representation to conclude agreements at company level		X	X			
Other measures related to wage-setting						
Reform and even removal of legal or autonomous indexation mechanisms (linking wage growth to prices), setting productivity as the only reference	X					
Changes in minimum wages setting/procedures, in procedures, level and scope		X				
Cutting and/or freezes the minimum wage	X	X	X			X
Cutting and/or freezes of public sector wages	X	X	X	X	X	X
Other measures related to industrial relations						
Abolition or diminution of the role of certain (tripartite) social dialogue institutions, with the government withdrawing from such bodies	X	X	X			
More stringent criteria for social partners organizations representativeness	X		X	X		X

Source: own elaboration based in national reports

The detailed assessment of the legal changes of the national collective bargaining systems can be found in the related chapters. Nevertheless, it is worth noting the opposed views existing in the various countries among the national governments and the social partners with regard to the justification and goals of these reforms, which can be summarized broadly speaking in two poles.

On the one hand, it has been argued that the insufficient level of decentralization of the collective bargaining, along with the excessive rigidity of the wage-setting mechanisms, had restricted the possibilities of employers to tackle with the crisis through the reorganization of their productive resources while maintaining jobs. Hence the need to favor the priority of the company-level bargaining over the sectoral, and of reinforcing the unilateral power of employers in the regulation of the working conditions (in particular, with regard to wages and working time).

On the other hand, critics have mainly argued that these reforms are really aimed at dismantling the characteristic balance of power between employers and employees that lies in the roots of Labor Law. In short, it has been remarked that overall these legal changes exalts unilateral employer decision in working regulation as a principle of new labour law, impacting information, consultation and negotiation rights. In this regard, it

can be said that the new "supranational interventionism" is leading towards a more authoritarian model of industrial relations.

Recessionary impact of the austerity policies and sharp deterioration of the labour market situation

The comparative analysis confirms the recessionary effect in the short run of the enacted austerity policies, particularly in the peripheral southern European countries at the epicentre of the debt crisis. The reason is the negative impact of the fiscal consolidation measures and the induced wage devaluation upon effective aggregate demand, which is a key driver for economic growth in the so-called wage-led economies.

Also, the national reports pose serious doubts with regard to the success of the structural reforms in order to boost the transition to an export-oriented growth model as a real and sustainable alternative to the decreasing internal demand.

The fall of the economic activity has led to a sharp deterioration of the labour market situation, whose most visible outcome has been the dramatic rising of the levels of unemployment (with the higher peaks in Greece and Spain).

It is important to remark that the profound deterioration of employment caused by the economic crisis have been aggravated since 2010, due to the unilateral implementation of the budget cuts and the legal reforms of the labor law.

Furthermore, these legal reforms also have led to a rising of precariousness because they have encouraged the massive destruction of full time jobs, and the creation at the same time of employment based on atypical contracts (temporary and non-voluntary part time). In this regard, against the argument that the "flexibility reforms" are to trigger a so called "job rich" recovery, it can be said that the recovery will not be able to sustain itself if the new employment that appear boil down to low paid, part time and insecure jobs.

Decline of collective bargaining, higher level of decentralization, plummeting share of workers covered by collective agreements and freeze of social dialogue in public sector

The evaluation of the collective bargaining developments in the current economic context must face some methodological constraints, such as: (a) difficulties to differentiate the specific effects of the legal reforms of collective bargaining systems from the general effects of the crisis; (b) the short time elapsed since the practical implementation of the various legal reforms; and (c) the gaps and weaknesses of the available statistics on collective bargaining at national level.

In spite of these limitations, it can be said that the combined effects of the downturn of the economic activity due to the crisis and the enacted austerity policies and structural reforms, have caused significant impacts on the collective bargaining developments, although with a different degree of intensity among the countries. Thus, while in France the European Agenda launched since 2010 seems to have had "an ambiguous and delayed impact on industrial relations", in the opposite extreme would be the situation

of Portugal and Greece. As example, in Greece "the radical changes brought about in labour issues over the last four years lead to a complete deconstruction of the system of collective bargaining and Collective Employment Agreements"[25]

The detailed developments related to each country are summarized in the related chapters, but it is worth highlighting some of the main trends registered:

Firstly, *the dynamic on of the collective bargaining in the private sector has noticeably worsened*. This is shown by the decline in the number of collective agreements, and also in some countries by the radical fall in the number of extension decisions of collective agreements. The consequence of these trends is that the share of workers covered by collective agreements has been reduced, or even plummeted (as for example in Portugal, where the coverage rate has fallen to its lowest level in the history of Portuguese democracy).

Secondly, *the process of decentralization of the collective bargaining* has accelerated through a twofold track: on the one hand, the rising in the number of company-level agreements, and the decline of the sectoral ones. It is important to note, however, that that the weight of company-level agreements in terms of workers affected is usually quite small, so this trend seems not appear to has yet a significant effect on the structure of the collective bargaining, although it may be producing indirect consequences in the employers' strategies and the negotiation processes.

On the other hand, it can be noted a *significant increasing of the derogations* of sectoral collective agreements at company level, favored by the new regulations introduced by the legal reforms of labour law. With regard to this issue, one important element of debate concerns to the involvement of the workers' representatives. As example, in Spain there has been a sharp rising of derogations since 2012, which mostly have been regulated through agreements signed between the employers and the most representative trade unions at company level. The experience of Italy shows, on the contrary, a controversial experience launched by the most important private company, with some agreements were signed addressing downward derogations, without the consent of the largest trade union confederation

Thirdly, trade unions have denounced that the legal reform implemented under the NEEG has launched a radical change towards the *consolidation of an authoritarian model of industrial relations*, which exalts unilateral employer decision in working regulation as a principle of new labour law, impacting as above noted to the information, consultation and negotiation rights.

Finally, the economic and financial crisis has put *industrial relations in the public sector under strain*. A stronger scrutiny of the effectiveness and efficiency of public expenditure has emerged; the role of key stakeholders such as public sector trade unions has been challenged and formally autonomous employers, with devolved authority, have been subject to tight financial and managerial control from the centre of government.

[25] Rocha et al (op cit., p. 122).

Wage devaluation, increasing levels of poverty and in-work poverty, rising of inequality, and growing social unrest

The internal devaluation based on wage reduction has been one of the main explicit goals searched by the austerity policies and structural reforms launched under the NEEG, particularly in those countries hit hardest by the crisis.

The comparative analysis clearly shows a *decline trend of the collectively agreed waged increases*, although with different degrees of intensity. It is worth noting that in some countries there was a certain mismatch between the evolution of agreed wages and GDP growth in the first stage of the crisis, which can be mainly explained by the "delay effect" of the collective bargaining. This has been widely blamed as a proof of the rigidity of wage formation in a context of economic recession. Nevertheless, even if this temporary inertia of collective bargaining led to a certain lack of wage flexibility also it had a positive effect, namely, to prevent further decline in private consumption and effective demand the whole economy.

The evolution of the *nominal and real gross wages (measured as compensation per employee) has followed a similar downward trend.* In this regard, two different periods can be identified broadly speaking: a first stage, when there was a rebound in nominal gross wages despite the consequences of the economic crisis. This specific trend can be explained to a large extent due to the significant destruction of temporary and low-wages jobs, which led to a statistical rising of the wage levels. On the second stage, there has been registered a fall in the real gross wages, particularly significant in the peripheral countries.

The process of generalized wage devaluation has caused a serious *negative impact on the living conditions of the workers and households*, but also on the effective aggregate demand at macroeconomic level.

Thus, the rising levels of unemployment, long-term unemployment and precariousness, combined with the process of wage devaluation and other negative effects of the austerity policies, has contributed to an *increased deterioration of the social standards*. This has led to a general rising of the inequality, poverty and in-work poverty levels, which has prompted to a further segmentation and impoverishment of the working population.

The situation is particularly dramatic in countries like Greece, where it is noted that he policy implemented through the Memorandums led to situations never known before, as the depth and duration of the recession and the size of unemployment are unprecedented in peacetime.

Finally, the growing social unrest caused by the combined effects of the crisis and the implementation of the austerity measures and the structural reforms has led to an unprecedented escalation of industrial action and mass protests (particularly in Greece, Portugal and Spain). The response of the government has been a tightening up of the Penal Code and of the repression of the protests, even affecting to the right to strike, as it have been denounced by the European Trade Union Confederation.

Policy pointers: proposals for a change of course in Europe

The *Europe 2020 strategy* was launched in 2010 with the aim of promoting smart, sustainable and inclusive growth that would help Europe recover from the crisis and "to find the path to create new jobs and to offer a sense of direction to our societies"[26]. Also in 2010, the European Semester was adopted in order to ensure the implementation and progress of macroeconomic policy developments and structural reforms contained in the Europe 2020 strategy, giving way to the New European Economic Governance.

Four years later, it can be stated that some of the main goals searched by the *Europe 2020 strategy* in fields so relevant such as employment, research and developments or poverty reduction, are far from being achieved[27]. On the one hand, the economic activity in the Euro zone has registered a new stagnation in the second quarter of 2014, which could lead as noted above to a "triple-dip" recession, posing a serious threat to the expected recovery from the crisis[28].

On the other hand, the combination of the prolonged crisis and the negative effects of the enacted austerity policies have caused a devastating social situation in Europe, with unemployment and long-term unemployment persisting at record highs, and alarming rates of inequality, poverty and in-work poverty, which are putting under stress the bases of the social cohesion (especially, in the peripheral Southern countries hit hardest by the crisis).

European trade unions have repeatedly demanded for the last years a change of course for Europe[29]. A new path that should be implemented from a truly European perspective, taking into account that the European economy is more than the sum of national economies, as it is a quite closed economy with high spill-over effects (especially the more integrated Eurozone).

Against this background, the findings and conclusions reached by the various national reports included in the present work, allow us to pose some considerations and proposals to this debate.

A first point of discussion concerns to the ***reform of the European Economic Governance***. In this regard, four changes are suggested to the current NEEG by *Georg Feigl* in his contribution[30]: (a) to change its logic of neoclassical rule-based and supply-side-oriented economics, towards a more demand-side approach; (b) a further democratisation of the economic-policy making at European level, with a strong level of involvement of the European Parliament and the social partners; (c) to end the uncoordinated financing of Member States via financial markets, without lender-of-last resort; and (d) in the field of fiscal policy, the abolition of the pro-cyclical, recession-enhancing 3%-threshold, as it is still the biggest single problem arising from the actual

[26] European Commission (2010): *EUROPE 2020. A strategy for smart, sustainable and inclusive growth*. Communication of the European Commission (3/3/2010).
[27] European Commission (2014): *Taking stock of the Europe 2020 strategy*. COM(2014) 130 final/2 (p.20).
[28] Stiglitz, J. (2014): "Europe's Austerity Disaster", *Social Europe Journal*, 29/9/2014 (accessed on October 10, 2014).
[29] Kowalsky, W., and Scherrer. P. (Eds) (2011): *Trade unions for a change of course in Europe. The end of a cosy relationship*. ETUI.
[30] Rocha et al (op. cit, pp 32-34).

governance arrangement (although, a point of medium- and long-term orientation for a viable fiscal policy should be in place).

The need for a change in the economic governance has been also stressed by the European Trade Union Confederation (ETUC). Thus, the ETUC signed in 2010 a Joint Declaration with the other European social partners pointing out, among other aspects, that "involving social partners in the elaboration and implementation of policies affecting directly or indirectly employment and labour markets all along the different steps of the European semester is essential with the view of taking into account their position. Social partner consultations should be timely and meaningful, allowing the necessary analysis and proposals and fitting within decision making processes"[31].

In more substantive terms, the ETUC has launched its alternative proposal for a "new path for Europe"[32]. Its basic premise is that, in order to ensure a sustainable way out of the crisis, a short-term stimulus plan −as advocated in 2009− is no longer sufficient. According to the ETUC, it is needed a longer-term perspective to overcome the deepening difficulties and divisions in the EU. So, it is proposed a plan recovery plan based on a target of investing an additional 2% of EU GDP per year over a 10-year period. This plan should be aimed at stimulating the recovery of the economic activity in the short run, and also at laying the grounds for the transition towards a more sustainable economic model (including the creation of decent jobs).

Finally, it is clear that the room to manoeuvre at the national level inside an integrated economic region like the Eurozone is quiet limited. Nevertheless, a new strategy seems to be necessary in the countries hit hardest by the crisis to tackle the trends identified above, based in a more job-centred approach and devoting special attention to the most disadvantaged groups. If it is not the case, the consequence would be unavoidable the risk of a further deterioration of the social cohesion and a growing social unrest and disaffection among the population.

A second and particularly controversial element of debate is related to the ***new supranational interventionism in the field of collective bargaining***, developed under the NEEG.

This process raises the question of the tension between the new regulations and country-specific orientations drawn at European level, and the existing autonomy enjoyed by the collective bargaining at national level[33]. In this regard, the European Trade Unions have strongly emphasized two points: on the one side, EU institutions should to strictly adhere to the principles of the Treaty, by respecting autonomy of social partners and diversity of national industrial relations. On the other, the reforms to strengthen wage formation systems can be undertaken only through social dialogue and negotiations with social partners at national level[34].

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[31] *Social Partner Involvement In European Economic Governance. Declaration by Social European Partners*.

[32] ETUC (2013): *A new path for Europe: ETUC plan for investment, sustainable growth and quality jobs.* Adopted at the meeting of the ETUC Executive Committee on 7 November 2013.

[33] For a detailed overview of this debate, see Kohl, W. (2013): *The new economic governance arrangements and autonomous collective bargaining in the European Union*. IMK Studies, nº 30.

[34] ETUC (2014): *Statement of the ETUC Collective Bargaining Committee on Country Specific Recommendations 2014 concerning wages and collective bargaining systems* (June, 4, 2014). Available at http://www.etuc.org (accessed on October, 10, 2014).

With regard to decentralization of the collective bargaining, the assessment is not unanimous. As example, it has been noted that the decentralized collective bargaining has been a key instrument of adaptive concerted efforts on a micro scale, as shown by the importance of negotiations involving topics which range from functional flexibility to wage flexibility[35].

Nevertheless, the comparative analyses clearly shows that in those countries with majority of small and micro-size companies −like the Southern European Members States− the reforms aimed at encouraging a unilateral process of decentralization opens up the risk of a labour market in which the only real collective bargaining may take place in a small number of companies, leading to spill-over effects of significant declines of the coverage rates and even of wage dumping.

Against this background, the issue here is to which degree decentralization should be expanded and how it should be organized, taking into account the specific frameworks of industrial relations at national level. In this regard, two key proposals arise from the findings of the present research: (a) the need to keep the multi-employer bargaining arrangements, as a cornerstone of labour market regulations in various European countries[36]; and (b) the reinforcement of the coordination and articulation through the different levels of the collective bargaining, in order to favor a fair trade-off between the demands of higher flexibility at company-level, and the preservation of the substantive standards established by sector and inter-sector agreements.

Another element of debate arises from ***the role of wages in the anti-crisis policies***. One key finding conformed by the present report is that wage dynamics have simply collapsed in those Member States that have been reforming the most (as in Greece, Portugal and Spain).

This process, as noted above, has had negative consequences both at microeconomic level −due to the decline of the incomes of people and households− and at macroeconomic level, due to the accumulative effect over the aggregate demand, leading to the current risk of deflation.

Wages should be considered not only as production cost and a price to "clear the market", but also as an engine for demand, growth and jobs and as an important circuit breaker in the process of deflation and depression[37]. According to this alternative view, the European trade unions have demanded that "real wages should grow at least in line with productivity in all countries in order to protect purchasing power, but also to contribute to reduce inequalities and gender pay gaps, fight against increasing poverty, and prevent social dumping and unfair competition"[38].

In addition, public policies aimed at strengthening social security/protection are urgently required, in order to tackle the dramatic worsening of the social situation caused by the prolonged crisis and the most negative effects of the austerity policies.

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[35] Glassner, V., Keune, M., and Marginson, P. (2011) "Collective Bargaining in a Time of Crisis. Developments in the private sector in Europe", *Transfer* 17 (3): 303-321.
[36] On this point, see Marginson (op.cit.).
[37] Lavoire, M., Stockhammer, E.; International Labour Office (2013) *Wage-led growth: an equitable strategy for economic recovery*. Palgrave Macmillan.
[38] ETUC (2014, op.cit., p. 2).

To sum up, the time has come for a significant change of course in Europe because, after four years of the launching of the NEEG, it is "clear above all else that the current focus on austerity and deregulation is failing to deliver what Europe citizens are entitled to expect"[39].

The reformulation of the European Economic Governance, whatever the form finally adopted, should be based in any case in a further democratization of the economic policy-making, taking into account the role of the social dialogue ─and hence the involvement of the social partners─ as a centerpiece of the management of anti-crisis policies, at European and national level.

This is an crucial element in a historical juncture especially critical because the crisis, and the incompetence manifested in promoting a cooperative outlet thereof at the supranational level, have contributed to increasing public disaffection with the European project.

[39] Segol, B.; Jepsen, M., and Pochet, Ph (2014) "Foreword", *Benchmarking Working Europe*. ETUI (p. 5).