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# Half a decade of pressure on wages and collective bargaining

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## Introduction

The neoliberal transformation of industrial relations involving processes of decentralisation and de-collectivisation is not a new phenomenon, for it can be traced back to the 1980s (Baccaro and Howell 2011). However, during the past five years the austerity approach and the structural reforms pursued by European and national policy-makers in the effort to come to terms with the crisis have further advanced this process of change. In the field of wages and collective bargaining, the impact of the reform policies manifests itself in the following three respects: first, in the continuing pressure for wage restraint; second, in the growing decentralisation of collective bargaining processes; and third, in the increasing direct political intervention in collective bargaining designed to ensure the effective implementation of the wage moderation and decentralisation policies (Müller and Bernaciak 2013; Schulten and Müller 2013a).

The aim of this chapter is to provide a more detailed analysis of these three key implications of the crisis. The starting point will be the analysis of the different mechanisms used for the purpose of direct intervention in national collective bargaining developments; we will thus highlight the important role played by Country-Specific Recommendations and Memorandums of Understanding in exerting pressure on national governments and collective bargaining actors. Subsequently, the chapter will deal with the quantitative and qualitative implications of this newly emerging European wage policy interventionism. This part will cover the following issues: the development of public sector wages and minimum wages as the primary targets of political intervention into wage levels, the various initiatives to undermine multi-employer bargaining arrangements, and finally the impact of all these measures on the overall pattern of wage developments. The chapter concludes with an analysis of the impact of the crisis on the forms of collective organisation and action of workers in terms of unionisation trends and strike patterns.

**Topics**

# European wage policy interventionism

**Figure 5.1 New European wage policy interventionism, 2011-2013**

| Recommendations in the field of wages and collective bargaining | European Semester (CSRs) | Troika / IMF (MoUs/SBAs) |
|---|---|---|
| Wage restraint | BG, FI (2012), IT, SI | |
| Restrictive minimum wage developments | FR, SI | |
| Freezes/cuts of minimum wage | | GR, IE, LV, PT, RO |
| Freezes/cuts of public sector wages | | GR, IE, HU, LV, PT, RO |
| Freezes of private sector wages | | GR |
| Higher wage dispersion at the lower end of the wage scale | SE | |
| Wage developments in line with productivity | DE, FI (2013) | |
| Decentralisation of collective bargaining | BE, ES, IT | GR, PT, RO |
| Stricter rules for extension of collective agreements | | GR, PT, RO |
| Reform/abolition of wage indexation | BE, CY, LU, MT | CY (since 2013) |

Source: Schulten and Müller (2013a, 299).

## Political intervention in national collective bargaining

The new European system of economic governance that has been put in place in response to the financial and economic crisis has created the conditions for increasingly direct political intervention in national bargaining outcomes and procedures. The key objective of this new interventionist approach was to ensure that national wage policies should contribute to the successful implementation of the EU reform policies which, for their part, combine two main emphases: the pursuit of austerity policies aimed at reducing public expenditure and consolidating state budgets; and the implementation of so-called 'structural reforms' designed to improve national competitiveness. In the field of wages and collective bargaining this led to increasing political pressure for wage restraint and for more decentralised wage-setting mechanisms.

In order to implement the austerity and structural reform agenda in the field of collective bargaining, two instruments of wage policy intervention have been used: country-specific recommendations (CSRs) issued in the context of the European Semester; and bilateral agreements between national governments and the Troika or the IMF/EU – the so-called 'Memorandums of Understanding' (MoU) and 'Stand-by Arrangements (SBA) respectively. The two types of instrument vary in the extent to which they are binding. Though there is the possibility of imposing financial sanctions in the case of non-compliance, CSRs are not legally binding. Since in the case of MoUs and SBAs there is a contractual agreement to implement certain wage policy measures in return for financial support, political intervention through this second channel has a more immediate impact and is therefore more binding in character (Schulten and Müller 2013a: 188).

Figure 5.1, which lists the various EU-level measures put forward between 2011 and 2013 in the context of CSRs and MoUs and/or SBAs, illustrates that, within this period, 18 out of 28 EU countries have been affected by at least one EU-level measure directly affecting collective bargaining outcomes or procedures. This clearly shows that wage policy intervention was not confined to the so-called 'programme countries' – even though as regards their content, the measures imposed in these countries have been far more severe and profound. However, these formal differences between the two instruments of political intervention notwithstanding, the policy intention remains the same: to put pressure on national governments and collective bargaining actors to ensure wage restraint and the decentralisation of collective bargaining.

In view of a growing discomfort with the non-binding character of CSRs, the German chancellor Angela Merkel proposed the conclusion of competitiveness pacts between the EU and individual member states as the next-step building block in an even stronger system of economic governance (Merkel 2013). The ultimate purpose of this suggestion is to transfer the contractual logic of MoUs and SBAs to all member states and to create a 'Troika for all' (Oberndorfer 2013) in which the member states commit themselves to implement 'structural reforms' in return for some kind of financial support. Since, following the logic of MoU and SBAs, these 'structural reforms' would also cover the area of wages and collective bargaining, such competitiveness pacts would represent the next turn of the screw in wage policy interventionism. Even though this idea was rejected at the meeting of the European Council in December 2013, the insistence on further reforms in the Annual Growth Survey 2014 suggests that the European institutions are not willing to ease their interventionist wage policy approach vis-à-vis the member states (Janssen 2013a).

# European wage policy interventionism

**Figure 5.2 Wage cuts and freezes in the public sector in EU27, 2008-2013**

| Category of measures | Troika/IMF countries | Other countries |
|---|---|---|
| General wage freeze | GR, ES, IE, IT, CY, HU, PT, RO | CZ, DK, EE, FR, LT, PL, SI, UK, NL |
| Pay cuts up to 10% | ES, IE, IT, PT | CZ, EE, SI, SK |
| Pay cuts between 15% and 30% | GR, LV, HU, RO | LT |
| Abolition of bonuses and special benefits | GR, ES, HU, PT, RO | DK, EE |

Source: Authors' compilation based on European Comission (2013), Labour Research Department (2012) and Vaughan-Whitehead (2013).

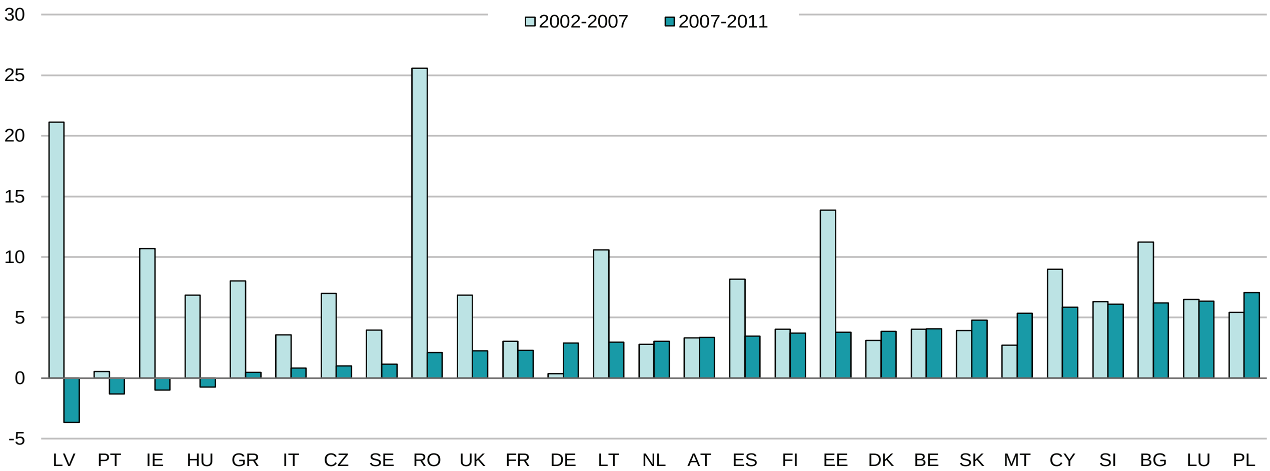
## Wage cuts and freezes in the public sector

Wages and collective bargaining in the public sector was one key area of direct political intervention as national governments tried to reduce public expenditure in order to stabilise government finances. The fact that in many European countries the salaries of public sector employees are determined by law rather than by collective bargaining made them an easy target for direct intervention because it enabled governments to impose pay cuts and freezes unilaterally. The overview of public sector wage cuts and freezes between 2008 and 2013 in Figure 5.2 shows three main developments: first, the most dramatic measures have been taken in the so-called 'programme countries' with nominal pay cuts of up to 30 per cent. Secondly, public sector wage cuts and freezes have not been confined to the 'programme countries' that were subjected to direct political intervention by the Troika or the IMF/EU. As can be seen from Figure 5.2, since the beginning of the crisis wage freezes of at least one year have been introduced in more than half of all EU member states. It should be noted, however, that pay freezes do not necessarily result in pay reductions because the freeze in base pay may be offset by other remuneration elements. In France, for instance, some compensation for the two-year pay scale freeze was provided by improvements in performance-related pay (European Commission 2013: 176). Thirdly, in the 'programme countries' in particular, the pay cuts and freezes were accompanied by the abolition or reduction of bonuses and special benefits such as the 13th and/or 14th monthly salary (Greece, Hungary, Portugal, Romania and Spain), pension entitlements (Greece and Spain), housing subsidies (Hungary, Portugal and Romania), health benefits (Hungary and Portugal) and food subsidies (Portugal and Romania). Another more indirect way of cutting wages has been applied in Spain, for instance, where in 2012 the working week for all public employees was extended from 35 to 37. 5 hours without any corresponding pay increase (European Commission 2013: 181).

When assessing the full extent of the reduction in the disposable income of public sector employees, it is essential to take into account the combined effect of the various measures that have been introduced. In Portugal, for instance, public sector pay was cut by an average of 5 per cent in 2011. If, however, this direct cut is combined with the effect of the loss or reduction of the 13th and 14th monthly salary in 2012, it is necessary to add another 12 per cent average cut in annual salary – bearing in mind that lower salaries were less affected by the additional cuts than higher ones (Labour Research Department 2012, 32). Taking into account, furthermore, that wages have been frozen until the end of 2013, it is also necessary to add the effect of inflation, so that, compared to 2009, according to calculations of the LRD, 'by the end of 2013 some public servants will have lost one third of the value of their pay in real terms and many will have lost a quarter' (Labour Research Department 2012: 32). Similar calculations could be made for the other 'programme countries'.

# European wage policy interventionism

**Figure 5.3 Compensation of public administration employees in EU27, 2002–2007 and 2007-2011**




Source: European Commission (2013). Note: Annual % change averaged over the 2002-2007 and 2007-2011 periods.

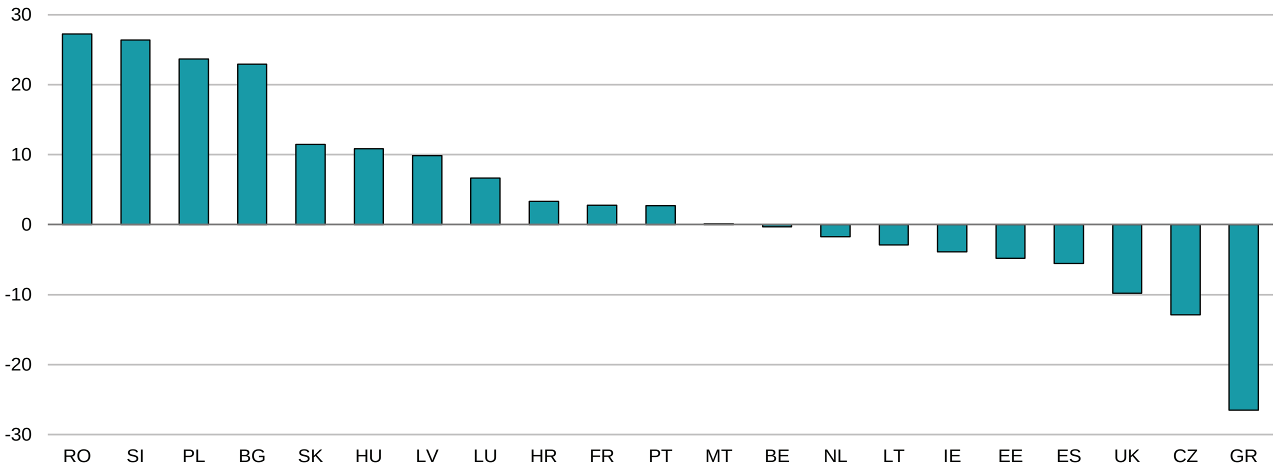
## Public sector wage developments before and during the crisis

Comparing the development of compensation of public administration employees before and during the crisis, Figure 5.2 illustrates that in the majority of EU countries (19 out of 27) the crisis has led to a slowdown in the rate of increase in compensation and that this slowdown has been most severe in the 'programme countries'. The salary cuts and freezes have often been introduced unilaterally by government without any involvement of trade unions. This applies in particular to the 'programme countries', which were under the pressure from the Troika and financial markets. Even in those countries with a tradition of collective bargaining and/or social dialogue in the public sector (such as Greece, Italy, Portugal, Spain and the UK) these processes have been suspended or sidelined (European Commission 2013: 154). To be sure, there exist a few examples of 'crisis-driven corporatism', such as an agreement on wage reductions in the public sector concluded in May 2012 between the Slovenian government and the country's public sector unions (Skledar 2012). Another example of negotiated solutions is found in Ireland where austerity measures have been based on two agreements between the government and public sector trade unions signed in June 2010 and July 2013. However, these two examples of negotiated austerity measures are rather the exception than the rule (Bernaciak 2013). Closely linked with the emergence of unilateralism is the recentralisation of wage-setting because in many countries measures have been decided and defined at central level and then applied 'in a generalized and undifferentiated way to all services and all employees' (Bach and Bordogna 2013: 291).

The severe public sector pay cuts and freezes in the 'programme countries' also had implications for the relationship between public and private sector wages. In general, it can be expected that pay levels in the public sector tend to be higher than those in the private sector due to labour force characteristics and compositional effects. As such, the higher pay levels in the public sector can be explained by the fact that public sector employees tend to be older, to have higher levels of education and training, as well as longer seniority (Vaughan-Whitehead 2013: 18). An analysis recently published by DG ECFIN also found that the wage premium in the public sector is mainly concentrated on lower-skilled workers and is reversed for higher-skilled employees in higher job positions (De Castro et al. 2013). This in turn means that the wage premium characteristic of the public sector can also be explained by the more equal and compressed pay structure found there, displaying smaller ranges in pay between the lowest and the highest pay groups. Taking all this into consideration, it is even more startling how the crisis-induced wage cuts and freezes in some 'programme countries' turned the wage premium that existed before the crisis into a wage penalty within a very short period of time. In Romania, for instance, the 45 per cent public sector wage premium recorded in 2009 had, by the end of 2010, been turned into a loss of 15 per cent. Hungary is another case in point because the premium of 15 per cent existing in 2004 had been converted into a penalty of 12 per cent by 2009 (Vaughan-Whitehead 2013: 21). This illustrates the extent to which public sector employees had to bear the brunt of the so-called 'crisis adjustment measures'. In other countries, the Netherlands being a good example, the public sector wage premium disappeared over a much longer period, in this case between 1979 and 2004 – with therefore much less dramatic social consequences.

# European wage policy interventionism

Figure 5.4 Development of real hourly minimum wages in EU28, 2007-2013




Source: Author's calculations based on WSI Minimum Wage Database (version January 2014).

## Crisis keeps minimum wages down

Besides cuts and freezes in public sector wages, a restrictive minimum wage policy was another important element of the European crisis management based on austerity and internal devaluation. Like wages in the public sector, minimum wages were an easy target for direct political intervention because in the majority of the 21 EU countries where a national minimum wage exists, its level is statutorily determined by the state (for an overview of different minimum wage systems see Schulten 2012a and Kampelmann et al. 2013). Against this background it is not surprising that in countries including Greece, Ireland, Portugal, Romania, Latvia, and (more informally) Spain, cuts and freezes of minimum wages belonged to the Troika's core demands in return for financial assistance. The intervention of the Troika also extended to changes in the way the minimum wage is determined. In Romania and Greece the minimum wage was traditionally determined by a national collective agreement. In response to demands from the Troika, in both countries the system of negotiated minimum wages was replaced by a system of statutory minimum wages – in Romania in 2011 and in Greece in 2012 (Schulten 2014a).

The rationale behind the imposition of a restrictive minimum wage policy was based on the view that high minimum wages represent an obstacle to the downward flexibility of wages, which in turn is seen as a central prerequisite for restoring competitiveness (Janssen 2012). Since in many European countries minimum wages have an important signalling function for overall wage developments, the restrictive minimum wage policy also served to set the tone for wage negotiations in order to ensure overall wage restraint.

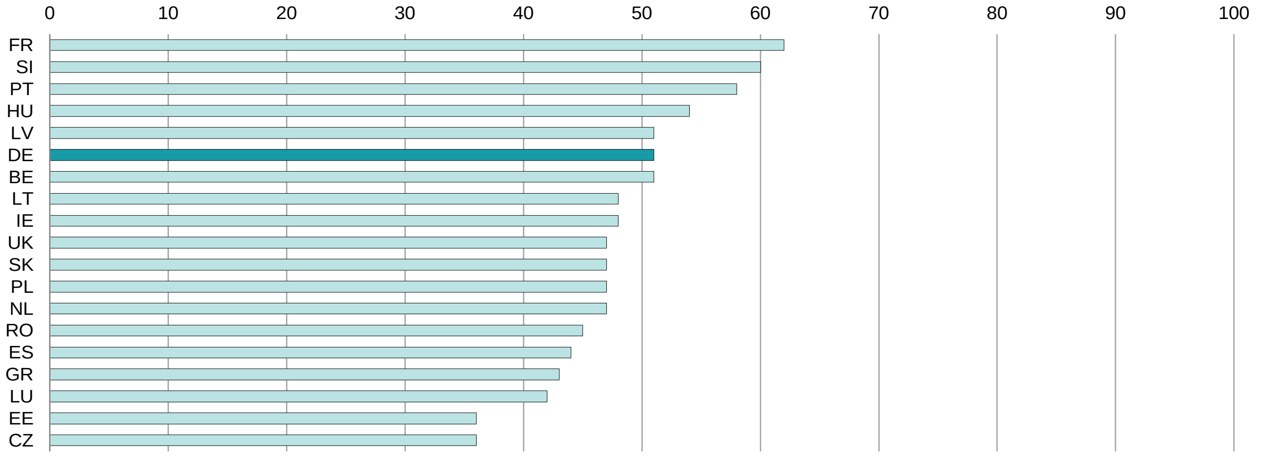
Figure 5.4 shows that, as a result of this policy, real hourly minimum wages decreased in a range of countries. While, as a rule, the development of minimum wages was closely linked to the economic development, in some countries like Greece, Spain and Ireland this process of declining real minimum wages was reinforced by political intervention from the EU level. If one looks only at the development of real minimum wages since 2011, this applies also to Portugal where there has been a decrease of more than 5% over the last three years (Schulten and Müller 2013a: 195). Figure 5.4 shows also, however, that this process was not confined to the 'programme countries'. The United Kingdom and the Czech Republic also show a substantial decline in real minimum wages over the last six years. In the latter, minimum wages were increased in 2013 (by 3.8%) for the first time since January 2007 (Veverková 2013).

What Figure 5.4 also shows is that countries – Luxembourg, France, Malta, Belgium and (to some extent) The Netherlands – which apply an indexation model whereby national minimum wages are quasi automatically linked and adjusted to economic indicators achieved much better results. Such countries at least managed – more or less – to maintain the real value of the national minimum wage.

Substantial real minimum wage increases of 10% or more took place only in some Central and Eastern European countries ranging from 9.9% in Latvia to 27.2% in Romania. These impressive-looking increases are however, at least partly, attributable to statistical base effects due to the very low – below 3€ – absolute level of hourly minimum wages (Schulten 2014b), such that a comparatively small increase in absolute terms makes for a fairly large increase in relative terms.

# European wage policy interventionism

**Figure 5.5 Minimum wages in percent of median wage of full-time employees, 2012**




Source: OECD (2014).
Note: Data for Germany are based on calculations made by the WSI for a fictitious minimum wage of € 8.50 per hour.

## Minimum wages as poverty wages

One effect of the restrictive minimum wage policy can be seen in Figure 5.5 which shows the value of the minimum wage in relation to the overall wage structure. The indicator used here is the so-called 'Kaitz-Index' which measures the value of the statutory minimum wage as a percentage of the national median wage. Figure 5.5 illustrates that the statutory minimum wage in all countries is below the low-wage threshold which, according to the OECD, is defined as two thirds of the median wage. By analogy with international poverty research which sets the poverty threshold at 50 per cent of the median household income, individual wages that remain below 50 per cent of the median wage can be defined as 'poverty wages' (Schulten 2014a). According to this definition, statutory minimum wages in a whole range of EU countries can even be classified as 'poverty wages' (Marx et al. 2012). An interesting case in point is Germany, where a statutory minimum wage of €8.50 per hour will take effect on 1 January 2015. As Figure 5.5 illustrates, in 2012 such a level of minimum wage would have been barely above the poverty wage threshold in Germany.

The data on the relative value of statutory national minimum wages illustrates how the dominant concept of minimum wages is firmly embedded in supply-side views of wages as cost factors that need to be minimised. However, in the light of the severe social consequences of the crisis management in terms of continuing high unemployment figures, a growing low-wage sector and a generally disappointing growth record in many EU countries, calls for a more expansive minimum wage policy are back on the political agenda.

The support for a more expansive minimum wage policy is based on two important alternative functions of minimum wages. The first refers to the role minimum wages play in sustaining aggregate demand by boosting wage equality. This argument for minimum wage increases is closely linked to the more general demand for a paradigm shift in economic policy from a growth model based on household debt or low wages (to boost export performance) to a new growth strategy based on higher wages and a more equitable wage distribution (ILO 2012; Lavoie and Stockhammer 2013). The second strand of support for higher minimum wages is based on their social function in fostering social inclusion by ensuring that every worker can make a living from what s/he earns. This view highlights the role of minimum wages in protecting workers from exploitation and poverty. Minimum wages are, therefore, viewed as a fundamental labour standard similar to laws that ban child labour – which interestingly finds its expression in the name of the law that established statutory minimum wages in the USA – the Fair Labor Standard Act of 1938 (New York Times 2014).

Ensuring a fair and equitable wage is also the idea behind the debate about a European minimum wage policy which suggests fixing the national minimum wage at a minimum of 60 per cent of the national median wage (ETUC 2012; Schulten 2012a; Fernández-Macías and Vacas-Soriano 2013). The key objectives pursued by such a policy are the following: preventing downward wage competition; stabilising private demand; promoting a more egalitarian distribution of income; limiting the low-wage sector and preventing the phenomenon of 'working poor' by ensuring those in employment a decent standard of living (Schulten 2012a: 100). In its pursuit of these aims, a European wage policy could form a vital part of a new alternative wage-led growth model.

# Wage developments and bargaining procedures

**Figure 5.6 Decentralisation of 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, Italy, 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 group of employees | Greece, Hungary, Portugal, Romania, Spain |

Source: Schulten and Müller (2013b, 198).

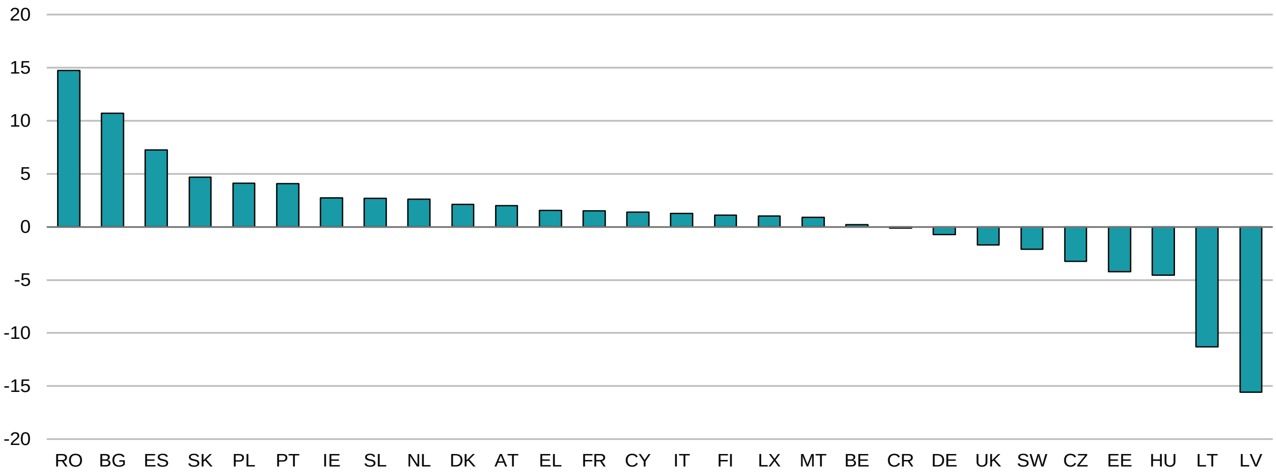
## Farewell to multi-employer bargaining?

So far, this chapter has demonstrated that the recent downturn and the subsequent austerity drive have negatively affected wage levels in the EU. However, direct political intervention has not been confined to bargaining outcomes. Since the outbreak of the crisis, governments across Europe have launched comprehensive reforms of collective bargaining institutions and procedures. This process has been most pronounced in the programme countries where the Troika pushed for a radical decentralisation of wage-setting procedures in return for financial assistance. The objectives of the intended 'reforms' were set out remarkably openly in a report published by DG ECFIN in 2012. Under the heading 'employment-friendly reforms' DG ECFIN lists the following measures which they view as necessary to achieve the desired decentralisation of the wage bargaining framework: decrease the bargaining coverage; decrease automatic extension of collective bargaining; remove or limit the favourability principle; introduce or extend the possibility to derogate from higher-level agreements or to negotiate firm-level agreements; finally, reduce the wage-setting power of trade unions (European Commission 2012: 103-104). The overview of major reforms of the wage-setting system in the 'programme countries' in Figure 5.6 demonstrates that the items on the DG ECFIN list have been put into practice virtually without exception.

A look at changes in individual countries shows that Romania and Ireland saw a complete breakdown of national-level collective bargaining structures that had been in place before the crisis. In the case of Ireland, this was the result of the government's withdrawal from negotiations on the public sector reform in 2009. In Romania, the national collective agreement was abolished in 2011 by the so-called Social Dialogue Act, unilaterally implemented by the government (Trif 2013). Since at the same time the Act re-organised branch-level bargaining structures and introduced new representativeness criteria for social partner organisations, the bargaining process virtually came to a standstill. In effect, the collective bargaining coverage rate has gone down from 90% to an estimated 20% (Visser 2013). In Greece, Portugal and Spain, sectoral bargaining structures have formally remained intact, but have been hollowed out by legal changes introduced in response to the Troika's conditionality (Schulten and Müller 2013a). Some of the reforms were complementary in character; for instance, new regulations facilitating derogations from sectoral collective agreements often went hand in hand with the introduction of more restrictive criteria for the extension of collective agreements or with the elimination of their 'after effect'. The combined effect of these changes was the decentralisation and de-collectivisation of industrial relations in these countries. This can be seen from the dramatic decline in collective bargaining coverage. Between 2008 and 2012, the number of registered collective agreements in Spain went down by 43% from 6,000 to approximately 3,400, while the number of workers covered by such agreements decreased by 41% from 12 million to just above 7 million (Ministerio de Empleo y Seguridad Social 2013). The corresponding figures for Portugal are even more dramatic. The number of registered collective agreements went down by 71% (from 295 to 85) and the number of workers covered by a collective agreement collapsed by 84% from 1.9 million to 328,000 (Campos Lima 2013). Even in Latvia where collective bargaining coverage was already traditionally low the number of workers covered by a collective agreement decreased by 43% between 2007 and 2011 (Karnite 2013).

# Wage developments and bargaining procedures

**Figure 5.7 Development of real wages in EU28, 2007-2009 (2007=100)**




Source: Authors' calculations based on Ameco (version November 2013).

## Real wages: from boom to bust

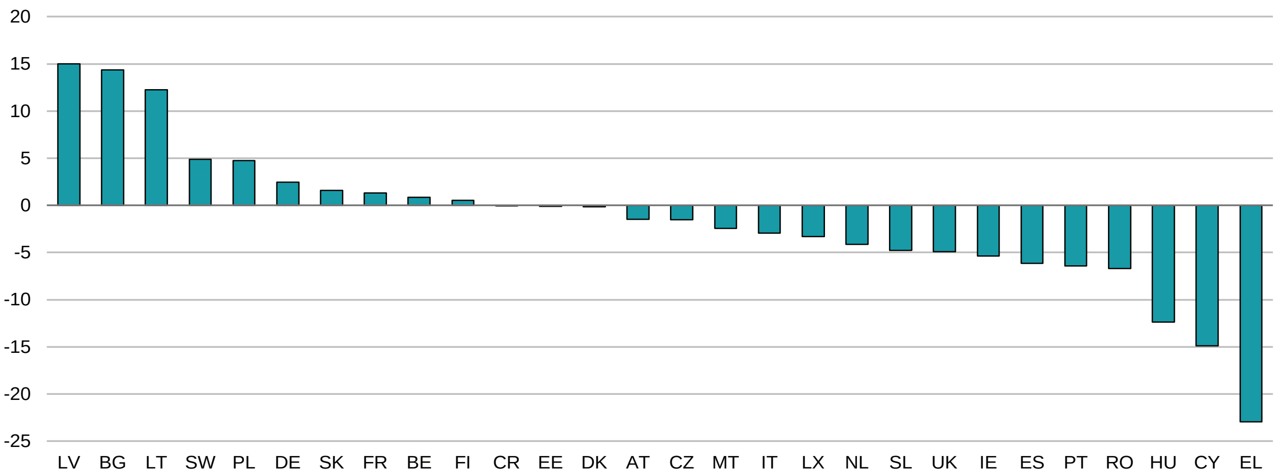
The implications of the far-reaching changes, both quantitative and qualitative, that have been implemented in the field of wages and collective bargaining in many European countries can be seen in Figures 5.7 and 5.8 which show the development of real wages during the crisis. To illustrate how different countries have been affected to differing degrees and at different points in time, the crisis period has been broken up into two periods. Figure 5.7 shows the development from 2007 to 2009 and Figure 5.8 from 2009 to 2013. In order to understand the magnitude of the change, real wage developments during the crisis have to be set against developments in the pre-crisis period. In the first part of the 2000s, real wages grew in all EU member states except Germany (ETUC and ETUI 2013: 50). Central and eastern European (CEE) countries, together with the United Kingdom and Ireland, recorded the largest increases. Latvia, Estonia and Lithuania topped the scale with real wage increases of more than 60 per cent between 2001 and 2007: in the case of all three 'Baltic Tigers', high GDP growth rates (see Chapter 1) went hand in hand with substantial increases in real employee compensation.

With the outbreak of the crisis, the nearly universal real wage growth trend came to an end. The new trend of real wage decreases in many countries is the expression of the reduced bargaining power of trade unions due to a rapid surge in unemployment and the economic downturn. As a result, they were often forced to accept wage freezes or to make wage concessions in order to safeguard employment. Finally, direct political intervention in wage outcomes and wage-setting systems, guided by a narrow supply-side view of wages as competitiveness factor, led to the spread of wage restraint policies in Europe.

The impact of the crisis and the subsequent austerity drive on wages was not uniform across the EU and it also varied considerably over time. However, as a general rule, it can be stated that at any given point in time, EU member states that were most affected by the crisis and implemented far-reaching austerity measures featured the largest real wage decreases. In 2007-2009, the economic slowdown was discernible mainly in new EU member states. Figure 5.7 shows that this was also the time of a major slump in real wages in the CEE countries. The Baltic countries saw their real wages contracting by 5-15% and thus diametrically changed their position on the European wage scale compared to the pre-crisis period, moving from the top to the very bottom of the table. The real wage decline was also substantial in Hungary, plagued by high government debt levels, unequal balance of payments, and problems with banking sector liquidity. In line with the deal attached to a 25-billion-dollar rescue package provided by the IMF, the EU and the European Central Bank, the country embarked on a tough austerity programme, while, at the same time, the real economy suffered as a result of dwindling exports. Other CEE countries managed to maintain positive real wage growth rates. This is true of Bulgaria, which avoided major upheavals thanks to relatively low pre-crisis spending levels and macroeconomic discipline, as well as of Slovakia and Poland, where the decline in exports and the corresponding fall in industrial output proved only temporary. Importantly, between 2007 and 2009, western European countries were largely unaffected by the crisis. This positive development was mirrored in real wage growth figures, which remained positive in all but three (Germany, the UK and Sweden) of the 'old' EU member states.

# Wage developments and bargaining procedures

**Figure 5.8 Development of real wages in EU28, 2009-2013 (2009=100)**




Source: Authors' calculations based on Ameco (version November 2013).

## Second wave of crisis hits real wages

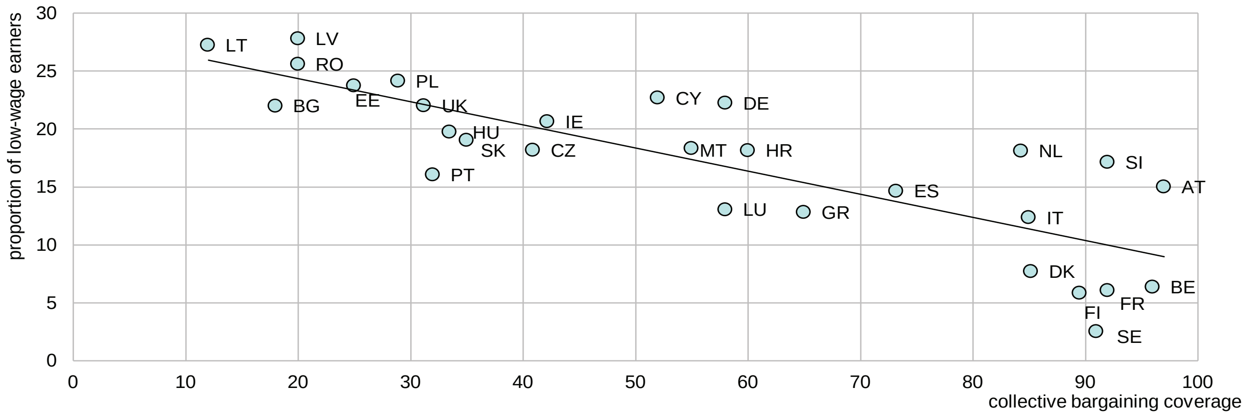
In the second period of the crisis from 2009 to 2013 the picture changed as the southern European countries came under the radar of the EU and the IMF. Figure 5.8 shows that the worsening economic situation in the South was reflected in real wage figures. As a result of the downturn and the subsequent 'reform' policies imposed by supranational institutions, real wages in Greece have fallen by 23% since 2009, while its neighbour Cyprus saw a 10.4% real wage contraction in 2013 in comparison with the previous year. Overall, during the last five years, all countries remaining under the surveillance of the Troika have featured negative real wage developments. The picture in new EU member states was mixed. After a short but deep slump, Lithuania and Latvia have largely recovered and returned to the path of wage growth. Romania's real wages declined in 2009 and 2010, i.e. at the time of a major fiscal adjustment related to the country's SBA with the IMF, but bounced back in the subsequent two years. In Hungary, by contrast, real wages have continued to fall throughout the whole period. In view of the available data, it seems that Slovenia has become the latest victim of the crisis among new EU member states. The country has struggled to maintain the financial sector liquidity and to reform banks' management structure; at the same time, real wages have been in steady decline since 2011. What is worse, Slovenia's prospects remain gloomy: on the basis of the European Commission data, real wages are likely to fall again in 2014 and 2015 (Ameco, version November 2013).

Turning now to western Europe, Figure 5.8 shows that Sweden alone registered a sizeable increase in real wages of approximately 5 per cent. The only other western European countries with a positive, albeit very moderate, real wage increase in the period 2009-2013 are Germany, France, Belgium and Finland. However, the increase in Germany, for instance, compensated for only roughly half the real wage decrease recorded in the preceding years.

Overall, Figures 5.7 and 5.8 illustrate three key tendencies: first, there is a great divergence of real wage developments both across countries and across time; secondly, in the course of the crisis an increasing number of countries were affected by negative real wage developments leading to a new pattern of negative wage development in Europe as a result of the strategy of internal devaluation; thirdly, the largest drops in real wages tend to go hand in hand with direct political intervention from supranational institutions in the context of financial rescue programmes. From the perspective of the Troika these developments might be viewed as a necessary adjustment process on the way to recovery. However, the meagre results of the programme countries in terms of economic growth and debt reduction (see Chapter 1), as well as in terms of unemployment figures and social cohesion (see Chapter 2), suggests a more critical view of these developments. From such a more critical perspective, the strategy of internal devaluation imposed by the Troika triggered a downward competition of wages, suppressing internal demand, fostering deflationary tendencies, and thereby cementing economic stagnation in Europe.

# Wage developments and bargaining procedures

**Figure 5.9 Collective bargaining coverage (%) and the proportion of low-wage earners (% of total employees in establishments with 10 employees or more), EU28**




Sources: Authors' calculations based on Eurostat 2010 data for the proportion of low-wage earners, ICTWSS database (version April 2013) for collective bargaining coverage; latest available figure for each country. Schulten (2013) for the bargaining coverage data for Germany, Austria and Portugal.

## Low-wage sector and collective bargaining coverage

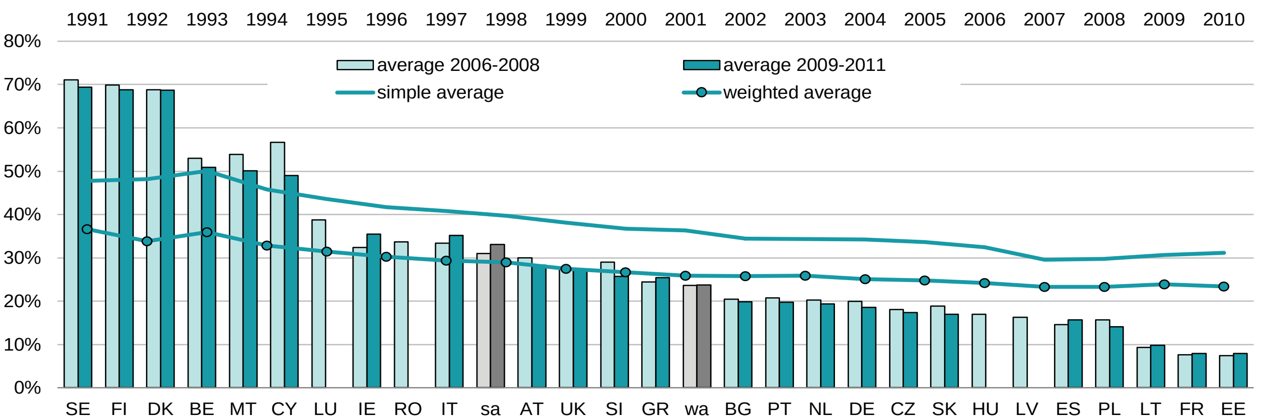
International comparative research (Rhein 2013; Schmitt 2012) shows that the size of the low-wage sector, i.e. the proportion of the workforce earning less than two thirds of the national median hourly wage, is determined by the interplay of a whole range of factors. These include individual characteristics (such as age, gender, nationality education and working time), company-specific characteristics (such as company size and sector) and institutional characteristics such as, in particular, minimum wage arrangements and collective bargaining coverage. In the context of this chapter the institutional characteristics are of particular interest because the current EU reform policies of pushing for a restrictive minimum wage policy and the decentralisation of collective bargaining undermine the central role of minimum wages and collective agreements in reducing the share of low-wage work. The failure of minimum wages in fulfilling this protective role can be explained by the fact that in the majority of EU countries the statutory minimum wage remains below the low-wage threshold (see Figure 5.5). Moreover, France and Slovenia, as the only two countries where statutory minimum wages actually are at or above the low-wage threshold, were asked in the CSRs 2012 and 2013 to ensure restrictive minimum wage growth (see Figure 5.1. and Clauwaert 2013).

Figure 5.9 illustrates the link between the size of the low-wage sector and the extent of collective bargaining coverage. Even though there is a need for caution in establishing a direct causal link, due to the multitude of factors that determine the size of the low-wage sector, Figure 5.9 shows a clear trend according to which high collective bargaining coverage goes hand in hand with a small low-wage sector. This group of countries at the right bottom corner of the graph comprises Sweden and Denmark where high collective bargaining coverage rests on the organisational strength of the collective bargaining parties but also Finland, France and Belgium where high collective bargaining coverage is ensured by the extension of collective agreements (Schulten 2012b). At the other extreme are those countries which combine low collective bargaining coverage with a large low-wage sector of more than 20 per cent of employees earning less than two thirds of the national median wage. This group covers the Baltic states, the majority of CEE countries and the UK and Ireland. The common feature of this group is a highly decentralised wage-setting system in which weakened trade unions are not in a position to ensure high collective bargaining coverage and in which the state provides little or no support through different kinds of legal extension mechanisms.

Since the downward flexibility of wages is one of the key objectives of the EU reform policies to improve competitiveness, it is no surprise that in the CSR of 2012 Sweden, as the country with the smallest low-wage sector and a highly compressed wage structure, was asked to ensure higher wage dispersion at the lower end of the wage scale – i.e. to enlarge the low-wage sector. Following the link between low collective bargaining coverage and the size of the low-wage sector illustrated in Figure 5.9, the ‘structural reforms’ imposed by the Troika on the ‘programme countries’ lead in entirely the wrong direction. Rather than dismantling collective bargaining systems and, in so doing, increasing the low-wage sector, what these countries actually need is more internal demand and investment. The support of collective bargaining institutions could be a first step in this direction.

# Collective organisation and action of workers

**Figure 5.10 Union density per country (2006-2008 and 2009-2011) and per year (1991-2010) in EU27**




Source: Visser (2013).

Notes: BG and CZ: average 2006-8 and 2009; CY: average 2006 and 2008 and 2011; DK, ES, FR, LT, PT, SE, UK: average 2006-8 and 2009-10; EE: average 2007-8 and 2009-10; GR: average 2006-8 and 2011; HU and LU, LV: average 2006-8; PL: average 2006-8 and 2010; RO: average 2006 and 2008; SI: average 2006 and 2008 and 2009-11; sa: simple average; wa: weighted average.

## Continued de-unionisation?

Effective collective bargaining depends on, among other factors, the membership rate of the organisations representing the interests of workers and employers (Traxler et al. 2001). Figure 5.10 provides an overview of the development of trade union density in 27 EU member states. The line graphs (right-hand scale) depict the annual development of the (weighted) EU27 average union density over the last two decades. The bar graphs (left-hand scale) ideally compare the average union density from the steepest part of the crisis (2009-11) and a period of equal length before its deepening (2006-8). Such comparison is fully possible, however, for only ten countries; the data is missing for other countries and for some an assessment is impossible (HU, LU, LV, RO).

The line graphs show an almost continuous trend of de-unionisation: whereas about half of the employees in the EU were unionised in 1991, this ratio had decreased to one in three in 2010. Yet, this trend towards de-unionisation seems to have been disrupted around 2007; based on the non-weighted average there has even been a slightly increasing trend since the beginning of the crisis.

Indeed, when comparing the two periods (2006-8 and 2009-11), there is a group of countries actually displaying an increase – albeit mostly small – in union density. French and Italian unions have been able to recruit more members, while the number of wage- and salary-earners has remained relatively stable. In 2011 Italian union membership (minus pensioners' unions) even stood at its highest level since 1986.

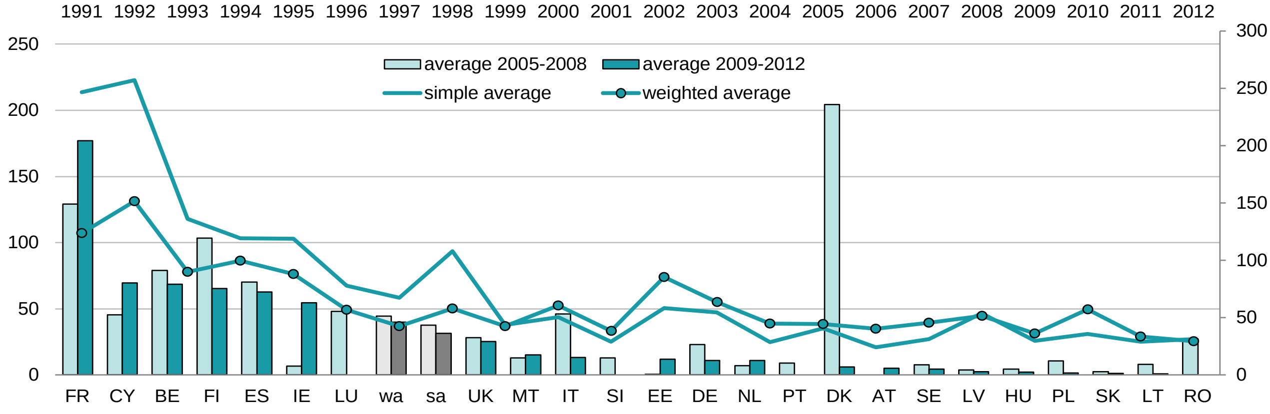
Other countries, significantly affected by the crisis and the 'austerity syndrome' (EE, ES, GR, IE, IT, LT), saw some growth in unionisation, at least until 2011. This finding must first and foremost be explained by the decrease in the denominator, i.e. the drop in the number of wage- and salary-earners having been larger than the decline in union membership, with emigration being one of the main reasons behind this development (European Commission 2013).

Portugal, another country seriously affected by the crisis, belongs rather to the majority of countries where union density has started to decrease or continues to decline (AT, BE, BG, CY, CZ, DE, MT, NL, PL, SI, SK). The fact that Austria and Germany are included in this group of countries indicates that very different reasons, not necessarily directly related to the crisis, might explain the further drop in unionisation. The continuing erosion of the dual system of industrial relations, with its ongoing shrinkage of the coverage of collective bargaining and works councils, might explain the further German de-unionisation (Addison et al. 2010), although some unions have been able to increase their membership (Dribbusch 2014). Finally, in some countries (DK, FI, SE, UK) the loss in membership has been rather limited (at least up to 2010/2011).

The picture of unionisation in Europe is thus mixed. Considerable divergence in unionisation rates remains (cf. Schnabel 2013). Some unions are indeed still able to recruit new members, sometimes inspired by the 'organising model, although in most cases their membership gains cannot keep pace with the (increasing) labour market participation. In conclusion, the stability or even slight increase in union density in some countries should be taken with a large grain of salt as workers' power is based not only on their associational power (Lévesque and Murray 2010) but also on their structural, institutional, and discursive capacity and power, all of which are 'challenged', to say the least, by high unemployment in various member states and the neo-liberal austerity drive of the European Commission and the national governments in most countries, leading to structural socio-economic changes, particularly in the realm of collective bargaining – as shown above.

# Collective organisation and action of workers

**Figure 5.11 Relative strike volume per country (2005-2008 and 2009-2012) and per year (1991-2012) in selected EU member states**




Source: Eurostat, Laborsta and national statistical offices.

Notes: AT and FR: average 2005-8 and 2009-11; IT, LV, HU RO and SI: average 2005-8 and 2009; PT: average 2005-7; sa: simple average; wa: weighted average.

## Strike volume

In today's world, social mobilisation and unrest are rife and within the EU the austerity drive pursued by national governments has been particularly contested. Trade unions have shown their ability to continue to play an organisational role in social mobilisation, insofar as they are the main vehicles for organising demonstration and political mass strikes. Other forms of social unrest have, by contrast, proved more ephemeral, entailing often only a weak involvement of unions or sometimes indeed displaying ignorance or even hostility towards them. As in any cycle of social protest, the repertoire of contention has been enriched with more innovative forms of collective action, even if their 'invention' may in some cases represent no more than the 'rediscovery' of long abandoned older forms. Yet convincing data about forms of protest other than strikes are unlikely to be available on a longitudinal and comparative basis.

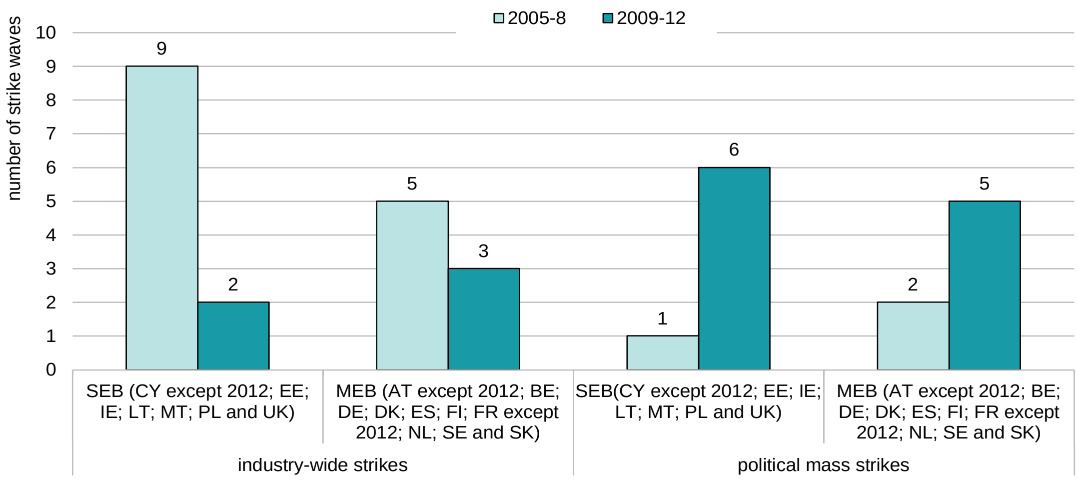
Moreover, in recent times, several political authorities, particularly in the crisis-hit southern European countries – an area that has been characterised as the geographical epicentre of social unrest (Schmalz and Weinmann 2013) – have lost interest in gathering strike data. Accordingly, official information on strike action has been 'postponed' in the case of Portugal (since 2007) or is no longer available at all for Greece (since 1999) or Italy (since 2010). For several other countries too, either recent data is partially missing or no official data has been collected at all. Furthermore, it is clear also that the strike volume, as a quantitative proxy for comparing the most straightforward expression of workers' militancy and collective resistance in countries over time, is usually underestimated.

Nonetheless, previous research has shown that the strike volume in the EU has generally declined in the period 2001-10 compared to the previous decade, although considerable cross-country differences in strike levels remain (Vandaele 2011). So far little is known about the development of the strike volume since the crisis. Figure 5.11 shows the development of the (weighted) average of the volume in the EU member states for which data is available and compares the average volume during two periods (2005- 8 and 2009-12) in 21 members states. It should be emphasised that any interpretation of strike data is also evidently dependent on the country selection and the period studied.

The line graphs demonstrate that the strike volume is quite volatile and that it is particularly sensitive to very large strikes tending to dominate the volume. However, considering the period since the crisis, it looks, at first glance, as if the age of austerity has not triggered a pronounced upsurge, although the years 2008 and 2010 were marked by some degree of increase in the average volume. Nonetheless, from the bar graphs, it is clear that in at least seven countries (AT, CY, EE, FR, IE, MT, NL) the volume has increased. There can be little doubt, what is more, that the volume in Greece, Italy and Portugal has been affected to such an extent that they too belong to this group of countries. This would apply equally to Spain if the general strikes of 2010 and 2012 were to have been included in the official strike data. Hence, in eleven EU member states, the strike volume, on average, has increased since the crisis compared to an equal period of time before. However, where the relationship with the crisis and the austerity policies is clear and direct (CY, EE, IE, FR, southern Europe), this is far less the case for some other countries (AT, MT, NL). All other countries, for which sufficient official data is available, saw a decline in the average strike volume in the period 2009-12 compared to the previous four-year period (BE, DE, DK, FI, LT, PL, SE, SK, UK).

# Collective organisation and action of workers

**Figure 5.12 Strike waves in SEB- and MEB-systems, 2005-8 and 2009-12**




Source: Eurostat, Laborsta, national statistical offices; own calculation.

## A shift towards political mass strikes

Even in the absence of recent data on strike action for most countries in southern Europe, it is clear that general strikes have been on the increase in this part of Europe, particularly in Greece. Whereas the period 1980 to 2012 saw a total of 130 general strikes or threats of such strike in eleven countries of the EU15 and Norway, 36 of these took place between 2010 and 2012 alone (Hamann et al. 2013).

Instead of focussing solely on general strikes, the concept of strike waves is used here to assess the significance of mass strikes since the crisis. Using the concept of mass strikes allows for a more disaggregated picture at the sectoral level. In order to identify recent strike waves, the Shorter/Tilly (1976) definition will be applied to the volume and the relative strike participation, the latter better grasping workers' willingness to act. It is acknowledged that mass strikes are underestimated due to this method or the under-reporting in the official data.

Secondary sources are used for interpreting the waves identified. This enables the waves to be categorised as predominantly produced by industry-wide or by political mass strikes. Political mass strikes can be directly and strongly associated with the so-called 'European sovereign debt crisis' and the workers' protest against the austerity regimes put in place by most European governments. Although this association is less clear-cut for industry-wide strikes, the crisis could nonetheless be exerting a more indirect influence as employers' organisations might take a firmer stance at the bargaining table.

Because the structure of the bargaining system tends to have an impact on the shape of the strike volume (Clegg 1976), in Figure 5.12 a distinction is made between single- and multi-employer bargaining systems. The figure shows overall that, since the crisis, a shift has occurred in the strike waves towards political mass strikes in both single-employer and multi-employer bargaining systems. In other words, in the current economic and social situation of Europe, industry-wide strikes are not central to the new social protest cycle.

In single-employer bargaining systems mass strikes used to be characterised as industry-wide strikes before the crisis, particularly in the public sector. Based on both the strike participation and volume, this has altered since the crisis: strike waves have been predominantly caused by political mass strikes, particularly in the public sector against austerity measures (see ETUC and ETUI 2013 for an overview of those strikes between 2009-11). In 2012 strike waves in Cyprus, Estonia and Lithuania (the latter based only on the strike participation) can be attributed respectively to strikes in the construction sector (Soumeli 2012a, 2012b) and to public sector strikes in education (Blaziene 2012) and in the education and health-care sector (Osila 2012).

Similarly, in multi-employer bargaining systems, industry-wide strikes have been more limited since the crisis, whereas political mass strikes have been on the rise, via either general strikes (BE in 2012; FR in 2010) or strikes in the public sector (BE in 2011) (see ETUC and ETUI 2013 for an overview of those strikes between 2009-11). Strike waves in 2012 are dominated by a general strike against austerity measures in Belgium, strikes in the education sector in both the Netherlands and Slovakia (Cziria 2013), and especially a large strike in the cleaning sector in The Netherlands (Centraal Bureau voor de Statistiek 2012).

# Conclusions

## In search of an alternative role for wages

'Austerity is a form of voluntary deflation in which the economy adjusts through the reduction of wages, prices, and public spending to restore competitiveness, which is (supposedly) best achieved by cutting the state's budget, debts and deficits' (Blyth 2013: 2).

Blyth's definition of austerity provides a concise description of the overarching idea which has guided developments in the field of wages and collective bargaining over the past five years. It highlights the fact that a narrow conception of competitiveness as cost competitiveness has become the dominant frame of reference for recent and current reforms. This overall approach has had far-reaching implications in the field of wages and collective bargaining insofar as it gives rise to an equally narrow and supply-side-oriented view of the role of wages as a cost factor that needs to be minimised by the pursuit of austerity measures and 'structural reforms'. It is thus that cuts and freezes of public sector wages, alongside the abolition or reduction of fringe benefits for public sector employees, were part and parcel of national governments' efforts to reduce public spending and to consolidate state budgets. Alongside these measures directly aimed at the immediate introduction of wage austerity, European and national policy-makers pursued structural reforms designed to produce framework conditions that would be more conducive to the longer-term pursuit of wage restraint. The key objective of the structural reforms in the field of wages and collective bargaining has been to increase the downward flexibility of wages in order to improve cost competitiveness by reducing labour costs. Even though DG ECFIN itself acknowledges that, with respect to the macro-economic performance of collective bargaining systems, 'there is no strong evidence in support of a single superior wage-setting model' (European Commission 2011: 17), in its policy recommendations a decentralised, company-based bargaining system is the central reference point because it is assumed that such a decentralised system would better allow companies to make the requisite adjustments to varying economic circumstances (Schulten and Müller 2013a). In the field of wages and collective bargaining, 'structural reforms' can therefore be read as a euphemism for the radical decentralisation and even de-collectivisation of collective bargaining systems. In order to ensure the implementation of this austerity and structural reform agenda, the European and national policy-makers have used CSRs and bilateral agreements (i.e. MoUs/SBAs) to intervene in national bargaining outcomes and procedures.

This interventionist approach, consisting in the virtual enforcement of wage restraint and decentralisation of collective bargaining systems, is problematic in at least two respects. In the first instance, its narrow focus on cost competitiveness precludes any consideration of differences in non-price competitiveness factors such as product structure, product quality and the price elasticity of exports (i.e. the demand for exports and the price which consumers are willing to pay for the exported products) as the potential source of macro-economic imbalances. Given the substantial decline in the complexity of their export basket during the crisis (see Figure 1.5 in Chapter 1), an alternative way to improve the competitiveness of the southern European 'programme countries' Greece, Portugal and Spain, and perhaps also of other crisis-ridden EU member states, would be to provide financial assistance in order to help them to upgrade their economic and industrial structure. This would in turn enable them to specialise in specific sectors and niche markets and to compete on the basis of the quality, sophistication and innovativeness of their products rather than on the sole basis of their price.

Rather than considering such additional or alternative aspects of competitiveness, the reform policies view the reduction of wages and labour costs as the primary route to solving the competitiveness problems experienced by the 'programme countries'. This narrow view of wages as a cost factor neglects the role of wages in generating domestic demand and fostering social cohesion. In the 'programme countries', where growth relies more heavily on domestic demand than on exports, such a view is particularly problematic since any positive effects of wage cuts and reduction of unit labour costs for net exports may be more than offset by the negative impact of falling wages on domestic demand. What is more, the currently proposed export-oriented reform policies systematically overestimate the significance of exports for the overall economic development (Feigl and Zuckerstätter 2012). An additional factor overlooked by the internal devaluation approach is that – in accordance with the Keynesian 'paradox of thrift' – in a highly integrated economic area such as the eurozone not all the countries can cut their way out of the crisis at the same time. Within such an area, one country's domestic demand is another country's export potential (Janssen 2013b). Thus, if all countries try to improve their competitive position by cutting wages at the same time, overall domestic demand will collapse, as will, together with it, the flow of imports and exports between the eurozone countries.

The fact that these supply-side-oriented reform policies have achieved so little in terms of improving the economic and social situation in the 'programme countries' (see Chapters 1, 2 and 3) points unequivocally to the need for a U-turn in the current mode of crisis management. One such alternative approach could be a shift towards a demand-side-oriented wage-led growth model based on sustained wage growth, an increase in the wage share, and the reduction of wage dispersion, with the ultimate goal of strengthening domestic demand. Such a model would embrace the multiple functions of wages as cost factor and source of demand and social cohesion. The implementation of such an approach would rely on a whole package of measures in several different policy fields. In the specific field of wages and collective bargaining, however, the requisite measures would include the following: the establishment of minimum wages that are not below the low-wage threshold; improved legislative provision to strengthen the bargaining power of trade unions; and measures to increase collective bargaining coverage (Lavoie and Stockhammer 2012; Hein and Mundt 2013).