Wage bargaining under the new European Economic Governance

Alternative strategies for inclusive growth

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Edited by
Guy Van Gyes and Thorsten Schulten

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Preface

In response to the problems posed by the financial and economic crisis, the European Union introduced, in 2010, a new set of European economic governance arrangements. In this context, wage formation has become an important issue on the European policy agenda. This book contains major research findings from the CAWIE2 – Collectively Agreed Wages in Europe – project, conducted in 2014–2015 for the purpose of discussing and debating the currently dominant policy perspectives on collectively-bargained wage systems under this new form of European economic governance.

The project was run within the ETUI's network of trade union-related research institutes (TURI) and coordinated by KU Leuven-HIVA (Belgium) and the Wirtschafts- und Sozialwissenschaftliches Institut (WSI) at the Hans Böckler Foundation (Germany). The project involved institutes from 13 European countries including: Arbeiterkammer Wien (Austria); Associazione Bruno Trentin-ISF-IRES (Italy); Fundación 1º de Mayo (Spain); Institut de Recherches Economiques et Sociales (IRES) (France); Labour Research Department (United Kingdom); Palkansaajien Tutkimuslaitos (Labour Institute for Economic Research) (FinlandI); Szakszervezetek Gazdaság és Társadalomkutatási Intézete Alapitvány (SZGTI) (Hungary); the University of Amsterdam – AIAS (Netherlands); and the University of Copenhagen – FAOS (Denmark). Researchers from the Instituto Ruben Rolo (Portugal), FAFO (Norway) and the European Trade Union Institute (ETUI) were also involved in the book project, the final production of which was conducted in close cooperation with the ETUI.

The project, of which this book is the final output, was supported by a financial grant from the European Commission. We are grateful to James Patterson for his careful copy-editing and layout of the book. We would

like to thank all the authors for their contributions, the grant providers for the funding, and the ETUI for publishing our research findings.

Leuven and Düsseldorf, June 2015
Guy Van Gyes and Thorsten Schulten

Introduction

Guy Van Gyes and Thorsten Schulten

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

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

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

Although an inclusive growth strategy has many dimensions and involves various policy areas, wages as the main source of income for the mass of workers have to play a major role in any such strategy. It is indeed a mat-

ter of putting right the distorted pay differential between Afkir and Boer and defining wage bargaining as a (still) very useful instrument for solving the current European crisis. It is noteworthy in this regard that collective bargaining as we know it is the product of major crises in the past, not least the Great Depression of the 1930s. In this book we will therefore discuss the political and institutional preconditions for strengthening collective bargaining at both national and European level in order to allow more expansive and solidaristic wage developments. Transnational policy innovation is considered to be crucial in this regard.

1. A European tradition

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

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

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

Regulation of the employment relationship by institutions of collective bargaining mediate economic and social pressures, distribute power

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

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

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

Wage bargaining thus generally developed at sectoral level. Coverage of collective agreements was high and often backed by legislation on extension to other employers and workers in the relevant sector (non-

members of the signatory organisations). Sectoral bargaining was complemented by forms of cross-sectoral coordination of wage policies. Different forms of such coordination were applied: by the national confederations; state-sponsored councils setting a wage norm; or pattern bargaining (one instance of bargaining served as benchmark for the others). In general, this contributed to the creation of a well-performing social market economy and the provision of a more or less stable social climate at the workplace.

2. Challenged by finance-led capitalism

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

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

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

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

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

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

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

As a result, at the start of the current economic crisis two out of three workers in the European Union were still covered by a wage agreement. In continental Western Europe this coverage was even 70 to 80 per cent. However, in the central and east European countries that joined the EU in the 2000s a comparable system of collective bargaining developed

only weakly. The United Kingdom, like many other English-speaking countries, meanwhile experienced further deterioration of its bargaining system, with diminishing coverage in the private sector. Germany was also confronted with a significant decrease of bargaining coverage.

3. Under European attack since the crisis

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

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

The already mentioned 'Europe 2020' growth strategy, the successor of the unsuccessful Lisbon strategy, introduced a new tool of policy coordination at the EU level in 2010, the European Semester. The European Semester operates in a circular manner, starting with the Annual Growth Survey, setting out the broad EU economic policies, the national reform programmes presented by the member states, the Commission's

proposals to the Council on country-specific recommendations and the Commission's assessment of the actions taken at national level in response to these recommendations, including Commission opinions on draft budgetary plans.

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

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

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

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

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

Source: Update of Schulten and Müller (2015).

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

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

Measures	Affected countries
Abolition/termination of national collective agreements	Ireland, Romania
Facilitating derogation of firm-level agreements from sectoral agreements or legislative (minimum) provisions	Greece, Portugal, Hungary, Italy, Spain
General priority of company agreements/abolition of the favourability principle	Greece, Spain
More restrictive criteria for extension of collective agreements	Greece, Portugal, Romania
Reduction of the 'after-effect' of expired collective agreements	Greece, Spain
Possibilities to conclude company agreements by non-union employees	Greece, Hungary, Portugal, Romania, Spain

Source: Schulten and Müller (2015).

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

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

4. Outline of the book

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

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

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

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

due to increased labour migration are raised. Chapter 6 by Lewis Emery, LRD, United Kingdom, zooms in on a particular case: multi-employer bargaining in the United Kingdom, where this practice has long been in decline. What has been the impact of this loss, where is it still used and how is multi-employer bargaining discussed?

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

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

The last two chapters of the book discuss possible institutional instruments to optimise this kind of wage coordination. Thorsten Schulten (WSI-HBS, Germany), Torsten Müller (ETUI, Brussels) and Line Eldring (FAFO, Norway) discuss the prospects and obstacles of a European

minimum wage policy, while Thorsten Schulten (WSI-HBS, Germany), Line Eldring, (FAFO, Norway) and Reinhard Neumann, (Ruben Rolo, Portugal) clarify the role of extension mechanisms for the stability of multi-employer bargaining systems. The conclusion wraps up the main findings and policy views.

5. Re-focusing EU growth strategy

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

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Chapter 1
Indicators of collectively agreed wages in the euro zone: a quality report

Guy Van Gyes and Sem Vandekerckhove

1. Introduction

Given the great importance of collective bargaining for wage-setting in Europe, it is all the more astonishing that, even today, there is no official Europe-wide database or statistics on collectively agreed wages. The only exception is the *indicator of negotiated wages*, which is calculated by the European Central Bank (ECB) as an aggregate figure for the whole euro zone (ECB 2002). Because the ECB does not publish the underlying national data, the ECB indicator of negotiated wages contains only a rough calculation at a highly aggregated level, with no information that would make possible a European comparative analysis. The indicator is considered by the ECB itself to comprise 'experimental data': that is, statistics that are not yet fully developed in terms of coverage, rely on somewhat different source data, are not based on euro area–wide harmonised definitions or rely heavily on estimation techniques using substantial assumptions. There is also an annual report on pay developments in Europe published by the European Industrial Relations Observatory (EIRO) of the European Foundation for the Improvement of Living and Working Conditions, which includes data on collectively agreed wages (for the latest issue see Cabrita and Fric 2012).

In response to the problems posed by the financial and economic crisis, the European Union has meanwhile put forward a new series of policies better known as *European economic governance*. As emphasised in the Euro Plus Pact, wages and collective bargaining systems are seen as one of the main instruments for the European coordination of economic policy. Recommendations on wages can be traced in the EU 2020 recommendations of the ongoing European monitoring of national reform programmes and in the in-depth country reports of the macroeconomic imbalances procedure. Although there is still heated discussion of the

status and content of these recommendations – especially at the European trade union side – such a policy turn necessitates reviewing and improving the available comparative information for European policymakers and social-partner organisations. Therefore, a quality review and assessment of comparative statistics on collective agreed wages seems urgently needed.

The ECB's quarterly indicator of negotiated wage rates in the euro zone is based on non-harmonised data from 10 countries. However, the figures from Slovenia and France are based on national indicators of actual wage increases. The present chapter compares the design and quality of the available indicators of collectively-agreed wages for the other eight countries: Austria, Belgium, Finland, Germany, Italy, Netherlands, Portugal and Spain. These countries, which belong to the euro zone, have a clearly available indicator. Our comparison also digs out the available data for France. The indicators play a dominant role in the recent annual EIRO reports on collectively agreed pay (Cabrita and Fric 2012).

The quality concept applied in this chapter is in conformity with the definition developed by the European Statistical System (Eurostat 2009). The following quality dimensions are distinguished in this approach: relevance, accuracy, timeliness and punctuality, accessibility and clarity. Each of the quality components will be explained briefly at the start of the relevant section. Our main sources are individual quality reports, delivered by national experts during the spring and summer of 2012.[1] In drafting these quality reports, the experts contacted between two and five statistics stakeholders (trade unions, ministries of labour or statistical offices).

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1. BE: Sem Vandekerckhove and Guy Van Gyes (HIVA-KU Leuven); DE: Reinhard Bispinck and Thorsten Schülten (WSI Hans-Böckler-Stiftung); ES: Jesús Cruces Aguilera, Ignacio Alvarez Peralta and Francisco José Trillo Parraga (Fundacion 1º de Mayo); FR: Noëlle Delahaie, Michel Husson and Catherine Vincent (IRES); IT: Lorenzo Birindelli and Salvo Leonardi (IRES); NL: Maarten Van Klaaveren and Kea Tijdens (AIAS-UVA); AT: Sepp Zuckerstätter (AK Wien); PT: Reinhard Naumann (Instituto Ruben Rolo); FI: Pekka Sauramo (Labour Institute for Economic Research). We thank these experts for their contributions. The integration of their work in this synthesis chapter is of course the sole responsibility of the authors. The national papers were written within the framework of the CAWIE project, which was co-financed by a grant from the European Commission.

2. Designs and methodology

National indicators of collectively-agreed wages can be divided in two types. On one hand, they can be related to pay levels, on the other hand to pay increases.

However, the first type of indicator is, in the countries of study, not available or limited to a database, and not summarised in an aggregated statistical index. Only Italy and Portugal are exceptions to this (see Table 1).

As a result, we shall focus on the available indicators of pay increases.

Table 1 **National indicators or databases of collectively-agreed pay levels**

	Indicator (or database)	Comment
BE	(Juridisk)	Only (legal) database; privately-owned; access fee
DE	(WSI Tarifarchiv)	Only database; privately owned; accessible
ES	(REGCON database)	Only database; Ministry of Employment and Social Security
FR	Not available	Database of sectoral agreements reported to the Ministry; ad hoc studies; DARES and DGT of the Ministry of Labour, Employment and Health; no access; DGT publishes an extensive annual report on collective bargaining
IT	Nominal wage amount figures	ISTAT; published on quarterly and annual basis; annual national collectively agreed wage levels by accrual and cash value
NL	Not available	FNV trade union confederation and AWVN employers' organisations maintain database. The former is accessible via AIAS/ University of Amsterdam
AT	(KV-System)	Only legal database; privately owned; access fee
PT	(Database of collective regulations)	Database of collective agreements and in 2011 for the first time section in annual report on average collectively agreed wage level; DGERT Ministry of Economy and Labour
FI	Not available	Ministry of Justice maintains a database (FINLEX) that also contains collective agreements (that have been legally extended)

Source: CAWIE national reports.

2.1 Basic definition

Table 2 **National indexes of collectively-agreed pay increases, euro zone**

	Publisher	Name
BE	Federal Ministry of Employment, Labour and Social dialogue	Index of the collectively agreed wages (Indexcijfer van de conventionele lonen/indice des salaires conventionnels)
DE	Federal Statistical Office (Destatis)	Index of agreed earnings (Index der Tarifverdienste)
ES	Ministry of Employment and Social Security (MEYSS)	Statistics on collectively-agreed wages (Estadistica de Convenios Colectivos de Trabajo, ECCT)
FR	Ministry of Labour, Employment and Health (DARES-DGT)	Average annual change of collectively agreed wages (Evolutions annuelles du salaire conventionnel)
IT	Italian statistical office ISTAT	Index numbers of the collectively agreed wages (Indici delle retribuzioni contrattuali)
NL	Statistics Netherlands (CSB)	Collective Labour Agreement Wage Indexes (CAO-lonen indexcijfers)
AT	Statistics Austria	Index of collectively agreed minimum wages (Tariflohnindex)
PT	Ministry of Labour (DGERT)	Annualised weighted average variation between wage tables (Variação salarial nominal média ponderada intertabelas anualizada, VMPI)
FI	Statistics Finland	Index of negotiated wages and salaries

Note: It is important to note that Germany also has other indicators. The WSI collective agreement archive publishes collectively agreed pay increases and annual increases in collectively agreed basic pay. The German Central Bank also produces an index on collectively agreed pay. For further information see Germany's national CAWIE report (Bispinck and Schulten 2012).
Source: National reports CAWIE project.

Indexes of collectively-agreed wages measure the proportionate, or percentage, changes in a set of prices over time, wages being the price of labour. A price index is typically assigned a value of unity, or 100, in some reference period and the values of the index for other periods of time are intended to indicate the average proportionate – or percentage – change in prices relative to this base. However, the index is limited to changes in employee compensation agreed in a collective way, namely in a collective agreement. The ILO Right to Organize and Collective Bargaining Convention (No. 98), 1949 describes collective bargaining as 'Voluntary negotiation between employers or employers' organisations and workers' organisations, with a view to the regulation of terms and conditions

of employment by collective agreements'. Collective bargaining may take place at the national, sectoral or company level. In no European country is it found exclusively at one level. However, in most euro-zone member states strong trade unions and employers' organisations have resulted in many agreements being concluded at the national or sectoral level, supplemented by some company-level bargaining.

The existing indexes of collectively agreed pay increases focus on the average nominal (basic) pay increase as set by collective agreements for full-time workers. Two basic questions determine the content of the indicator:

(i) What set of agreed pay increases or collective prices of labour is covered by the index?
(ii) How are the price movements averaged?

Coverage and weighting, in other words, are key features of this kind of index (see below). But first we shall look at the national origins and uses of indicators.

2.2 Origins and uses

Five of the nine indicators are developed and published by the official national statistical agencies (Austria, Finland, Germany, Italy and the Netherlands). The four others are maintained by the ministry of labour.

The Dutch CSB publishes (since 1926) the 'indexcijfers van regelingslonen' (index of regulated wages). Statistics Finland and the Italian ISTAT started to calculate their indexes in 1938. Others commenced in the 1950s (for example, Belgium) and the 1960s (for example, Austria). Spain and Portugal introduced their indexes in the 1980s. The French Ministry of Labour developed its database only recently. The German statistical office expanded and modernised the calculated index markedly in 2010. It has data going back to 1995.

The principal use of the indexes of earnings is to serve as background material for the social partners in the process of collective bargaining. It provides information on past earnings, facilitating the search for a common understanding of past and future earnings trends. However, the CAWIE national reports mention that wage-bargaining targets more

often depend on actual parameters, such as profits, productivity, and inflation.

The original use of indexes, however, was related to the income-policy perspective. First, the indicators were used to monitor whether the price of labour – or rather, labour income – was following the ('other') consumer price index. Second, they have served as a reference point to increase certain social benefits. The Finnish index, for example, plays a role in the calculation of pension rights. Comparable examples are also found in other countries. Wage replacement payments for *Altersteilzeit* – a scheme partially to compensate eligible employees who reduce their working time as they approach retirement age – in Austria are increased according to increases in the *Tariflohnindex*. In Belgium the index is used, for example, in specific accommodation contracts to determine the rent increase.

In recent times the macroeconomic perspective has become increasingly relevant. The index has always been used in a number of countries in economic forecasts because it is a timely measure of wage developments. It is published frequently (monthly and quarterly). Other wage data are available only with some time lag. It is this characteristic in particular that the ECB also finds attractive. This timeliness makes the data very useful for monitoring and forecasting wage developments within the framework of the broader macroeconomic forecasting that the ECB needs in order to meet its (inflation-related) monetary-policy obligations.

This macroeconomic perspective has increased in importance due to the current European focus on competitiveness and the limiting new framework of euro monetary unification for national policies. In this perspective, wage 'moderation' is considered an important policy instrument, which has brought increased attention to bear on wage-setting systems and collective bargaining (the Euro Plus Pact is a recent instance of this).

A specific example of redirected attention is Belgium's introduction of a wage norm. The Belgian state tries to balance the automatic indexing of wages and sectoral bargaining with a strict law on monitoring and intervention in the wage-setting system. The 1989 law on the competitiveness of the economy (1989-01-06/31) authorises government intervention if average overall wage increases result – based on past performance – in an upsurge in relative labour costs and a deteriorating external

performance on the part of private sector companies. The 1989 law was extended in 1996 (1996-07-26/32) to enable the government to monitor the wage bargaining process even more closely. The most important changes with regard to the 1989 law were a shift from an assessment of labour costs based on past performance to one that predicted future performance, and the number of countries used as a benchmark was reduced to three. The forecast weighted rises in foreign hourly labour costs (a weighted average for France, Germany and the Netherlands) now act as an upper limit (termed the 'wage norm') for wage negotiations at all levels (macro, sectoral and company). The lower limit remains the automatic price index.

In sum, first users are ministries, employers' organisations, trade unions, the political sphere, the academic community and macroeconomic institutions. Secondary users are employers and private users (compare the use in the price escalator clauses of contracts). Countries such as Germany, France, Spain and Portugal also publish basic information concerning the indexes – namely the agreed pay increases of individual collective agreements – as a service to employers and employees. They do this electronically and/or in a journal. Belgium has comparable plans for the near future.

2.3 Method of calculation

Choice of index numbers

Two basic approaches can be discerned in the current indexes.

(i) Main approach: Laspeyres price index

A majority of the indicators can be defined as Laspeyres indexes. This applies to Austria, Belgium, Germany, Finland, Italy and the Netherlands.

The purpose of these indexes is to compare the aggregate values of collectively-agreed wages in two time periods. These values include a price and a quantitative element. A change in wage costs can be attributed to an increase of the wage (price element), but also to a change in how many workers receive this wage (quantity element). The constructed indexes are intended to measure the price component, just like the consumer price index measures the price component of the change in household consumption expenditure. Measuring or focusing on the price element means that indexes are constructed to capture the change in average

collectively-agreed pay, holding quantities constant. This set of quantities can be described as the 'basket' of collectively-agreed wages that is compared.

The period whose quantities are used in the index can be described as the weight reference period. In most of the studied indexes period zero, or the reference period, is also used as the weight reference period. As such, the constructed indexes belong to the group of so-called Laspeyres indexes. This might be formulated as follows:

$$P_L = \frac{\sum p_i^t q_i^0}{\sum p_i^0 q_i^0}$$

The values indicate a relative change but not absolute values (that is, one price index value can be compared to another or a base, but the number alone has no meaning). An index picks a base year for which its value is set to 100.

Table 3 **Base reference period used in 2012 for calculating Laspeyres indexes**

	Publisher	Name
Belgium	1997	Base period irregularly revised (future plan every 10 years)
Germany	2005	Weight reference period = 2006; revision after 5 years
Italy	2005	Revision after 5 years
Nether-lands	2000	Revision after 10 years
Austria	2005	Weight reference period = 2006; revision every 10 years
Finland	2005	Revision after 5 years, starting in 2010

Source: CAWIE national reports.

As can be seen from the definition, if one already has pay and quantity data for the base period, then calculating the Laspeyres index for a new period requires only new data on the pay increase. Therefore, calculating the Laspeyres index for a new period tends to require less time and effort.

The Finnish index has a slightly different approach. The index of negotiated wages and salaries measures the effect of collectively-agreed pay rises on the average regular pay rises. The index is, as such, calculated as a chained index using the same weight structure as in the (actual) wage and salary index. The effects of negotiated pay rises are estimated in relation to the earnings level as at the previous year-end.

(ii) Alternative, simplified approach

The Spanish and Portuguese indicators are constructed in a different way. The two countries' ministries of labour publish monthly overviews of the wages laid down in newly signed collective agreements. By way of synthesis they calculate an average of these agreed wages. In Spain this is done in a cumulative way, resulting in an average agreed wage increase for all reported collective agreements that year. Once a collective agreement is signed, each of the bargaining or peer committees (at sectoral, provincial or company level) must fill in a statistical sheet to be attached to the agreement when recorded at the Collective Agreement Registry. In the sheet the bargainers have to indicate the agreed wage increase as a percentage and the employees covered. This information is used to obtain the average increases. The French approach, still being developed, currently focuses mainly on calculating average annual collectively-agreed pay increases by branch. An average is calculated for the whole economy.

Coverage

Wage definition

Key to the calculation is of course what kinds of pay element are included in the index. In most countries index calculations take into account a broad definition of earnings (see Table 4).

As such, the definitions can be situated between the two concepts used internationally in wage statistics on pay (ILO 1973):

(i) The concept of *wage rates* is related to basic prices of a unit of labour, before adding any bonuses for overtime, shift work or family allowance, and before deducting contributions for social security and advanced tax payments. Wage rates can be expressed in units of time, such as an hour, a week, a month or as piece rates. It is the narrowest of all pay concepts and applies to workers in paid employment only.
(ii) The concept of *earnings* typically relates to the pay that employers directly give to their employees on a regular basis during a specified

Table 4 **Wage definitions of national indicators of collectively-agreed pay increases**

	Wage definition
BE	Base wage; does not include bonuses such as premiums, year-end bonuses and holiday allowances; factors included are wage increases due to automatic indexation, collectively agreed and working time revisions for workers with an hourly pay base. Seniority increments are not included, but are taken into account in the weighting procedure of averaging.
DE	Agreed earnings; not included are individual bonuses and premiums, one-off payments, flat rate payments and remuneration in excess of agreed earnings.
FR	Level of and increases in the minimum wage, which forms the content of sectoral collective agreements in the French wage bargaining system. This minimum wage can be a 'hierarchical' wage (*salaire hierarchique*) or 'guaranteed' wage (*salaire garanti*). The former are hourly or monthly wages which are close to the minimum wage, including basic pay, production or individual performance bonuses and benefits in kind. Guaranteed wages are monthly or annual wages whose definition is broader than the previous one and includes certain benefits, such as a seniority premium or bonuses related to working conditions.
ES	The wage increase considered is the increase in the base salary (without bonuses). Nevertheless many collective agreements refer to increases in total salary.
IT	Basic pay; seniority allowances; shift work allowances; all bonuses specified in national agreements and payable to all workers (but not one-off payments), as well as those paid periodically (for example, thirteenth-month payment as end-of-the-year premium).
NL	Collectively agreed wages, including specific remuneration: gross wages for regular working hours of full-time employees; all binding prescribed, regularly prescribed paid benefits; all binding prescribed, special (non-monthly) benefits, such as holiday allowances or end-of-year payments. Excluded are allowances only for specific worker groups or individuals, such as age allowances, shift allowances, or strictly individual pay increases.
AT	Included in the wage are all regular payments that are conditional on the job the person holds. Not included are payments that are conditional on personal circumstances of a particular person, such as special payments for parents, payments for special occasions, jubilee premia and so on. The wage also does not include wages paid in kind, due to the difficulty of attaching a monetary value to them. In most collective agreements wages are usually fixed in monetary terms while admissible deductions for in-kind rewards, such as food or housing, are fixed in the contract.
PT	Basic rates as defined in the wage tables annexed to the collective agreements.
FI	Increases in gross average earnings for regular working hours in sectoral collective agreements. The earnings concept includes one-off payments based on the relevant collective agreements. Compensation for overtime, holiday pay and other such items are not included.

Source: CAWIE national reports.

reference period. It includes basic pay for time worked or work done, as well as for time not worked, such as holidays and sickness. In addition, it includes other payments granted by the employer for various reasons, such as: overtime work, unsocial hours or schedules, difficult work, regular bonuses and fringe benefits, such as family allowances. On the other hand, it excludes all irregular bonuses, even if provided by the employer. Earnings are, like time rates, recorded gross of social security contributions or tax deductions.

The latter concept refers also to the gross earnings statistics published by Eurostat, referring to EU 1738/2005 of 21 October 2005. Gross earnings in this definition cover remuneration in cash paid directly by the employer, before tax deductions and social security contributions payable by wage earners and retained by the employer. All bonuses, regardless of whether they are regularly paid (such as thirteenth or fourteenth month pay, holiday bonuses, profit-sharing, allowances for leave not taken, occasional commissions and so on) are included.

The definitions used by Belgium, Portugal and Spain are more confined to the wage rate definition. The other definitions are closer to the concept of gross earnings, although all exclude some pay elements that are included in the actual gross earnings statistics. Overtime pay is always excluded.

Collective agreements included

The pay increases taken into consideration in Austria, Belgium, Finland, France and Italy are limited to sectoral or branch agreements. This bargaining level is dominant in these countries; nevertheless lower-level collective agreements are not included. Portugal and Spain report on the average pay increases of all agreements that are mandatorily registered at the Ministry of Labour. The Netherlands and Germany work with a sample of collective agreements of different levels to obtain representative coverage. Belgium has plans to include the company agreements of large companies in sectors in which the sectoral level is not dominant.

Sectoral/occupational scope

The scope of the index in Austria, Finland, Germany, Italy, the Netherlands and Spain is the whole economy. However, domestic help or the private households sector is explicitly not included in Italy and Germany. The Spanish ECCT provides information on all private sector workers (agriculture, industry and services) who are covered by collective

bargaining, as well as public sector workers covered by such bargaining (public administration, defence, social security, education, health care and so on). The scope of the Portuguese, French and Belgian indicators is more limited. They do not include public administration (civil servants). The Belgian index currently excludes also the collective agreements of large (semi-)privatised public enterprises (post, telecommunications and public transport). The French data exclude agriculture and parts of entertainment in their indicator for the private sector.

In most countries the indexes are also available as a national aggregate and presented in terms of a sectoral classification. NACE classification is common practice. In Austria, Germany, Italy and Spain the information is available in terms of NACE-2-digit, while in Belgium, Finland, the Netherlands and Portugal it is available at the level of letter codes (1-digit). Specific classifications based on industrial relations practice are, furthermore, used in Austria, Belgium, Finland and the Netherlands. In France these branches are the only sectoral classification used. A total of 278 industries are divided into three overall sectors: metal, construction and general.

Occupational classifications also play a role in the manner of calculation. In Belgium the index is calculated separately for blue-collar and white-collar workers, which are still recognised as a separate employment status in labour law. The French indicator deals with blue-collar workers (*ouvriers*), white-collar workers (*employés*), intermediary professions (*professions intermédiares*) and higher professional and managerial staff (*cadres*). Finland and the Netherlands distinguish between hourly-paid and monthly-paid employees (which is to a large extent also the main division between the blue-collar and white-collar segments in Belgium).

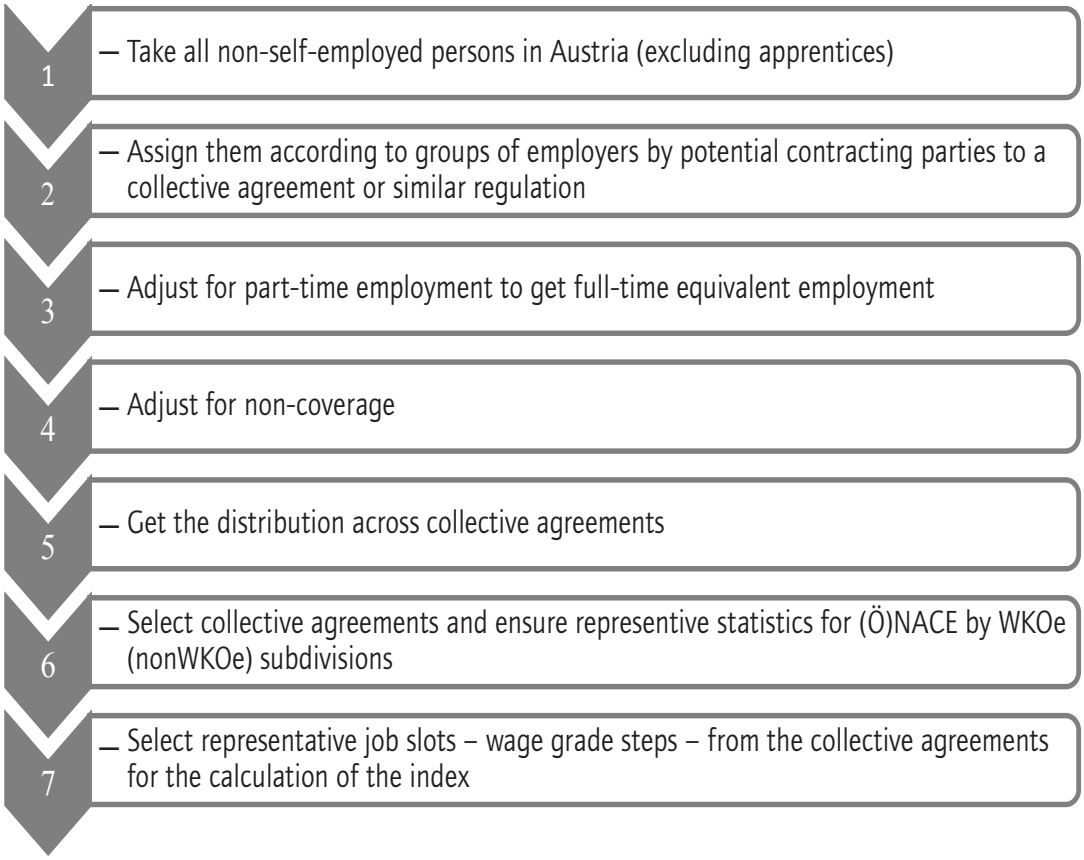
Sampling and weighting

The second important methodological question of the constructed indices of collectively-agreed wages is related to averaging – the quantity dimension of a price index. For the countries producing a Laspeyres index, this procedure concerns the base year (see Table 3). Figure 1 summarises the approach taken for the Austrian Laspeyres index.

Population or sampling

It is important in this regard to note that Austria, Belgium, Portugal and Spain use the whole population of registered collective agreements. In

Figure 1 **Weighting procedure of the Austrian** *Tariflohnindex*



Source: CAWIE national report Austria.

Belgium and Portugal, however, this population is restricted to sectoral collective agreements (see above).

Others use samples of collective agreements. Statistics Austria includes, for each of the differentiated sectors – NACE and section of the Chamber of Commerce and Trade (WKOe) – the most important collective agreements until at least 75 per cent of the wage earners covered by a branch-level agreement are included. The Italian ISTAT uses as selection criterion the fact that the pay increases of the leading national agreement are taken into account for each sector. As a result, the calculated index is based on a sample of 76 leading agreements. For the private sector this sample covers 85 per cent of employees. Statistics Finland monitors 216 base series to construct 70 industry-specific indices. In Germany the statistics cover at least 75 per cent of people covered by collective agreements in any sector or branch that is included in the index, for both old and new *Länder*. A total of 600 collective agreements are included. The

Dutch CSB samples 250 of the approximately 900 collective agreements, including all agreements covering at least 2 500 employees. The French database monitors all industries with more than 5 000 employees, totalling 278 and covering 66 per cent of the French private sector.

Determination of the average wage: weighting within collective agreements

A first step in calculating the average is to determine the average pay increase in collective agreements. In the majority of cases, this is not difficult, namely when the increase is set as a percentage increase for everybody covered by the collective agreement.

The difficulties start when increases are set not in relative but absolute amounts. A 5-euro increase in the monthly wage has a bigger proportional impact on lower wages than on higher wages. One complication occurs when a wage increase is granted only to certain wage categories. This can happen because a certain occupational group needs a higher increase due to labour shortages or to make the occupation more attractive. Another possibility is that lowest wages are subject to a higher increase. This happens, for example, in countries with a national minimum wage, although infrequently. The lowest wages in a collective agreement might, as a result, be below this minimum wage and must be raised to comply with the law. This has happened in France, for example, in recent years (André 2011).

Different approaches have been developed to handle the issue of determining the average pay increase within a collective agreement. The Spanish method is fairly straightforward, but also very 'subjective': bargainers complete a statistical sheet and this is one of the questions they have to answer. The Belgian ministry has, through its social security data, information on how many people are covered by a collective agreement, but lacks information on the distribution of these wage earners over the cells used in the wage tables of the collective agreement. It uses, as a consequence, a 'rough' construct, namely the median pay of all wage categories or the mean overall pay levels in the different categories. The latter is done when a sophisticated occupational wage classification system is used (including seniority increments per wage category).

The Portuguese have a fairly comprehensive method. For each collective agreement the average pay increase is calculated on the basis of a comparison of pay levels in the respective wage tables (present and earlier agreements). The weight of each wage group in the average of

an agreement is calculated on the basis of statistical employment data provided by the statistical office of the Ministry of Labour (GEP). These employment data are drawn from the annual company survey (Quadros de Pessoal) carried out by the Ministry of Labour. Companies are legally obliged to answer this survey and therefore the coverage tends to be complete.

The Italian statistical offices uses survey data, administrative figures and information provided by interviewees of employers' organisations to weight FTE employment by job levels and average for each agreement (the 76 national sectoral agreements monitored) the index by broad categories of occupation (blue-collar, white-collar and complex).

The French system monitors 278 branches. The weighting is organised on the basis of the tri-annual ACEMO survey on the development of monthly base wages. The year 2008 is currently used as the reference period. In this survey covering more than 200 000 enterprises and 12 million wage earners, employers with more than 10 employees have to indicate for three skill levels of four occupational categories (blue-collar, white-collar, intermediate profession and *cadres*) the base wage and the number of people. For each of the 12 socio-professional categories, the company can choose a reference job position to answer the wage question. This information is then used to select reference wages in the wage tables of the collective agreement. The lowest wage category in the table is accorded to skill-level one, the highest wage category to skill-levels two and three, for each of the four occupational categories (when included in the agreement). When different types of wages are agreed for this wage category, the so-called '*salaire hièrarchique*' is selected. The employment figures of the ACEMO survey are used to weight wage data in calculating the average.

Austria, Germany and the Netherlands apply comparable methods. The Dutch CSB monitors 259 collective agreements. The wage tables of these agreements contain altogether 28 000 different wage categories or measure points. Until 2006 the CSB organised a large-scale quarterly/annual company survey on employment and wages. Information was collected on the contract wage and wage scale. Employment weights for the different wage categories could thus be reconstructed. In a next step the statistical office sampled 4 700 of these measure points, guaranteeing that at least 60 per cent of the total wage sum is covered for each collective agreement. Use of the non-selected points is attributed, in the next

move, to the 'nearest' sampled points. As a result, weighted average pay increases for each collective agreement can be calculated by referring to the base year information as reference period.[2] The German Destatis collects the same type of information as part of the Structure of Earnings Survey. The German statistical office uses this information as main variable for occupational class (compare ISCO) as part of the individual wage information that is asked for concerning the sampled employees. The German statistical office thus uses all the wage groups, in contrast to the Dutch approach.

Another confusing element is the type of wage increase. The agreed proportional wage increase can be specific to the wage level as indicated in the wage table of a collective agreement or it can be a general percentage increase of the total wage. Both may be the same for an individual worker, but also may not. In a range of countries it is common practice that some wage increases are limited to wages represented in the wage table. However, as the calculated wage increases in the indexes refer to the (minimum) wages of the collective agreement tables, this practice does not distort calculations. However, conceptually and also for the bargaining partners in practice a 2 per cent increase in the total wage is, for example, a bigger increase in absolute terms (and cost) than a 2 per cent increase in the wage sum reference in the wage table of a (sector) collective agreement.

Aggregating average wages: weighting between collective agreements

The next step in calculating the average is the weighting of collective agreements. All countries possess employment data by collective agreement. Portugal, France and Germany use mainly (large-scale) survey material for this weighting; the Netherlands (since 2006), Finland and Belgium mainly administrative data; Austria and Italy a mixture of the two. Spain uses self-reported figures from the statistical sheets of the collective agreement.

Belgium, Germany, Italy and Austria – of the countries working with a base year – use only the employment distribution of this base year. The Netherlands and Finland adjust these figures, although in a different

2. The Dutch CSB stopped organising the survey in 2006 and now relies on information from the tax administration for such data. These data do not include contract wage information related to collective agreements, however.

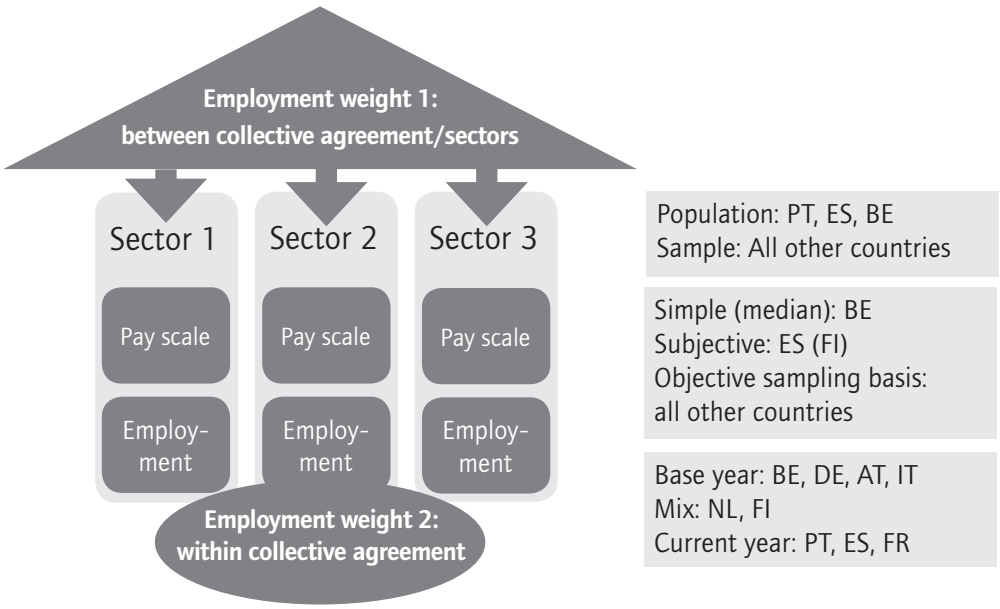
way. The Finnish statistical agency uses annual changing weights in the aggregation of the 216 base series of the industry-specific indexes and fixed-weights of the base year for the aggregation to 70 industry-specific indices. The Dutch statistical office uses changing weights of employment between collective agreements, but not for the weighting within agreements.

Summarised

Figure 2 summarises these weighting procedures for calculating the 'average' increase. Key differences concern whether:

- it is based on a sample or the whole population of covered collective agreements;
- it is a base year, current year or a mixture of the two;
- the weighting within an included collective agreement is based on the objective collection of employment figures by pay scales or based on a simple or subjective method.

Figure 2 **Weighting procedures to calculate average pay increase**



2.4 Periodicity and revisions

Belgium, Finland and Germany publish indexes on a quarterly basis. The French data are also quarterly updated, but they are not published regularly (currently usually annually). Italy publishes monthly, quarterly and annual data. The annual data are published in March together with the monthly data for January and February. Portugal and Spain publish monthly averages, which are cumulated in an annual figure.

Preliminary monthly calculations are published by Austria and the Netherlands. The Dutch office indicates the number of agreements on which the calculation is based and updates it monthly until the figures are definitive. It also publishes quarterly and annual indexes. Statistics Austria takes the same approach, publishing preliminary calculations 15 days after the end of the month; the final figures come three months later. Retroactive revisions, that is, are included only in these three months, but for this rule, again, there is an exception for important agreements (representing more than 5 per cent of workers covered by the index).

The French data take into account the effective date when the wage increase is foreseen by the agreement. When this date has passed (for example, an agreement in November refers already to an increase in January), the signing date is used as the date of implementation. The Italian ISTAT, to counter this problem of retroactive wage increases, publishes two indicators on pay levels: 'accrual' with retroactive revision and 'cash value', which is what people actually received at the time of payment. The Italian index is published monthly and annually.

The Spanish indicators differentiate between 'agreed' and 'revised wage increases'. The revised wage increase is the result of incorporating the impact of revisions on account of 'wage guarantee clauses' to the agreed wage increase for the period, in cases when such revisions are retroactive whatever the date on which they were actually paid. In other words, the result of the revisions is attributed to the year for which they are retroactively calculated (and agreed).

3. Comparative quality assessment

There is no universal definition of quality; it is multifaceted and can therefore mean different things to different people, depending on the

various procedures and products. In relation to statistical output quality, the European Statistical System's (ESS) six dimensions of quality are generally used: relevance, accuracy, timeliness, accessibility and clarity, comparability and coherence. The structure of the section is based on this ESS quality concept. Our assessment is organised from a harmonisation perspective. Harmonisation can be defined as actions or processes that, through matching and blending, bring about agreement, reconciliation or standardisation. Harmonisation is the process of agreeing and applying standards that can lead to comparability. Comparability, as we have seen, is one of the ESS dimensions of quality. As we embrace the harmonisation perspective in this chapter, comparative coherence is of course a key aspect of relevance. Thus we first discuss relevance, comparability and coherence combined.

3.1 Relevance, coherence and comparability

Relevance is the degree to which statistics meet current and potential user needs. It depends on whether all the statistics that are needed are produced and the extent to which the concepts used reflect user needs.

Changing needs

In the different countries the relevance of the statistics on collectively-agreed pay increases has been attributed mainly to income policies, informing social dialogue on this issue and linking this information to social policies. Especially in countries with varied or diffuse agreements at different levels (local, regional, national) and demarcations (company, sub-sector, sector) and different timings, this reporting is instructive for other bargainers (see, for example the examples of the Netherlands, Portugal and Spain). However, it is certainly the case that it is only one of the statistics bargainers look at (and probably not the main one). The following passage of the French CAWIE report is illustrative in this regard: 'the main conclusion of interviews with social partners is the weak use of French statistical data. At the time of collective bargaining, social partners mainly focus on consumer price index, on the minimum wage (SMIC) and housing charges. They look at the hourly wage for manual worker index (SHBO) which is supplied by DARES publications to understand the development of the SMIC' (Delahaie *et al.* 2012: 10).

This kind of horizontal coordination usage is complemented by a more macroeconomic perspective. Evidence of this perspective is most clear in

countries where vertical coordination of collective bargaining has been strong. Statistics Finland cooperates with the Information Committee on Cost and Income Developments, established for four years in October 2008 by the Finnish Prime Minister's Office (its predecessor was the Incomes Policy Settlement Commission.) The Information Committee prepares economic reports and estimates for collective bargaining and decision-making. It also monitors how collective agreements are implemented and assesses their impact, taking account of euro-area requirements and labour market stability and functioning. In addition, the Committee serves as a discussion forum for assessing the extent to which wage formation and collective bargaining can promote employment and advance the functioning of the labour market as circumstances evolve. The Committee has a tripartite composition. Trends of collectively-agreed wages in the country and its three main neighbours (France, Germany and the Netherlands) play a dominant role in the technical report that the Belgian Central Economic Council publishes each autumn. Every two years the Council tries to determine a wage norm to coordinate collective bargaining in Belgium. Also in other countries, statistics on collectively-agreed pay rises play a role in macroeconomic discussions, among other things because of the timely availability of this wage information in forecasting (by central planning offices or national banks).

These macroeconomic purposes of coordination have in recent years increasingly attained a European dimension. Attempts at horizontal coordination, especially on the trade union side, have been developing at sectoral level (for example, European Metalworkers Federation, EMF) or in neighbouring countries (the Doorn Initiative). Most recently, the ETUC, in a 2010 resolution on the coordination of collective bargaining, urged trade unions to resist wage freezes and wage cuts in the context of tentative economic recovery. It notes that trade unions should refuse to bargain arrangements that have the effect of poaching jobs from other countries, regions and companies. Within the context of the dominant mantra of competitiveness and of euro-zone monetarism, the EU added another dimension to this macroeconomic governance in the current economic crisis. The European Commission (2010a, b, c) published six proposals which make up the economic governance package, emphasising the importance of wage-setting mechanisms that allow for 'competitive wages' and proposing indicators (the so-called 'scoreboard') to safeguard this aim (by evaluating wage indexation mechanisms, decentralising bargaining, decreasing wages in the public sector and so on). Finally, in March 2011 a majority in the European Council (the 17 euro and

six non-euro member countries) endorsed a pact on competitiveness, now renamed the Euro Plus Pact, which has resulted in a reinforcement of fiscal austerity policies and an increase in competitive-wage pressures. In February 2012, the European Council adopted the abovementioned scoreboard to tackle macroeconomic imbalances.

3.2 Coherence and comparability

From these developing user perspectives, which increase the need for European comparison, it is important to note that only nine of the 17 countries belonging to the euro zone construct this type of index. However, these countries represent more than 90 per cent of euro-zone GDP; only Greece and Ireland, of the countries that constitute more than 1 per cent of euro-zone GDP, are missing. A starting base, in other words, is certainly available, especially when one considers that a basic approach can be detected in the various countries, namely monitoring the trend in nominal average pay increases.

It is also important that most of the countries can already produce statistics using the common NACE sectoral classification. France is an exception. Private sector data are everywhere included. Public sector data are missing in Belgium, France and Portugal, however. Employees of private households are also not always included (for example, in Germany).

Two fundamental issues, furthermore, have to be dealt with in order to make further progress: the lack of a common wage definition and method of averaging hamper coherence and comparability.

Six of the nine existing indicators calculate an average collectively-agreed pay increase based on a fixed-weight system with a base year or a so-called Laspeyres index. The French have not yet invested adequately in making average increases available. The Portuguese and Spanish ministries take another approach, calculating an average increase in the monthly/quarterly/annually published agreements. This is a fundamentally different approach from those of Austria, Belgium, Finland, Germany, Italy and the Netherlands. The latter countries focus on monitoring the collectively agreed pay increase of the average (representative) worker. The average worker is constructed by distributing the employment of a base year over the wage tables of ‘representative’ collective agree-

ments, using this distribution to weight the averaging. 'Representativeness' is linked to the coverage of collective agreements in this base year.

The approach taken by Portugal and Spain looks at the average agreed pay increase. The main current approach, however, is a price index, namely the price of labour. The difference is best illustrated with a theoretical, but illuminating example. When most of the collective agreements in a country foresee no wage increase (probably because no agreement will be signed) and only one, which covers 5 per cent of employees, foresees an increase of 5 per cent, the Portuguese and Spanish indexes would end up with a 5 per cent increase (averaged to an annual figure). Laspeyres indexes, however, would indicate only a 0.25 per cent increase. Of course this is a theoretical case, but it shows how sensitive the Portuguese and Spanish indicators are to 'zero' or 'no' agreements.

The Portuguese and Spanish approaches are, however, better at catching new trends in employment. The moment these new sectors are covered by a collective agreement, they are included in the Portuguese and Spanish indicators. In the price index system, these new agreements would only enter when the coverage of the index system is revised. Most price index systems are updated every five years. The Dutch system does so only every 10 years, but they update the weighting between collective agreements on an annual basis.

To conclude, from the 'price of labour' perspective, the Laspeyres index approach is superior, when a well-developed weighting methodology is available.

Another difficulty with regard to coherence is the varieties of wage definitions applied. Some focus more on basic wage rates (Belgium, France, Spain and, to a lesser extent, Austria), others use a more comprehensive earnings definition. Peculiarities reign. The German indicator currently does not include flat sum increases (but this will change). Holiday and end-of-year premiums also cause confusion. From the macroeconomic perspective, it would be advisable to streamline as much as possible the wage definition with the wage concept of the statistics on actual earnings. For example, in the present Belgian index, the congruence between the labour cost indicator and the indicator of negotiated wages is imperfect. Some public/private enterprises (for example, postal services and telecommunications) do appear in the labour cost index, but negotiated wages are not measured. On the other hand, schools are absent from

the (private sector) labour cost index, while negotiated wages are measured. The first of these two issues is purportedly to be resolved. The Italian CAWIE report (Birindelli and Leonardi 2012) pinpoint the fact that labour-cost data are mainly left out of national accounts. These calculations include estimates for the informal economy, which again makes comparison more difficult and open to interpretation.

A stress on the macroeconomic perspective would in any case involve the broader ILO definition of earnings. Also illuminating in this regard are Dutch and Finnish practices. The Dutch calculate and publish two types of index: regular payments with and without special premiums and bonuses. Statistics Finland produces the index of negotiated wages and salaries as an organic part of the construction of the index of wage and salary earnings. Because wage drift can thus be measured consistently, the index of negotiated wages and salaries has been an indispensable tool in studies on wage determination in Finland.

From a scholarly perspective a restriction to basic wage rates equates the wage drift with the wage cushion. If variable wage components are monitored, however, a distinction can be made between uncontrolled wage drift (a wage change that was not negotiated) and wage flexibility allowed by the negotiating partners.

3.3 Completeness

The target of calculations and estimations is the average collectively-agreed pay increase. Besides the already mentioned sectoral 'gaps', a key issue with regard to completeness is the inclusion of lower-level collective agreements, in-house company agreements.

The Dutch and German indicators cover this decentralised form of collective bargaining fairly well by sampling collective agreements based on an employment threshold. Belgium has plans in the same direction. Spanish and Portuguese information is also fairly complete in this matter. The lowest level of completeness on this issue is found in Italy: only leading nationwide sectoral agreements are covered. The territory-linked bargaining is very partially covered. Collective bargaining at firm level is absent. As sectoral collective bargaining is still dominant in most of the countries, this issue should not be exaggerated. It is nevertheless a point of increasing concern (due to decentralisation).

The issue of time coverage seems to apply mainly in France. Information collection for the DGT-DARES database was not always systematic before 2003 and the scope of coverage was different: industries covering 10 000 employees were taken into account (as against industries with 5 000 employees after 2003). Secondly, before 2003, information on wages was available for three occupations only, while four occupations are now reported.

We can further conclude that higher-level managerial staff and apprenticeships are usually excludes from coverage. The focus is on the average pay increase of full-time workers, which is a commendable choice. The Spanish ECCT does not provide salary information for different occupational groups or other job classifications (for example, type of contract, seniority), because this data is not supplied by all companies and therefore is unrepresentative and unreliable.

3.4 Accuracy

The accuracy of statistical outputs in the general statistical sense is the degree of closeness of estimates to the true values. Taking into account from the previous section the fact that the available indicators do not measure the same things in the same way, one could nevertheless argue that the measurements are very accurate. There is little criticism of this in the countries concerned, except perhaps in Belgium, but there a revision of the methodology is planned. It is, however, again important to stress that part of this high accuracy is obtained by limiting the coverage and completeness of the indicator. Limiting it to the basic pay rate and/or national sectoral level and/or excluding certain sectors/occupations, makes the calculations a lot easier and more accurate in a range of countries, with Belgium again providing an example.

Additional flaws in accuracy can be detected and we shall focus on some sample, coverage and measurement issues.

No sampling errors

Sampling does not play a major role in most of the indexes calculated. It is only in the sophisticated indexes of the Austrian, Dutch, Finnish and German statistical agencies that sampling plays a role in constructing the base reference points or elementary aggregates of the price index. Non-probability sampling is the main strategy. One looks at 'leading'

agreements, the 'biggest in employment coverage'. Threshold are applied: coverage of 70 per cent in a sector and the most important pay scales. Information for this sampling comes from administrative population data or large-scale official surveys to which companies have a legal obligation to respond.

One could hypothesise that a focus on bigger, leading agreements has the potential to 'overestimate' pay increases, because smaller, weaker agreements are not included. However, this idea remains speculative as no 'bias' of this kind is reported in the relevant countries.

Coverage errors in technical details

Coverage errors (or frame errors) are due to divergences between the target population and the frame population. Undercoverage is closely related to the completeness problems already mentioned: not all countries cover all agreements and all sectors.

Other possible coverage errors are more probably due to technical details.

The first kind have to do with the timing of collective agreements. Agreements can have a multi-annual duration, be retro-active or conditional. The indicators that calculate average wage increases and not average price increases (see above), particularly struggle with this issue. The Spanish ECCT only takes into account agreements with annual economic effects that are registered with the Labour Authority, but not those with 'ultra activity'. The situation is compounded in the case of multi-year agreements, which are registered only in the reporting year without annual updates for the duration of the agreement. Thus, the ECCT leaves out all agreements that are not newly registered every year (either because they are multi-year agreements or because they have to be extended). Portuguese wage increases are calculated on the basis of the agreements published in a determined period (month, quarter, semester or year). Different agreements published in the same year may cover different periods. Some may cover 12 months, starting on 1 January, others on 1 March, and so forth. Furthermore, there are many agreements covering more than 12 months, many of them with a retroactive effect of several months or even a year. This raises some problems for the interpretation of the data. The first is that the average increase of wages in agreements that were published in a determined year does not refer exactly to that year. This is particularly relevant in years with a very long

average duration of agreements, for instance 2005 and 2006 (more than 20 months).

The Dutch CSB solves this by publishing preliminary figures and indicating on how many agreements the data are already based. The Italian statistical office publishes two indices: accrual (with ex-post revisions) and cash values (without).

Another difficulty with regard to coverage concerns the growing fragmentation of collective bargaining in some countries. Opting-out, wage cuts or 'overruling' of collective agreements by authorities applying g a wage freeze cause problems of under-coverage. Until a few months ago, the Spanish ECCT, for example, did not generally consider wage cuts, which prevented registration of 'negative increases'. A change in the computer software was needed for that purpose, although the effect is not yet visible in official statistics. It should also be noted that the ECCT does not reflect recent statutory wage cuts applied by public authorities, since wage reductions are incorporated into the database only if they have been the subject of discussion and agreement between the parties involved in collective bargaining. The agreements still reflect wage increases that were agreed some time ago and have little bearing on reality. In addition, potential improvements on wage levels specified in collective agreements may be changed unilaterally by employers under the labour reform introduced by Royal Decree-Law 3/2012. The current crisis situation highlights an additional problem with the ECCT. Although the information is relatively current and regularly updated, wage increases for the years 2010, 2011 and 2012 may be overestimated for different reasons: many agreements for 2010 and 2011 do not yet include any clauses on the revision of wage growth relative to inflation, many others have been revised downwards and others are still unknown, since they have not been and may never be registered.

The German statistical office is also considering how to integrate the growing practice of opting-out in their country.

Measurement errors

Non-universal granting of pay increases and weighting quality

Measurement errors can be considered low as many pay increases are granted as a percentage to all workers. But the risk of measurement errors rises considerably when only particular groups of workers are assigned a (higher) increase or the increase is a fixed amount and not a percentage.

Accuracy depends heavily in these cases on the quality of the weighting procedure. Information on employment through the wage tables of collective agreements is the key issue in this regard. Combining different sources, Austria, Finland, Italy and the Netherlands manage to collect this employment information in a satisfactory way. Germany and Portugal have high-quality information on this matter based on regular, official survey material: the Structure of Earnings Survey in Germany and the Annual National Company Survey (Quadros de Pessoal) in Portugal. Belgium has the biggest problem here because it lacks employment figures from wage tables and as a result uses only a simplified weighting (between collective agreements). At the moment, an average (generally arithmetic) is taken of all occupations defined by the sectoral agreement. A major issue is the fact that we have no insight into the extent to which the unknown distribution of functions would deviate from such an average.

The Finnish data rely on 'subjective' information from the employers' organisations to obtain the part of pay increases that can be related to a negotiated agreement. For each agreement (the base series) the employers' organisations provide their estimates about the contribution of pay increases concluded in collective agreements. Using this information Statistics Finland constructs the base series-level contributions of collectively agreed pay increases and aggregates these increases to sector-level contributions.

This 'subjective' factor plays an even bigger role in the Spanish case. One of the main problems of the ECCT concerns the completion of statistical sheets. In principle, bargaining or peer committees are responsible for filling in the data; however, the sheets are often completed by the company or even by contracted agents (without being checked by workers' representatives) and that affects the quality and reliability of data. Furthermore, it is next to impossible to translate the complex details of collective bargaining into a digit in a statistical sheet. For example, the agreed wage increase – one of the main results provided by the records – is generally considered with regard to the base salary, but in many agreements it is based on the total salary and distributed through bonuses, or distributed only to certain categories of workers. It is therefore difficult to obtain a single or generally valid figure for the wage increase. As a result of poor completion of statistical sheets, the information on the number of workers affected by collective bargaining is not very reliable in some agreements above company level (as the av-

erage number of workers per sector is difficult to estimate for bargaining committees).

As already stated, this measurement problem should not be exaggerated as it is confined mainly to particular atypical agreements. However, one can estimate that this measurement error is bigger in times of economic crisis, when these atypical agreements are negotiated more often (for example, lump-sum, particular groups receiving different pay increases).

Pending questions on price index methodology

If one goes further into the technical details, one could raise some additional questions about possible measurement errors. These questions can be formulated by making analogies with similar reported measurement errors of the better known consumer price index (United Nations 2009; ILO 2004). The questions mainly concern the use of the index number formula: a Laspeyres index based on fixed weights of a base year.

A first relevant shortcoming of CPIs is new product bias. This occurs when new goods and services are introduced into the economy but are not incorporated into the fixed market basket of the CPI until much later. A 'bias' problem is that a large part of the price decline for many of these new goods occurs in the early stages of the product cycle, when they have not yet been included in the CPI. One could hypothesise that this new product – here a new agreement – bias operates in the opposite direction for collectively-agreed pay. First-time agreements in a (new) sector will probably undergo a kind of 'catch-up' process. The index indicators, using a base year with a fixed basket of agreements, are here confronted with a distortion. The annual averaging Portuguese and Spanish indicators have an advantage here.

A second strongly debated issue in relation to the CPI is 'substitution bias', which occurs when consumers substitute between types of goods and services when relative prices change. A fixed market basket measure such as the CPI assumes that, contrary to standard economic theory, consumers do not substitute comparable products (for example, fast food) when the price of one rises relative to the other. It seems safe to argue that this kind of substitution effect does not operate with regard to the price of labor, but this type of labor index is hampered by a comparable effect, namely the composition effect, related to the anti-cyclical evolution of low-wage employment. When an economy grows, the amount of lower-paid jobs (temporary, low-skilled) rises; when an economy enters

a crisis, these jobs are the first to go; this is certainly the case in the euro zone. Such jobs also characterise the turn from an industrial to a service economy.

The ECB (2012) provides proof of this composition effect for actual wage developments. The ECB investigated the changes in actual wages for five European countries (France, Germany, Italy, Belgium and Portugal) for a period of one or two years between 2007 and 2010. They split the observed wage change into two effects, a 'prize effect' which represents a real change in wages, and 'composition effects'. These composition effects are the effects of changes in (the characteristics of) the workforce. For example, during the crisis, in particular workers on low wages (young, low skilled) became unemployed, which changed the composition of the workforce and thus influenced the development of the average wage. When a large part of low wage workers leave employment, it is possible that the average wage will increase, even though individual wages remain the same or even decrease. This is illustrated by the analyses of five countries. The observed wage change for all countries was positive. However, when this change is split into a prize effect and composition effects, a different wage evolution was found. The prize effect was negative for four countries and diminished considerably for Portugal. Real wages have thus declined in most countries during the crisis years. However, large positive composition effects were found for all countries, explaining the total positive observed change.

It is probably correct to state that these insights can also be transferred to the Laspeyres indexes of collectively-agreed wages. It is important to obtain information on what point in the economic cycle the base year information is gathered. In periods of severe unemployment, it seems fair to assume that a Laspeyres index overstates the 'average' price/pay increase collectively agreed. The Finnish national expert reports such a problem concretely. When the wage and salary earnings index 1990=100 was calculated, construction had, after the construction boom of the late 1980s, too great a weight in comparison to the real situation. During the depression years of the early 1990s the share of the construction sector collapsed. A possible solution would be to adopt a Fisher index that would take into account the employment distribution weights of the base year and the current year. It all depends of course on what one focuses on: the trend in the price effect or the trend in the price cost effect. The latter is more important from a macroeconomic perspective and necessitates inquiries into the composition effects.

All in all, one should not exaggerate these technical questions. From a scientific point of view, however, they invite us to further methodological research (and possible solutions), as has been done for the harmonised calculation of consumer price indexes.

3.5 Organisational quality

The indexes presented are provided by two types of official organisation: national statistical offices (Austria, Finland, Germany, Italy and the Netherlands) and the statistics departments of ministries of labour (Belgium, France, Portugal and Spain). In general, one can say that the organisational quality provided by the statistical offices is higher than that of the ministries of labour. A release calendar drives timeliness and punctuality. Larger and more sophisticated use of internet tools provides better accessibility. Nevertheless, the input of labour ministries is essential to provide expert knowledge on the basic aggregation points, namely collective agreements, their pay settlements and their wage tables or pay scales.

Timeliness and punctuality

The timeliness of statistical outputs is the length of time between the event or phenomenon they describe and their availability. Punctuality is the time lag between the release date of data and the target date on which they were scheduled.

As already mentioned several times, timeliness is considered an important characteristic of the indicators on collectively-agreed pay increases. They are praised for this quality. Monthly or quarterly data are available that are published very quickly after the end of such a period. Information delay depends mainly on how long the bargaining process takes and on the procedure for registering and recording the agreement in the database of collective agreements.

We illustrate this delay issue with the Portuguese case. The period between signing an agreement and its deposit at the Ministry of Labour may take some months; the period between deposit and the publication in the Bulletin of the Ministry normally takes only a few weeks. The online publication of the DGERT's 'Reports on collective work regulation' normally occurs in the first week of the following month. From this perspective the source is very prompt. The wage increases stipulated in the

collective agreements often refer to periods that start several months before their signing and subsequent publication. This kind of delay is the sole responsibility of the negotiating parties. As an example we might consider an agreement that has been signed during a certain period on a regular annual basis, always two or three months before the end of the year. Thus, the Ministry has always been able to publish the agreement before the date the agreement and its wage table came into force (let us say, 1 January). In a particular year, negotiations reach deadlock and the agreement is signed only in April, that is, several months after the end of the validity of the previous wage table (31 December). The new agreement includes a wage table whose validity commences on 1 January, several months before the agreement has been signed. This happens with some frequency and causes delays in the publication of agreements and subsequently of the statistical data on wage increases.

The time lag between the release date of the monthly reports and the target date on which they were scheduled for release is very short in Portugal. The indicators of timeliness and punctuality must be considered separately for the Italian monthly indexes and for wage level indicators. For the indexes, monthly publication is regulated by an annual calendar of press releases, made available by the end of one year for the following year (that is, by the end of 2011 for the whole of 2012). Their release schedule has always been respected. Annual Wage Levels by accrual value are generally published in March with reference to the previous year. The degree of information completeness/temporariness varies: in March 2010, for a series from 2005 to 2009, only the year 2005 was definitive. The degree of coverage gradually decreases for more recent data (98.9 per cent of employees in 2006 and 2007; 92.8 per cent in 2008 and 91.6 per cent in 2009). Dutch data are available for each month at the beginning of the next month. Due to the use of annual data concerning the distribution of the labour force over the measurement points, the finalisation of the index lags more than a year behind. By May 2012, the index over 2011 still has to be finalised.

Accessibility and clarity

The accessibility of statistical outputs is the measure or the ease with which users can obtain the data. It is determined by the physical conditions under which users obtain data: where to go, how to order, delivery time, pricing policy. The clarity of statistical outputs is the measure or the ease with which users can understand the data. It is determined by the information environment within which the data are presented;

whether the data are accompanied with appropriate metadata; whether use is made of illustrations such as graphs and maps; whether information on data accuracy are available; and the extent to which additional assistance is provided by the producer.

A quality difference can be detected in this matter between the statistical offices and the other sources. Metadata and elaborated methodological notes are produced and easy accessible; in particular, the notes from the Netherlands and Austria are very detailed (Statistik Austria 2011; van den Berg 2004). Destatis, CSB, Statistics Finland, Statistics Austria and ISTAT also have extensive possibilities for presenting the data in different ways and with illustrations, such as graphs and maps. More experienced professional users – the main users of this type of data – are certainly better served by these offices.

Occasional users will also find publications produced by these offices with data in static format that are easy to find and interpret. However, the French, Portuguese and Spanish ministries of labour are better at integrating these indexes in a more global panorama of collective bargaining or wage development. The Portuguese and Spanish labour administrations have also invested in internet tools, whereby collective agreements and wage tables can also be consulted. Belgium has comparable plans and now provides collective agreements on the website in a basic format. Of the statistical offices, only the German Destatis presents this type of information (in a partial way).

Three more general remarks can be made about the accessibility and clarity of the statistics.

First, transparency on the basic weights is rather low in comparison with information available on, for example, the building blocks of consumer price indexes. The Dutch CSB is perhaps the most transparent. They also indicate clearly the preliminary character of their first calculations by indicating how many agreements the calculation is based on.

Second, long-term time-series are not always available. For example, in Finland online data by employer sector are available from 2000 and by industry from 2005. Data for longer periods are available on request.

Third, statistics are currently to be traced at the national level. The annual reports on pay developments of the European Foundation for the

Improvement of Living Conditions refer to these data, but they are not collected in a data-file format, nor in detailed form presented by sector. Again taking the example of Finland: data are available for regular users who pay for access to the relevant database (ASTIKA), but currently they are not available free of charge through the internet (even though they can probably be obtained free of charge upon request). French data are only publicly available as part of a written publication. Belgium data are available in Excel files buried in the website of the Ministry of Labour.

Finally, a series of countries publish data using an occupational classification. This is particularly the case in Belgium and France. Others refer to monthly-paid and hourly paid occupations (Finland and the Netherlands). Others have no such information. From a European perspective, this situation blurs the picture.

Conclusion

In this chapter we compared the nine available indicators on collectively-agreed pay increases in the euro zone. Basic insights have been provided into the methods applied. A quality assessment has been conducted using the framework of the European Statistical System as guideline. Besides direct input for bargainers and being a trend indicator for other income policies, the indicators also play an increasing role in macroeconomic policies. Methodological accuracy can be considered high when the basic information on the employment distribution by wage tables of collective agreements is available, one way or another. However, not all countries make this type of information available. The Spanish indicator depends in this regard on subjective reporting from collective bargainers, Belgium uses for the employment distribution by pay scale a statistical artefact (the median pay scale). From a comparative point of view major challenges include coherence and completeness. Different wage definitions are used; one or several indicators are calculated; sectoral coverage is not the same everywhere; lower-level collective agreements are not always included. As such, each of the indicators faces challenges (see Table 5). The available indicators are, furthermore, split between two fundamentally different approaches. The more sophisticated approach is the index type, which is comparable with a consumer price index. However, pending technical questions can be raised about the current calculation method (a Laspeyres index), when taking the composition effects during the business cycle in average wage trends into consideration.

Table 5 **Specific challenges of the indicators studied**

	Challenge
BE	(Expected and planned) revision of the basic weighting procedure and other methodological improvements
ES	Quality of the subjective basic data
IT	Coverage beyond national agreements
FR	Growing into a regular statistical publication
PT	Use the data potential to calculate a more sophisticated price index
NL	Maintain the data information to update weights of a reference period/base year
AT	Inclusion of other forms of remuneration (by extra indices)
FI	Increase transparency of basic data collection
DE	Maintain coverage of the currently fragmented German pay bargaining system (opting-out; company-level)

Source: CAWIE national reports.

Taking this quality assessment into consideration, how can we then argue for stronger harmonisation of these statistical indicators on collectively-agreed pay in the euro zone?

Reasons for developing such a harmonised statistical system for collectively-agreed wages are certainly growing. The evolving coordination of collective bargaining in the euro zone forms the basis of these arguments. Due to globalisation, more and more pay bargaining is taking place beyond national borders (Glassner and Pochet 2011). In the euro zone this (implicit) horizontal coordination is strengthened by the developing German leadership on wages (Ramskogler 2012). One is also seeing more attempts from the union side to develop this kind of coordination (for example, the Doorn Initiative and the collective bargaining networks within IndustriAll). As already stated in the introduction, the pressure for vertical coordination as part of the new European economic governance is also mounting. An evidence-based policy discussion on wage setting in the euro zone would be helped by stronger harmonisation of the available indicators. It is important to know in this regard that the European Central Bank is using these data.

Such harmonisation would be best developed step-by-step, given the current fragmentation. We distinguish three main steps within this cumulative learning process that would leave space for experimentation

and for an informed debate with users: open coordination, minimal harmonisation and strong harmonisation.

Although only nine of the current 17 euro zone countries calculate a statistical indicator of collectively agreed pay, this can be considered an important starting basis. The countries with an indicator cover 93 per cent of total euro-zone GDP. Only Greece and Ireland are missing among the larger countries (by GDP). The international sector classification NACE has broadly been adopted. Databases with high reliability exist on the basic raw data, namely pay increases within collective agreements. A key issue on the road to more harmonisation is of course the different approaches. France, Portugal and Spain monitor average increases in collective agreements annually. The other countries (Austria, Belgium, Finland, Germany, Italy and the Netherlands) calculate a more sophisticated index with a base year of the collectively agreed increases in average pay.

In a first step of open coordination the whole group could learn about the quality procedures used mainly by the official statistical offices in the group. Transparency concerning the adopted weight system could inspire a mutual learning process. Making reference to each other indicators would also help in this regard. Solutions could be exchanged on the accuracy problems that have been dealt with: the threshold for including company agreements; the development of more than one index to include premiums; how to deal with opting-out clauses in agreements, pay decreases, working time changes and retroactive pay deals. Creating this European level of statistical exchange and coordination would probably also help to increase the national attention (in time and resources) to tackle specific pending methodological issues.

A second level could be defined as minimal or weak harmonisation. Adopting 'less is more' as a pragmatic principle, the countries involved would attempt to produce, besides their national practices or needs, a Laspeyres index of the average nominal basic pay increases as set by collective agreements for full-time employees. It would involve a collaboration of statistical offices and ministries of labour. The focus would be on the private sector and the sectoral level (NACE letters) and, as stated, be limited to basic pay. Belgium, France, Spain and Portugal have to make the biggest efforts to achieve this point of minimal harmonisation.

In a third step it seems feasible to speak or think about strong or maximal harmonisation. Besides a fast and quarterly availability of the

changes in basic pay rates, it would be helpful also to have more comparable indicators on an annual basis about earnings – regular payments and special payments. Such data would make it easier to make connections with actual earnings or compensation data and to make a better comparison with labour cost developments possible. One should at that moment strive to include private and public sector and lower levels of pay bargaining. The step would require a lot of definitional work and a full investigation of the use of a Laspeyres index or a more elaborated form of such indexes (see in this regard the experiences of the Netherlands and Finland).

Important drivers of such strong harmonisation could be, on one hand, a possible (European) revision of the ILO Resolution on the statistics of collective agreements (dating from 1926) and, on the other hand, using the European Structure of Earnings Survey as a harmonised database for the weighting issue. As already stated several times in this chapter, key to calculating a high-quality and robust index of collectively-agreed pay increases requires employment data about collective agreements and their pay scales. How is the workforce covered by collective agreements; which part of the wage increase is determined by collective agreement; and how is the workforce distributed within the pay scales of these agreements. The German statistical office uses the Structure of Earnings Survey to collect this information. Including questions for each sampled individual on their collective agreement and accompanying pay scale also helps the surveyed companies to fill in the requested data more quickly. Adopting this practice on a Europe-wide scale would, on one hand, solve key methodological issues for a lot of countries (see, for example, Belgium) and would, on the other hand, almost automatically make strong harmonisation feasible. One could then easily debate an extension to other countries.

This step-by-step harmonisation effort would of course also require the institutional or organisational leadership of an international organisation or agencies. Who would take up the challenge: the European Employment Committee (EMCO), the Economic and Social Committee (EESC), Eurofound Dublin, Eurostat, or ILO Europe?

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Chapter 2
Wages and collective bargaining systems in Europe during the crisis[1]

Noélie Delahaie, Sem Vandekerckhove and Catherine Vincent

Introduction

Collective agreements are important wage-setting institutions in many European labour markets. They provide wage floors below which wages cannot be set. However, it is not always clear how collective bargaining influences wages paid. On one hand, collectively agreed wage increases may spill over into actual wage increases, but on the other hand, rising actual wages may permit higher collectively agreed wage floors. As employee compensation is not limited to the collectively agreed pay levels, trends in collectively agreed wages and actual wages may be different. Numerous factors may play a strong role in these differences: workforce structure, the development of variable pay, institutional mechanisms and so on.

While wage restraint has been ongoing for two decades across Europe (Keune and Galgóczi 2008), the 2007–2008 crisis reinforced this phenomenon in many countries (O'Farrell 2010; Le Bayon *et al.* 2014). Numerous studies argue, however, that labour adjustments in the crisis not only involved wage cuts or freezes. Apart from the public sector, which was particularly subject to wage cuts in order to contain public debt, almost all first reactions to the crisis were characterised by a sharp fall in employment and hours worked in the private sector (O'Farrell 2010). In the context of implementing the new economic governance, industrial relations regimes have also come under growing pressure from European institutions to reform collective bargaining and wage-setting mechanisms. In recent years, pressure for more decentralisation of collective bargaining at firm level and proliferation of opt-out clauses in many coun-

1. We are grateful to Odile Chagny (IRES) for her valuable assistance on data analysis and comments on the chapter. Obviously, any residual mistakes are our own responsibility.

tries have eroded the trade unions' power and their capacity to ensure the effectiveness of sectoral agreement in firms (Marginson 2014). This raises the question of how far collective bargaining may influence the development of actual wages, that is, wages in fact paid by employers.

To deal with this question, we examine trends in both collectively agreed wages, which reflect the outcomes of collective bargaining, and actual wages in Europe since the early 2000s and especially since the onset of the economic and financial crisis in 2007–2008. We also attempt to understand the ways in which actual wages may deviate from collectively agreed wages by paying greater attention to changes in wage-setting mechanisms over the recent period. Our analysis covers ten European countries that were involved in the CAWIE project in 2012: Austria (AT), Belgium (BE), France (FR), Finland (FI), Germany (DE), Italy (IT), Portugal (PT), the Netherlands (NL), Spain (ES) and the United Kingdom (UK).

The chapter is organised as follows. Section 1 briefly describes the main features of national collective bargaining regimes that used to prevail among these ten countries before the crisis. Section 2 provides descriptive statistics on wage developments in the selected European countries. It also pays attention to relations between the diversity of collective bargaining regimes and wage trends. The final section attempts to explain differences between actual and collectively agreed wages analytically by focusing on changes in national collective bargaining systems in time of crisis.

1. Main features of wage bargaining regimes before the crisis

Collective wage bargaining is a core competence of national social partners in the EU, even if its importance varies from country to country. The ten countries under study differ markedly in terms of their wage bargaining models and their collective bargaining coverage. There is a range of channels for negotiating pay collectively in these countries. For instance, pay can be negotiated at national, sectoral, regional or company level and these levels can be interlinked in fairly complex ways. This process is always supported by the state, which sets the rules for bargaining, enacts minimum wage legislation and has the ability to extend agreements to non-affiliated parties, among many other institutional arrangements.

The way wages are bargained is obviously closely related to the forms of social dialogue and to the national bargaining system as a whole. The articulation between levels, the coordination among actors and the extent to which government intervenes distinguish the different national systems. In the industrial relations literature, two variables are traditionally used in order to classify countries according to their wage-bargaining regimes: the predominant level of bargaining and the degree of coordination in the wage-bargaining process (Traxler *et al.* 2001; OECD 2004; Visser 2005). In this section, we analyse the main characteristics of collective bargaining regimes, crossing these two variables. This helps us to identify whether countries are characterised by multi- or single-employer bargaining and what the main levels of bargaining are. In western European countries, sectoral bargaining still prevails despite the fact that – since the 1980s – the predominant trend in collective bargaining has been towards decentralisation, consistent with a logic of marketization and sustained pressure from employers for wage settlements to reflect firms' competitive performance (Marginson and Sisson 2004; Keune and Galgóczi 2008).

These pressures from the employers' side for more extensive company-level bargaining has not always resulted in a move towards decentralisation. On the contrary, with the exception of the United Kingdom and certain eastern European countries, there has been no change in the dominant level of collective bargaining (Du Caju *et al.* 2008). Moreover, a number of examples show meaningful moves towards higher levels (see below). Although a widespread decentralisation can be observed, the question is whether this move has been organised; in others words, whether increased company-level bargaining is within the framework of rules and standards laid down by cross-sectoral or sectoral agreements.

The coordination of wage setting across different bargaining units can be ensured through various mechanisms. First, they include centralised wage bargaining arrangements at cross-sectoral level, or, under sector-based bargaining regimes, the existence of a pattern-setting agreement. Pace-setting agreements form the basis for collective bargaining in the other parts of the economy, even if additional increases can be agreed in the following sectoral or lower-level collective agreements. Furthermore, there are also types of procedural mechanism that are utilised to link or articulate the levels concerned: the extension procedure and the ordering of bargaining levels. The extension procedure helps to offset the weakness of employee and employer representation, as well as the

employers' lack of incentives to bargain. Of the ten countries concerned, there is no legal procedure for extending collective agreements in Italy and the United Kingdom. In Italy, however, judicial decisions have long underpinned de facto extension of the wage provisions of sectoral agreements. The most commonly used mechanism for ordering bargaining levels is the favourability principle. According to this principle, the social advantages attained at multi-employer level take precedence over any inferior content. Clauses that maintain the effect of agreements after their expiry, until a further agreement is concluded, also affect the continuity of collective bargaining and the coverage of multi-employer agreements.

Last but not least, two types of collective wage-setting mechanism have generalised effects: minimum wage standards, set by the state or negotiated by social partners, and indexation mechanisms. Except in Austria and Germany[2] where there is no minimum wage, all the other countries have minimum wages. However, their scope and level have a substantial impact on wage-setting process only in France (Husson *et al.*, 2015).

Using the ICTWSS (Visser 2014; Eurofound databases 2014b), Table 1 presents the state of the various collective bargaining systems in the mid-2000s.

Table 1 **Wage bargaining regimes in ten countries (2005)**

		Coordination		
		High	Medium	Low
Level	Centralised	BE, FI		
	Intermediate	AT, DE, NL	ES,[4] FR,[5] IT, PT	
	Decentralised			UK

Source: ICTWSS, Eurofound, own classifications.

Looking over the past two decades, the data suggest relatively stable systems. Major changes have occurred since the crisis in 2009, mainly

2. Over the period covered by the database, there were sector-specific minimum wages in Germany, but no national minimum wage. It was introduced in 2015.

within the programme countries (Portugal, Ireland, Greece), but also in the countries that received wage-related recommendations in the European semester[3] (Spain and, to a lesser extent, Italy).

2. Collectively agreed wages and actual wages: main trends since the early 2000s

Even if it is well known that individual wages do not tend to fall in nominal terms (Bewley 1999; Babecký *et al.* 2010), the question is whether real wages are declining in some countries or whether there are wage freezes or wage moderation. Do actual wages keep pace with productivity? Is productivity declining without falling wages or pressure on collective bargaining? Following the ILO's golden wage rule, if there is to be economic stability, wages should grow at the rate of change of prices and productivity (Watt 2007). The logic is that increasing productivity without increasing wages reflects either growth of income inequality or overproduction, and therefore social or economic crisis.

Quantitatively, a cross-country analysis of trends in collectively agreed wages is difficult because data are scarce. Information is not gathered systematically and national sources use different methodologies and are thus not comparable. There have, however, been some developments. For instance, the ECB constructs an indicator of 'negotiated wage rates' that is computed as an aggregate indicator for the whole euro area. Still, it is based on non-harmonised national data sources that do not allow cross-country comparisons. Moreover, it offers a biased view of the potential impact of collective bargaining because in some countries (for instance, France) the data rather reflect labour costs than collectively agreed wages (Schulten 2013). Alternatively, Eurofound's European Industrial Relations Observatory (EIRO) proposes another indicator on pay developments, which is annually updated and includes data on 'collectively

3. The new economic governance regime (2011–2012) reinforces the powers of the Commission in relation to the surveillance of wage policies.
4. Spain used to be a country in which sector-level bargaining was predominant. Since 2005, because of the conclusion of cross-sectoral agreements on wages, Eurofound codes Spain as a centralised country. However, these agreements only provide guidelines for negotiators (Vincent 2013). Thus, we do not change the classification for Spain.
5. Eurofound codes France as a low coordinated country. The wage provisions of sectoral agreements are always subject to legal extension and wage increases are constrained by the annual revalorisation of the minimum wage: that is why we assign France 'medium-level coordination'.

agreed wages'.[6] In this chapter, we use the TURI data on collectively agreed wages, the main goal of which is to provide an indicator of potential influence, namely the 'bite of collective bargaining' (Salverda 2014) on actual wages in Europe (see Box 1 and Appendix).

Box 1 **Collectively agreed wages: definition and data**

The TURI database contains information on collectively agreed wage increases in ten EU member states (Austria, Belgium, Finland, France, Germany, Italy, Portugal, Spain, the Netherlands and the United Kingdom).[7] The main objective of this database is to construct an indicator of potential influence, namely the bite of collective bargaining on actual wages in Europe. The sample of member states does not include central and eastern European countries nor most of the Nordic ones, but it does represent the largest European economies and the sectors traditionally known for strong collective bargaining. Another drawback of the TURI database is that data are not directly comparable across countries because of differences in conception and measures of collectively agreed wages among countries. Indeed, as mentioned in Section 1, countries covered by the CAWIE project differ in their institutional systems and collective bargaining may take place at national, sectoral or firm level or at several levels at the same time. Measurements of collectively agreed wage may also differ because of heterogeneous sources and the fact that the data do not always fully reflect the predominant level of wage bargaining in some countries (see Table A in Appendix, which reports the main features of national sources on collectively agreed wages). In particular, in two countries (Portugal, Spain), indicators are broad with information coming from collective agreements concluded at several levels. Nevertheless, as the sector remains the predominant level of collective bargaining in these latter countries, we suppose that the data reflect a substantial part of outcomes related to sectoral agreements. For instance, in Portugal, sectoral agreements (national or regional) covered from 89 per cent to 93 per cent of employees between 1995 and 2010, while firm-level agreements covered from 7 per cent to 11 per cent of them (Naumann et al. 2012). In almost all countries (Austria, Belgium, Finland, France, Italy, Germany and the Netherlands), data come from sector-level collective agreements, meaning that the collectively agreed wages indicator allows us to measure the bite of collective bargaining at sectoral level on actual wages, even if sectoral agreements can be supplemented by agreements at firm-level. Finally, the analysis of the British case should make us cautious because of this country special features in terms of

6. For more details, see the website: http://eurofound.europa.eu/observatories/eurwork/collective-wage-bargaining/context
7. Data collection is part of the CAWIE project presented in this book. Data were collected in 2012 and updated in 2014. For a discussion of the quality of the TURI database, see Van Gyes 2012 and Chapter 1 of the present volume.

bargaining and available data. As already mentioned, the British system is characterised by a decentralised bargaining regime at company level and low coverage. For the United Kingdom, data come from the pay round settlements published by the Labour Research Department (LRD).

The wage definition included in data is another source of differentiation between countries. This point appears crucial because bonuses, fixed premiums and non-wage benefits may sometimes represent a high proportion of total compensation,[8] these components are not systematically determined by collective bargaining. In some countries, collectively agreed wages include all payments that are conditional on one's job. The definition could be close to the concept of total earnings in countries that include base wage and other regular payments as fringe benefits, family allowances, thirteenth month, holiday pay and so on (Austria, Italy and the Netherlands). In these cases, performance-related pay is excluded from collectively agreed wages. On the contrary, in other countries data are related to the base wage, which does not include bonuses for overtime, family allowances and so forth (Belgium, France, Portugal, Spain and the United Kingdom). Information on France and Spain is complex because some agreements provide data on total compensation, which is a broader concept. Furthermore, the definition of wages in Finland is slightly different as it includes performance-related pay but excludes compensation for overtime, holiday pay and other such items. Finally, the scope of collectively agreed wages defined at sectoral level may differ across countries.

In the TURI database, statistical series are not fully homogeneous in terms of time period. Data cover the period 2000–2012 in Belgium, Germany, Finland and Portugal; 2000–2011 in Italy, Spain and the United Kingdom; 2003–2012 in France; 2000–2013 in Austria; and 2001–2012 in the Netherlands.

Figure 1 presents trends in collectively agreed wages and actual hourly wages in nominal and real terms, real labour productivity and the inflation index (HICP, Harmonised Index of Consumer Prices)[9] since the early 2000s. As a first result, the data show that collectively agreed wages and actual wages generally grew in line with price increases in almost all countries (with the exception of Germany). In all countries,

8. According to the 2010 Earnings Structure Survey (provided by Eurostat), this proportion is particularly high in Spain and in Portugal (approximatively 16 per cent of annual compensation in 2010; authors' calculations).

9. Data are provided by Eurostat on the basis on national accounts. Concerning actual wages, we use an indicator of hourly labour productivity, which has been constructed by dividing GDP (volume terms) by number of hours effectively worked. The main drawback of (*cont.*)

the economic and financial crisis was preceded by a huge increase in inflation due to rising commodity prices (O'Farrell 2010). As a result, despite the grave economic circumstances, both actual and collectively agreed wages continued to increase in numerous countries because the social partners bargained higher wages in relation to higher expected inflation. This phenomenon is particularly pronounced in Spain where nominal actual wages grew annually by 2.3 per cent on average. The relative resilience of wages during the crisis may also be due to the nature of employment adjustment, namely changes in composition workforce. For instance, Spain is among the countries that have experienced a sharp decline in employment, whose first victims were low-paid workers, which could explain the observed wage increases (for more details, see next section). Moreover, in some countries, the role of indexation mechanisms may have been determinative during the crisis because the huge 2008–2009 inflation decrease is associated with an increase in both actual and collectively agreed wages. Indexation systems aim to link wage developments to the evolution of living costs to ensure that actual wages are not overtaken by inflation.

Turning to the cross-country comparison, as in previous research (ETUI 2012), we are able to highlight relationships between national collective bargaining systems and wage trends. First, in the Netherlands, Germany and Austria, countries that are characterised by an intermediate degree of centralisation and high coordination, wage restraint has been the major trend since the early 2000s. In these three countries, wage restraint is not a new phenomenon and has been practiced since the early 1990s, a period marked by a sharp degradation of the labour market and the opening up of foreign trade resulting from the EU's single labour market. The German situation has shown the most pronounced wage moderation, as nominal hourly wages grew below inflation, whereas collectively agreed wages exceeded prices rises, albeit to a lesser extent

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9. (*cont.*) this indicator is that it refers to a broad definition of wages because it includes employees' gross earnings and indirect costs (employers' social contributions plus taxes less subsidies). Such a definition may be problematic as collective wage agreements do not deal with tax and social contributions. However, national accounts provided by Eurostat remain the most reliable source for wage comparison across countries. Moreover, using such an indicator allows adjustment in terms of worked hours and employment during the crisis to be taken into account. In almost all countries, downsizing and reducing worked hours were the first reactions to the crisis, while wage adjustment has remained relatively low. For instance, in Germany, reductions of total working hours were prevalent through extensive use of short-time working schemes, encouraged by state subsidies (O'Farrell 2010).

after the onset of the crisis in 2008. Since 2008, the increase in wages has been attributed largely to agreements reached before the crisis when negotiators anticipated higher inflation. As a result, the development of real actual wages and real collectively agreed wages is lagging behind labour productivity growth.

Data on Finland and Belgium are more contrasting. The Finnish case reveals that nominal wage growth was higher and more dynamic than in the three previous countries: until 2008, nominal wages (whatever the indicator under consideration) largely exceeded labour productivity and inflation increases. However, the sharp decline of labour productivity in 2008–2009 led to wage restraint with regard to both actual and collectively agreed wages from 2009. This period also saw the establishment of a more decentralised procedure: no central agreement was in force in 2009–2011 and a number of sectoral agreements allowed for wage deviation in firms facing economic difficulties. In 2011, the social partners agreed a so-called framework agreement on pay and conditions, which expired at the end of 2013. The renewal of this agreement proved difficult, but in August 2013, the social partners concluded a long-term national centralised labour market settlement, including wage increases under those of consumer prices. Despite this return to centralised bargaining, in Finland the collective agreement in the technology sector (including metalworking) continues to serve as the pace-setting agreement. Although there have been no recent major changes, the Finnish employers' organisation has expressed its dissatisfaction with the recent wage trend. A one-off and time limited crisis response was implemented in 2010 with the conclusion of opening clauses in several sectors (Marginson and Weltz 2014). Unlike Finland, trends in nominal wages are in line with inflation in Belgium. This may be due to the high degree of centralisation and the role of wage indexation.

In the group of countries (France, Italy, Spain and Portugal) that are characterised by an intermediate degree of both coordination and centralisation of collective bargaining, data show that nominal actual wages grew in line with productivity and prices during 2000–2009. In particular, in France and Italy nominal collectively agreed and actual wages were more dynamic than price increases. Although there is no proper automatic pay indexation mechanism in Italy, the inflation rate indicator is meant to protect the purchasing power of wages. This indicator, which is only to be considered a reference for collective bargaining actors in order to establish wage increases, may play a role in observed

Figure 1 **Development of collectively agreed wages (CAW), actual hourly wages (HW), labour productivity (LP) and HICP since the early 2000s (base 100=2003)**

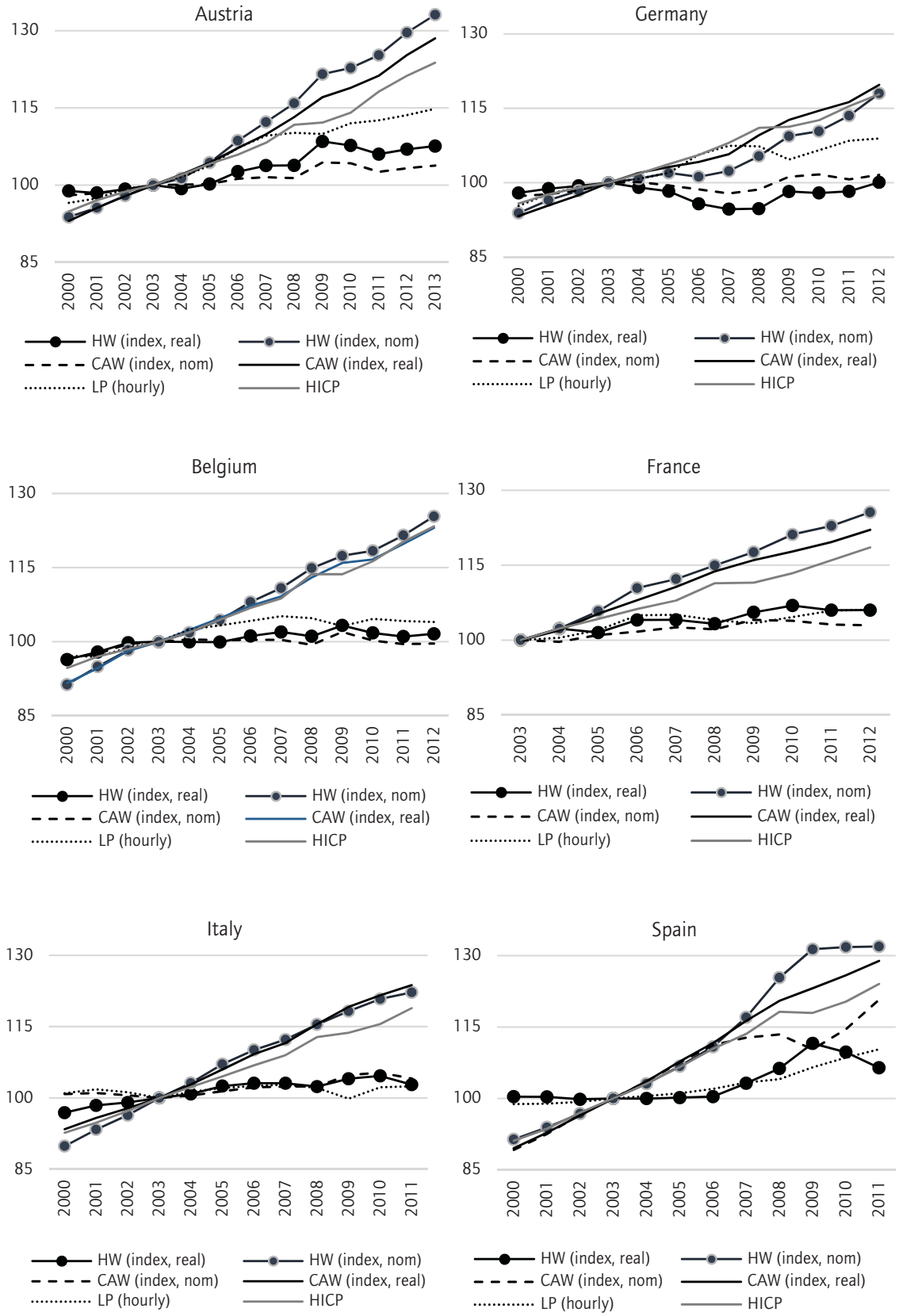
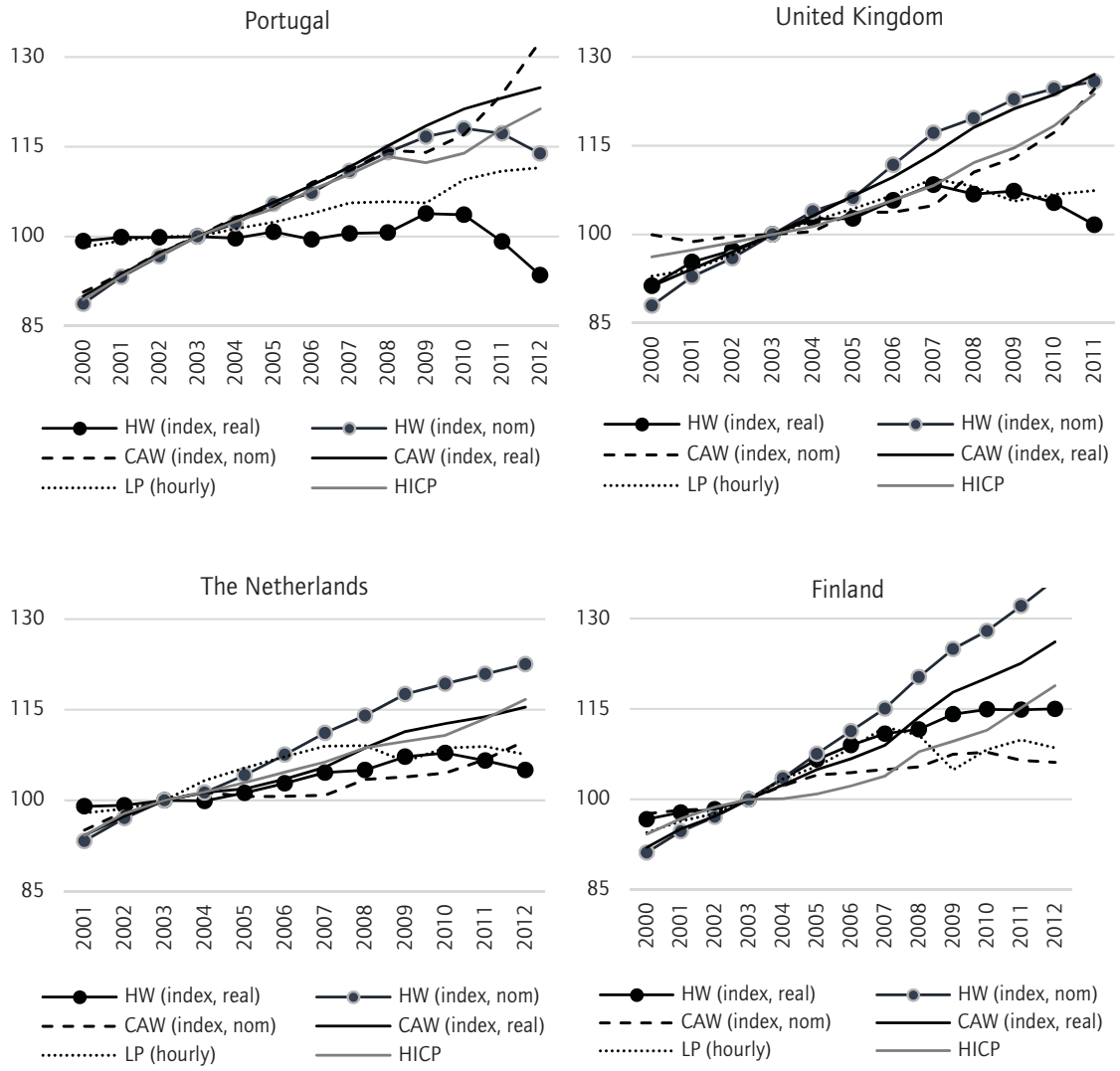


Figure 1 (cont.)



Note: Data cover 2000–2012 in Belgium, Germany, Finland and Portugal; 2000–2011 in Italy, Spain and the United Kingdom; 2003–2012 in France; 2000–2013 in Austria; and 2001–2012 in the Netherlands.
Source: Turi database; Eurostat, national accounts.

trends. Labour productivity in Italy and France grew at a moderate rate from the early 2000s and, at the same time, real wage trends are in line with labour productivity increases. Since the economic crisis, there has been a growing gap between productivity and collectively agreed wage increases in Italy due to the decline in productivity. Significant divergence can be observed in recent years – a period marked by the crisis– in Spain and Portugal. In both countries, since the early 2000s real collectively agreed wages have increased faster than labour productivity, while actual wage growth has remained in line with labour productivity

increases before a sharp decline from 2009. However, trends in collectively agreed wages are divergent. Since 2009, collectively agreed wages have grown faster in Portugal, but have experienced a huge fall in Spain. This trend may be due to changes in the indexation mechanism. Until 2010, the ex-post wage indexation mechanism followed by the social partners was based on the inflation rate. Since 2010, however, collectively agreed wage increases have been based more on company-based indicators, such as labour productivity.[10] These guidelines, which are set by the cross-sector agreement for employment and collective bargaining and which the social partners commit to follow at lower levels, advocate wage moderation.

In the United Kingdom, where bargaining is uncoordinated, wages grew dynamically while inflation remained moderate despite the recession. However, looking at values in real terms, wage restraint during the economic crisis has been severe, resulting in wage growth below productivity. In the United Kingdom, the dramatic fall in real wages may have something to do with the rising value of the pound against the euro, as well as falling bonuses (particularly in the financial sector, where bonuses were reduced by 30 per cent between 2008 and 2009, O' Farrell 2010). In the United Kingdom, the economic crisis is associated with a growing gap between real wages and labour productivity.

Finally, looking at trends in real wages, the data indicate wage moderation in almost all countries since the early 2000s. As already pointed out by numerous studies, we show that wage moderation is ongoing not only with respect to collectively agreed wages but also in actual wages. Prior to the crisis, in almost all countries, figures show modest wage growth since the early 2000s, with the exception of 2008–2009 (and to a lesser extent 2010) when wages continued to increase despite the economic downturn. Since 2009–2010, hourly wage increases have remained moderate and some countries– Spain, Portugal and the United Kingdom – have experienced a sharp decline in real actual wages, despite an increase in collectively agreed wages since 2007–2008. These observations raise the need to understand and appreciate the bite of collective bargaining on wages.

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10. It should be recalled that these guidelines are not mandatory.

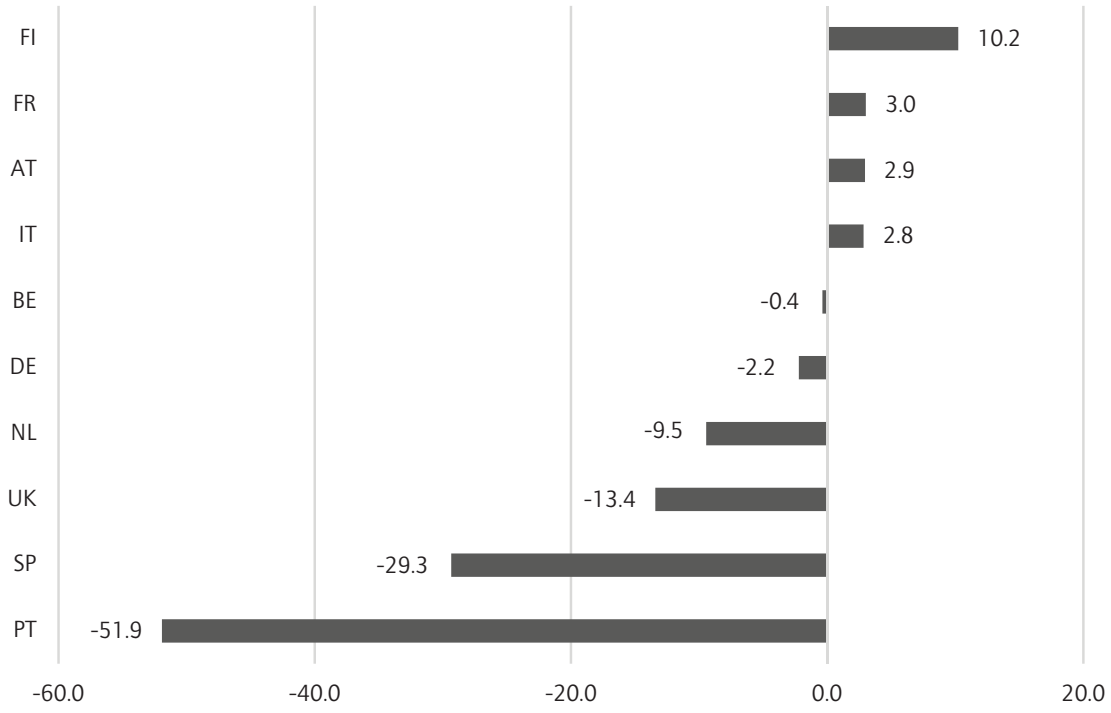
3. Assessment of the bite of collective bargaining on wages

One way to appreciate the potential influence, namely the bite of collective bargaining on wages is to consider so-called 'wage drift', which measures the difference between actual wages and collectively agreed wages. Positive 'wage drift' would indicate that actual wages are growing faster than collectively agreed wages, while a negative sign reveals that collectively agreed wages remain higher than actual wages. At the same time, we would expect that the more collective bargaining is decentralised, the higher wage drift will be. Such a result means that a larger part of total compensation is determined outside collective bargaining. To appreciate the bite of collective bargaining, we thus compare trends in collectively agreed wages and trends in actual wages. Besides collective bargaining, other factors also have to be taken into account. First, as already underlined (Box 1), the indicators of collective agreed wages vary across countries (in terms of level of collective bargaining, conception and set of wages). Second, the literature suggests that several factors may play a strong role in differences between actual and collectively agreed wages: (i) the composition effect related to changes in workforce composition (by gender, age, type of contract, working hours); (ii) human resource management (promotion effects, compensation policies, extra payments; and (iii) the existence and level of a statutory minimum wage. As far as possible, we will take into account these potential effects in the next section. We shall then focus on the main institutional changes in times of crisis.

3.1 Descriptive statistics on wage drift

Figure 2 reports the difference in percentage points between collectively agreed wages and actual wages over the period of observation. It gives a first overview of the magnitude of wage drift across countries. As mentioned by Eurofound (2014a), there are no systematic relationships between the development of wage drift and national collective bargaining regimes. Among the ten countries, only four (Finland, France, Austria and Italy) present positive wage drift, meaning that actual wages grew faster than collectively agreed wages over the entire period. The highest wage drift is registered in Finland (10.2 percentage points), but it remains relatively low in the other three countries. By contrast, five countries show negative wage drift, suggesting that on average actual wages

Figure 2 **Cumulated wage drift since the early 2000s (percentage points)**



Note: Data cover 2000–2012 in Belgium, Germany, Finland and Portugal; 2000–2011 in Italy, Spain and the United Kingdom; 2003–2012 in France; 2000–2013 in Austria; and 2001–2012 in the Netherlands.
Source: TURI database; Eurostat, national accounts.

lagged behind collectively agreed wages. The phenomenon is particularly pronounced in Spain and Portugal – 52 percentage points in Portugal and less than 30 percentage points in Spain– and to a lesser extent in the United Kingdom. Belgium constitutes an intermediate configuration since wage drift is close to zero, meaning that the developments of actual and collectively agreed wages are similar.

Figure 3 reports annual changes of the main variables in order to better understand the relationships between collectively agreed wages and actual wages and thus the magnitude of wage drift in time of crisis. With no connection to national collective bargaining regimes, three groups of countries can be distinguished on the basis of wage drift trends since the onset of the crisis. The first group includes countries that have experienced huge wage drift, driven in the year preceding the crisis by increases in actual wages that were lower than collectively agreed wage rises. In southern countries, the data indicate that wage drift is counter-cyclical: it

was negative prior to the crisis and became positive during 2007–2009. Since 2009–2010, a dramatic trend reversal has taken place, with collectively agreed wages largely exceeding actual wages. The second group includes countries in which wage drift remained, on average, relatively low over the entire period (Austria, Belgium, Germany, France and, to a

Figure 3 **Annual changes in collectively agreed wages (CAW), hourly wages (HW) and wage drift**

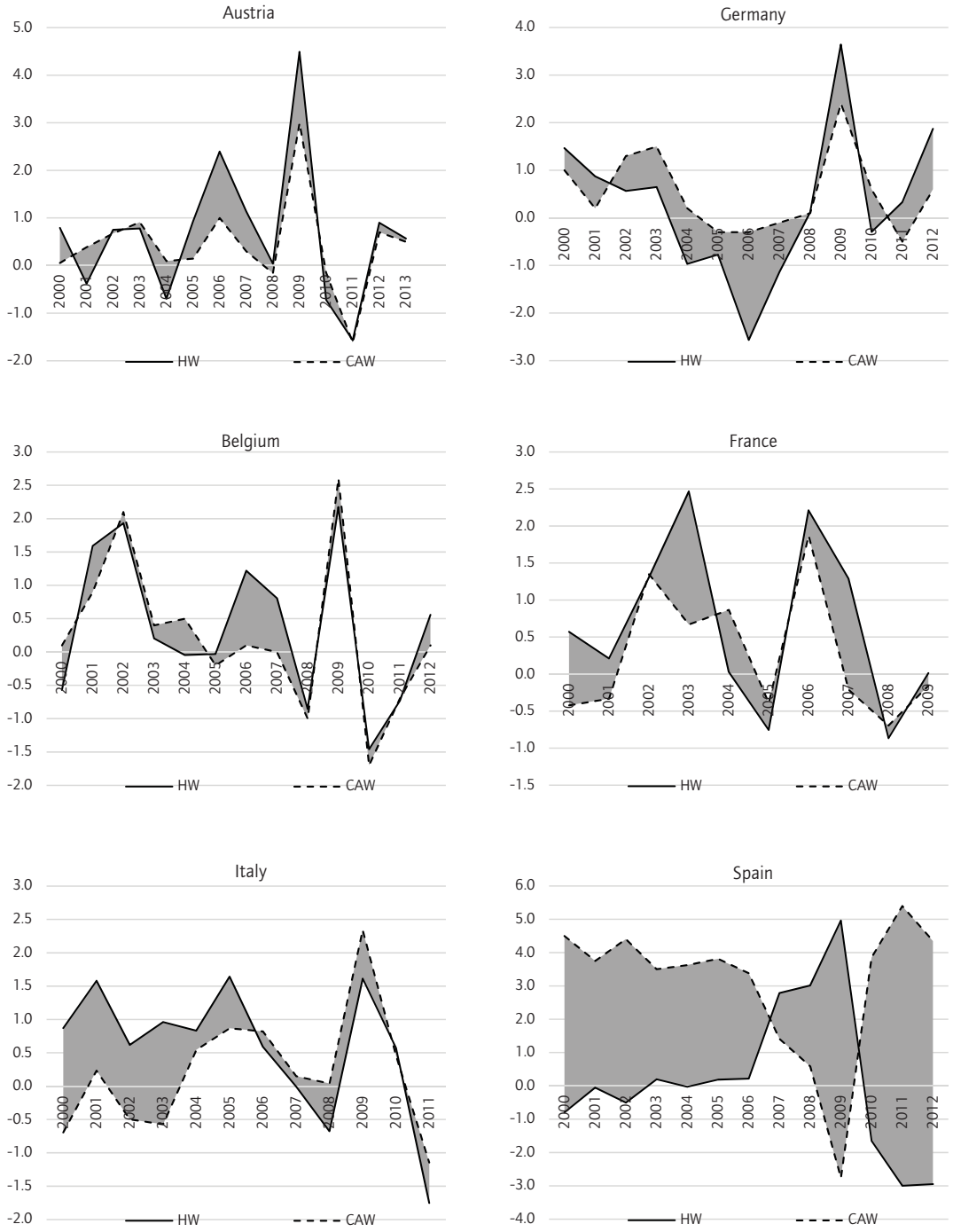
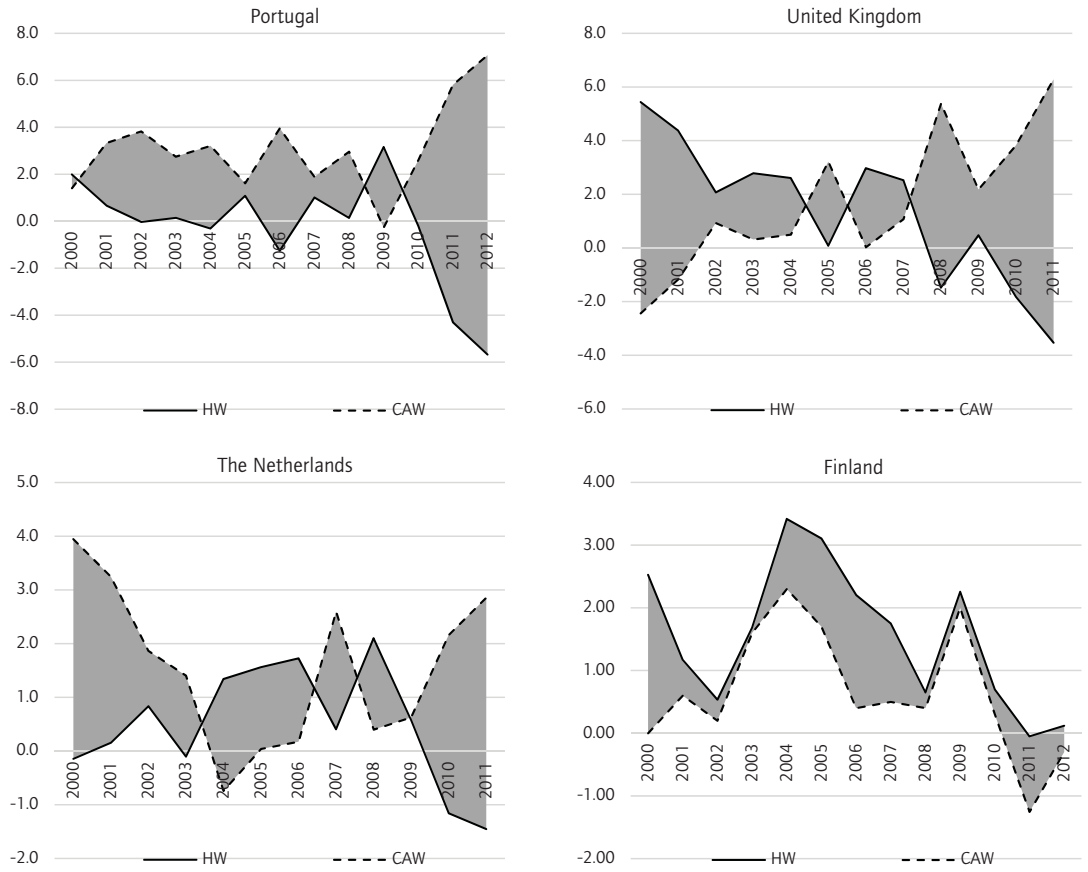


Figure 3 **Annual changes in collectively agreed wages (CAW), hourly wages (HW) and wage drift (cont.)**



Note: Data cover 2000–2012 in Belgium, Germany, Finland and Portugal; 2000–2011 in Italy, Spain and the United Kingdom; 2003–2012 in France; 2000–2013 in Austria; and 2001–2012 in the Netherlands.
Source: Turi database; Eurostat, national accounts.

lesser extent, Italy and Finland), although trends in collectively agreed and actual wages diverge over the period. The common point between these countries is an overall reduction of wage drift in the first year or so of the crisis. Germany constitutes a specific case because actual wages grew systematically more slowly than collectively agreed wages prior to the crisis, which is consistent with the well-known strong wage restraint in that country. Finally, the last group includes countries with erratic patterns of wage drift (the Netherlands and the United Kingdom).

Besides collective bargaining, numerous factors may play a strong role in the divergence of collectively agreed wages and actual wages. For instance, examining Dutch wage drift between 1995 and 2005, Salverda (2014) concluded that the 'bite of collective bargaining as regards wage

earnings is far from comprehensive: employer contributions are around 25 per cent on top of wages, the non-CLA (collective labour agreements) part of the wage bill is another 20 per cent and average wage drift in recent years was 40 per cent' (p. 20). While the coverage of collective bargaining has remained stable in recent decades, Salverda pointed out that the influence of collectively agreed wages is relatively low (about 40 per cent of total gross wages). To explain this observation, Salverda insists on the role played by two factors: the growth of pay inequality (especially at the bottom of distribution) within firms that is associated with the increase in low-pay jobs and the fact that employees not covered by collective agreements earn more than employees who are covered. Besides these explanations, Van Klaveren and Tijdens (2012) also highlight the potential role of additional payments. In some countries, the way in which the statutory minimum wage may influence both collectively agreed and actual wages is another explanation of wage drift. For instance, in France the reduction of the gap between actual wages and collectively agreed wages can be explained by an increase in the number of sectors that revalued minimum wages between 2003 and 2006. At same time, the transition to the 35-hour working time took place and, from 2005, the government spurred a revival of collective wage bargaining. Since 2005, more than four sectors out of five have reviewed annually agreed wages. Since 2006, agreed and actual wages have risen at an annual rate close to that of the minimum wage. Sectors have been encouraged to raise the lower wage in their job classifications to a level at least equal to the minimum wage as part of the renewal of collective bargaining at sectoral level (Delahaie *et al.* 2012). These observations are consistent with the results of Castel *et al.* (2014), who argue that the effectiveness of collective bargaining (at sector and company levels) depends on compensation policies. In particular, they stress that the scope of collective bargaining may be limited because of the growing individualisation of pay practices, directives from parent companies or contractors, as well as the statutory minimum wage.

Comparing the evolutions of collectively agreed wages and actual wages often shows low or very erratic correlations, to the extent that one might question the effect of both institutional wage setting and the business cycle on wages (see above and Delahaie *et al.* (2012) for France and Den Butter and Eppink (2003) for the Netherlands). There are three possible explanations for the absence of an effect. The first explanation is the simplest: it may be that there is no substantial effect between levels or rates of change, for instance because coverage is low. The second explanation

is that the correlation appears with a lag, because agreements are to be implemented or because they are reacting to wage developments, as if catching up. The third explanation is that the measurement of wage trends is affected by a composition effect. If workers earning low wages are the first victims of the crisis, actual wages may increase counter-cyclically, while lower bargaining power results in more moderate wage demands from trade unions, inverting the intuitive positive relationship between collectively agreed and actual wages. 'Controlled' wage drift has been established in data reported by the Dutch central planning bureau (van der Wiel 1999). In the ECB's 2012 Euro area labour markets and the crisis report, these stylised facts appears also over the Great Recession. Institutional explanations turn out to be poor predictors of actual wage developments and wages do not respond to the negative shock. Following the decomposition method of DiNardo *et al.* (1996), the change in wages between peak and trough for five countries (Belgium, France, Germany, Italy and Portugal) is then separated into a part due to education and experience, and a part due to latent wage adaptations. The results indicate that, with the exception of Portugal, a positive selection bias (either through dismissals or non-entry) of men has taken place. For women, the findings are more mixed, but as a rule the wage change is positive and stronger than for men, as is the latent wage change when controlling for composition effects. The latter are consistently positive for both genders, at the mean as well as at the tails of the wage distribution, indicating upskilling and insider-protection.

Much research has also indicated the importance of changes in workforce composition, especially in the crisis. During that period, many countries also made huge adjustments in employment and working time, which were concentrated on low-paid workers. For instance, Cruces *et al.* (2012) argue that the counter-cyclical pattern in Spain may be due to substantial composition effects. In particular, prior to the crisis, job creation was focused on activities and occupations that required low qualifications and often concerned temporary jobs with a significant proportion of female, young and immigrant workers. By contrast, in the economic crisis, these latter jobs are often the first to be removed. According to two recent studies (Puente and Galan 2014; Orsini 2014), real wages decreased by twice as much in 2011–2012. Hence the observed wage drift in our data is much greater. In France, where increases in both actual wages and collectively agreed wages have been registered since 2011, composition effects may have played a strong role: employment of skilled workers tended to increase, while employment of low

skilled workers has fallen since 2002 (Husson 2015). According to Husson, these trends may have been reinforced in the crisis. In fact, by taking composition effects into account, real actual wages decreased by 0.8 per cent over 2008–2011 (Verdugo 2013, cited by Husson 2015). Likewise, in Germany, Schulten and Bispinck (2014) argue that the development of mini-jobs since the end of 1990 is associated with a growing proportion of workers who have not benefitted from the higher wage growth determined by collective agreement.[11]

3.2 Wage drift and main institutional changes in wage-setting mechanisms

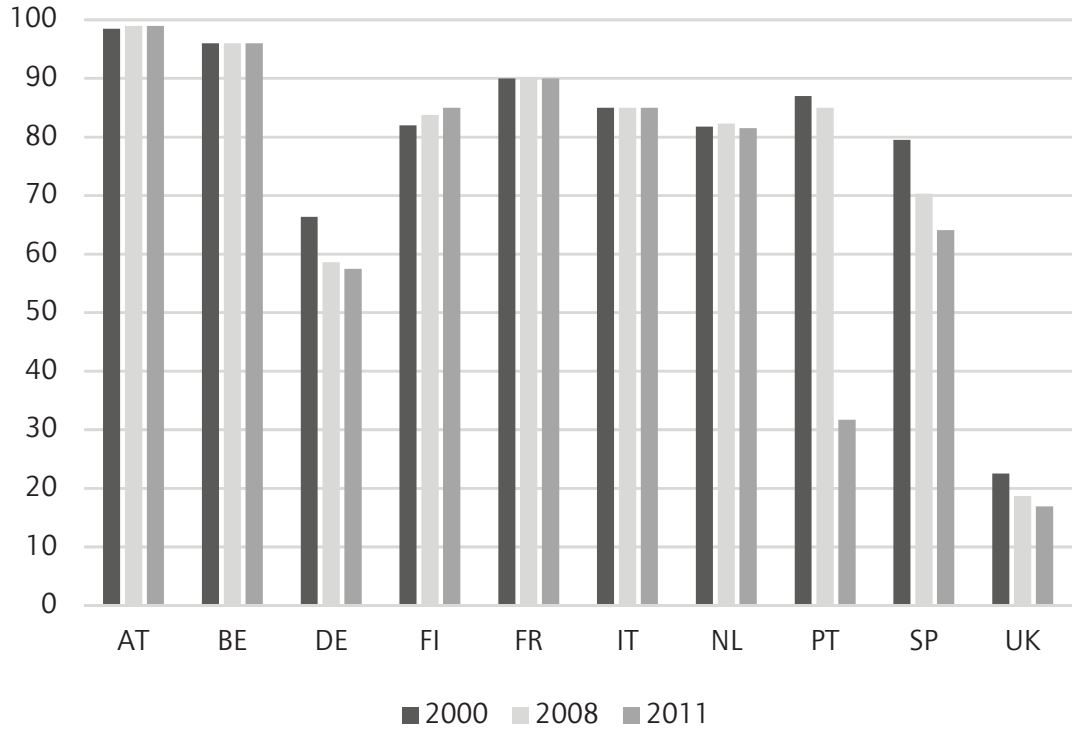
As already mentioned, collective bargaining system architectures overall remained broadly stable until the mid-1990s (excepted in the United Kingdom). Since then, most European countries have suffered both wage moderation and decentralisation of collective bargaining, which are clearly interrelated. In a majority of countries, bargaining coverage appears to have decreased in recent decades. In four countries – the United Kingdom, Germany, Spain and Portugal– there has been a considerable decrease in coverage of more than 10 percentage points (see Figure 4).

Since the onset of the crisis, these developments have been reinforced. One explanation of the lack of upward wage development is the intensification of the trend towards decentralisation of collective bargaining. In our ten countries, the coordination of collective bargaining is more or less on a downward trend, with two exceptions: one of increased coordination, namely Belgium and Finland, the other of disorganised decentralisation, as in Spain and Portugal.

Changes to wage-setting mechanisms since the onset of the crisis can be clustered into three main types: changes in linkages between levels under multi-tier bargaining (including ordering between levels, opening and opt-out clauses); withdrawal of legal support for collective bargaining (weakening of extension mechanisms or after-effects of collective

11. In connection with the development of mini-jobs, the proportion of low-wage workers increased from 18.8 per cent to 24.3 per cent between 1995 and 2012 (data from Kalina and Weinkopf 2014, cited by Schulten and Bispinck 2014).

Figure 4 **Collective bargaining coverage (% of employees)**



Source: ICTWSS, Visser, 2014.

agreements); and disruption of bargaining by the extension of options allowing non-union groups to negotiate (Marginson and Welz 2014). The most substantial change concerns the relationships and ordering between levels, introducing circumstances under which further negotiation derogates from the higher agreement (opening or opt-out clauses in sectoral or cross-sectoral agreements). Opening clauses in sectoral agreements provide scope for further negotiations on aspects of wages at company level, such as the implementation of a variable (productivity-related) element of wages. Opt-out clauses permit derogation under certain conditions from the wage standards specified in sectoral or cross-sectoral agreements. The use of derogation is limited mainly to companies in economic difficulties, although how strictly this is defined varies. The development of opening or opt-out clauses may be noted in most of the ten countries: Austria, Germany, Finland, France, Italy, Spain and Portugal. Another type of disruption in the articulation of bargaining levels appears when bargaining competence is accorded to non-union representatives, mainly within companies. This occurs in France and Portugal. Finally, there have been changes in extension mechanisms or in their use in Italy, Germany and Portugal. Clauses providing a continu-

ation of agreements beyond expiry are found in Austria, Portugal and Spain. Changes have been made in the latter two countries.

In light of these facts – wage drift trends and institutional changes in collective bargaining– we may distinguish Spain and Portugal, in which substantial 'structural reform' occurred at the same time as a reversal of trend with regard to wage drift. The other eight countries have suffered fewer institutional changes, but among them two cases should be particularly stressed. First, France and Italy, where a number of reforms have weakened the collective bargaining system but coordination within the system has not really been undermined; and Germany, where institutional changes took place before the crisis in the early 2000s.

A 'de-collectivisation of labour relations'? (ETUI 2015)

This intensification of reform programmes has been particularly strong in Spain and Portugal. Even though the well-established multi-employer bargaining structures in these countries have remained formally intact, their scope and regulatory capacity have been increasingly undermined by the various legal changes introduced in response to the demands placed upon these countries by the Troika (Schulten and Müller 2014). The far-reaching impact of the various 'structural reforms' that have been implemented in the collective bargaining systems of the southern European countries manifests itself in the dramatic decline in numbers of collective agreements and in collective bargaining coverage. The collective bargaining systems in these countries now increasingly resemble the highly decentralised systems typical of the United Kingdom and many central and eastern European countries (Meardi 2014).

In Spain, huge changes have been imposed by the previous and current governments in laws enacted in 2011 and 2012. The 2012 law completely inverted the favourability principle. Priority is now given to company-level agreements rather than the sectoral or provincial levels with regard to basic wages and wage supplements. However, employers and trade unions retained the option to re-establish the favourability principle if they so wish. They did so in 2013 for some sectors, including metalworking, chemicals and construction (Vincent 2013). These agreements were not renewed in 2014. The number of sectoral agreements was almost halved between 2008 and 2013, from 1 448 to 887. However, company-level agreements declined even more, from 4 539 in 2008 to 2 274 in 2013. Hence, between 2008 and 2013, the number of workers covered by collective

agreements decreased in Spain from 12 million in 2008 to just 8.5 million in 2013 (see Chapter 3 in this volume).

In Spain, the 2012 law also extended the clauses enabling employers to 'remove themselves' from the application of collective agreements, on economic, technical, organisational or production grounds. These 'opt-out' exit clauses already existed, but their range of authorisation was extended significantly. Companies with only two consecutive trimesters of deficit are now permitted to waive the conditions of a sectoral collective agreement. In case of disagreement between employers and unions concerning the application of this derogation clause, the National Consultation Committee on collective bargaining is authorised to settle the dispute within 25 days (Vincent 2013). Finally, the 2012 reform of collective bargaining imposes a 12-month time limit, beyond which agreements will no longer be binding.

The reforms were more radical in Portugal. The 2012 Labour Code inverted the favourability principle, specifying that the provisions of agreements concluded at company level take priority over those contained in sectoral or cross-sectoral agreements, but, as in Spain, allows employers and trade unions to negotiate a clause in higher-level agreements reverting to the favourability principle. To date, no agreement has been signed. Opening clauses have existed since the 2012 Labour Code enabled sectoral agreements to delegate the regulation of some issues – such as wages– to company level. Portugal's 2012 Labour Code also sets stricter criteria for the application of extension procedures, limiting this to sectors in which employers' organisations cover over half the workforce.

Moreover, the 2009 law provided trade unions with the option of delegating negotiating responsibility to company-level employee representatives in companies with 500 employees or more. This threshold was lowered to 150 under the 2012 Labour Code. The Memorandum of Understanding recommended that Portugal remove trade union consent for delegation. To date, this has not featured in the government's legislative proposals. The Memorandum also asks the Portuguese government to think about reforming the continuation of agreements beyond expiry. Since a 2009 law, the duration of the after-effect of collective agreements is 18 months, although the parties can agree to extend this duration, up to a maximum of five years.

As a result, in Portugal the decline in the number of collective agreements was even more dramatic than in Spain. Here, the total number of registered agreements fell from 296 in 2008 to 95 in 2013, when no more than 27 sectoral agreements. Since, at the same time, the number of extended collective agreements fell from 131 in 2008 to only 9 in 2013, the number of workers covered by collective agreements virtually collapsed, from 1.7 million in 2008 to 200,000 in 2013 (Schulten and Müller 2015: 349).

Uncertain effects of substantial changes

Two countries have suffered a weakening of their collective bargaining systems overall, France and Italy, even though the impact of such decentralised mechanisms is not easily comparable. The consequences are clearly much more effective with regard to the outcomes of collective bargaining in Italy.

In Italy, a 2011 cross-sectoral agreement reformed the two-tier bargaining system, setting new rules for the validity of company-level bargaining. To be valid, company agreements had to be approved by a majority in the RSU (company union-based employee representative body), now the sole entity with the power to reach agreement, a right previously shared with the unions. A cross-sectoral agreement in 2013 complemented that of 2011, which essentially dealt with company-level agreements. Sector-level agreements became valid on two conditions: they must be signed by the majority of trade unions in the industry (majority of a mixed indicator votes/members) and approved by a majority vote by the industry's workers (Rehfeldt 2013).

In 2009, a cross-sectoral agreement introduced possible derogation conditions to enable companies to 'manage crisis situations or to foster economic and employment growth' to encourage company-level bargaining on productivity bonuses. Few industries have implemented the new derogation possibilities.
Simultaneously, the long-established practice of 'quasi-legal' extension has been called into question by recent court rulings that confirmed the validity of the new plant-level agreement imposed unilaterally by Fiat in 2011. Italy's economic difficulties led to a decrease in company bargaining, its coverage and intensity (Burroni and Pedaci 2011). The fact that actual wages remain lower than collectively agreed wages may be due to the reduction of the scope for pay bargaining at firm level. Indeed, between 1990 and 1999, 43.3 per cent of firms and 64.1 per cent of em-

ployees were covered by firm-level collective bargaining. These proportions were 30.6 per cent and 54.4 per cent, respectively, in 2000–2008.

France is always hard to place in a European classification. Important new laws reformed collective bargaining long before the crisis, but with limited practical impact. For instance, opening clauses have existed since the 1982 Auroux law, but only for working time. A 2013 cross-sectoral agreement, subsequently enacted as law, created a new type of 'job retention' agreement that allows firms experiencing difficulties to bargain for lower temporary compensation in exchange for continued employment. Only ten company agreements have been signed since then. The limited success of the measure is due to the considerable constraints related to this type of agreement. These new devices have not replaced the many existing formulas that are used to allow employers to reduce wages in time of economic difficulties, such as 'competitiveness agreements', which were implemented by law in 2012 and are still by far the most popular.

France was also the only country to make changes in the operation of the favourability principle before the crisis. The 2004 Fillon law inverted the principle, giving precedence to agreement concluded at company level over the provisions specified in higher-level agreements, with the notable exception of collectively agreed wages and job classification.[12]

Unlike the other countries, since the 2008 crisis company-level bargaining in France has enjoyed new growth. Previously, it was permitted only with a union delegate present or, in certain circumstances, with an employee holding a bargaining mandate issued by a union outside the company. The Act of 20 August 2008 allowed employers, under certain conditions, to bargain with the works council or even a staff representative, in the absence of union delegates.

Germany: main changes before the onset of the crisis

In some ways, the evolution of the German collective bargaining system may sound fairly unique compared with other European countries. The decline in the number of companies bound by collective agreements

12. Plant-level agreements could waive higher-level bargaining agreements, even towards less favourable dispositions for workers, except in four areas: minimum wages, classifications, vocational training and supplementary social protection.

at sectoral level was early and rapid. The weakening of collective bargaining is particularly striking with regard to the coverage of sectoral agreements: in 2013, 52 per cent of workers were covered by a collective agreement in western Germany and only 35 per cent in eastern Germany; fifteen years ago, the levels were around 68 per cent and 52 per cent, respectively (Bispinck and Schulten 2014).

The spread of derogation constitutes another important factor in the erosion of collective bargaining. Opening clauses were bargained by German trade unions before the crisis. Opening clauses were included in the 2009 and 2010 German metalworking and chemical sector agreements. Opt-out clauses were also used not only to make working time more flexible but also to deviate from collectively agreed wages. In 2010, 58 per cent of companies made use of opening clauses and the number of derogation agreements on wages grew. More recently, in direct contrast to the other countries, a statutory minimum wage has been implemented and the use of extension procedures has increased in Germany, reflecting a growing problem of low pay in parts of the private sector.

Conclusion

Since the early 2000s, wage restraint has been common in all ten countries dealt with in this chapter. This trend has further been reinforced since the onset of the crisis. We have examined the extent to which collective bargaining may influence trends in actual wages; in other words, we have tried to to provide indicators of the 'bite' of collective bargaining in Europe. This also involved an attempt to explain how actual wages may deviate from collectively agreed wages (so-called 'wage drift').

First, our analysis shows that wage restraint has been reinforced since the onset of the crisis, not only with regard to collectively agreed wages but also actual wages. Second, analysis of the development of 'wage drift' – measured by the difference between actual wages and collectively agreed wages– leads to the identification of three groups of countries. The much larger group has experienced fairly weak wage drift, moderately positive or negative: Austria, Belgium, Finland, France, Germany and Italy. In stark contrast, countries of the second group have experienced huge wage drift, which is a typical feature of southern Europe: in our sample, Spain and Portugal. Finally, wage drift has followed a fairly erratic pattern over the period in two countries: the Netherlands and

the United Kingdom. We also highlight that these divergent trends may have been due to a wide range of explanations: changes in the composition of the labour force; minimum wage setting and pay indexation; and compensation policies at firm level. Besides these latter determinants of wage drift, in connection with implementation of new economic governance, industrial relations regimes came under growing pressure to reform collective bargaining and wage-setting mechanisms.

We considered in a last section the main institutional changes in wage-setting mechanisms and their potential impacts on wages and wage drift. In particular, our analysis has distinguished Spain and Portugal, which were subject to important 'structural reforms', which occurred at the same time as a reversed trend with regard to wage drift. In the other countries, fewer institutional changes are reported but two cases have been stressed: first, France and Italy, where a number of reforms have weakened the collective bargaining system, although without undermining coordination; and second, Germany, where 'deregulating' institutional changes took place before the crisis in the early 2000s (derogation and opting-out), and 're-regulating' changes very recently (minimum wage and revised extension mechanism).

The wage moderation recorded in the euro-zone countries goes far beyond adjustments in labour costs to restore productivity; it has been accompanied by reforms whose worst effects have not yet been felt except in countries under Memorandums of Understanding. This can be explained by the resistance of institutions to change (path dependency) and by the strategies of the social partners, which restrict the negative effects. However, the reforms are likely to result in permanent erosion of collective bargaining systems.

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Appendix

Table A **Main features of indicators of collectively agreed wages (TURI database)**

	Indicator	Description	Data source	Wage concept
Austria	Index of collectively agreed minimum wages	Wages defined by collective agreements or similar legal regulations	Collective agreements that come into force	All regular payments conditional on the job.
Belgium	Index of collectively agreed wages	Index following the rise in sector level median pay scales based on collective agreements	Collective agreements at sectoral level	Base wage (not included: bonuses such as premiums, year-end bonuses and holiday allowance; included: automatic indexation)
Germany	Collectively agreed earnings	Agreed pay levels and increases	All collective agreements registered by the Ministry of Labour (Sector-level agreements only)	Base wage, including one-off and flat-rate payments and other bonuses
Finland	Index of collectively agreed wages	Index measuring the effect of collectively agreed pay on average earnings	Collective agreement filed at employer organisation	Total compensation (including basic pay and bonuses)
France	Index of collectively agreed wages	Minimum wages at sectoral level	Collective agreements at sectoral level	Minimum wages (hierarchic minimum wage or annual guaranteed compensation)
Italy	Index of collectively agreed wages	Wages set by the national collective agreement (CCNL, Contratto Colletivo Nazionale di Lavoro)	Consiglio Nazionale dell'Economia e del Lavoro (CNEL)	Base wage, seniority premiums and shift work allowances, all bonuses (except for one-off payment and periodically bonuses (13th monthly payment).
Nether-lands	Index of contractual wages	Gross wages at sectoral level	Collective agreement (250) monitored by the CBS (2,500 employees)	Wage, including specific remuneration, such as gross wages for regular working hours, paid benefits, holidays allowances or end-of-year payment

Table A **Main features of indicators of collectively agreed wages (TURI database) (*cont.*)**

	Indicator	Description	Data source	Wage concept
Portugal	Annualised weighted average variation between wage tables	Calculated on the basis of a comparison between pay levels in the respective wage tables (present and previous agreements)	All collective agreements signed under the legislation	Base wage
Spain	Statistics on labour collective agreements	Number of collective agreements, number of workers, agreed wage increase	Collective agreements signed by trade unions and companies	Base wage (but many agreements define total compensation)
UK	LRD pay round pay settlement medians	Median increase of the lowest basic rate of pay arising from pay settlements	LRD pay round settlements	Base wage

Source: Van Gyes (2012); national reports CAWIE I.

Chapter 3
Impact of the euro crisis on wages and collective bargaining in southern Europe – a comparison of Italy, Portugal and Spain

Jesús Cruces, Ignacio Álvarez, Francisco Trillo, Salvo Leonardi

Introduction[1]

The austerity measures implemented in the European Union have reinforced the dominance of competitiveness as a central frame of reference for wage policies. So-called 'internal devaluation'–based on wage cuts– has been presented as the solution needed to overcome the crisis, particularly in southern European countries.

However, after several years of austerity measures, there is now uncontested evidence of their negative impact on economic growth and social cohesion, which is admitted even by supranational institutions.[2] Various studies have shown that internal devaluation has been ineffective in addressing macroeconomic imbalances and the debt crisis in the European Union (Holland 2012). There is also a broad consensus that austerity has reinforced existing divergent trends with regard to wages and collective bargaining. In southern European countries, these policies have led to deep wage cuts and radical changes in collective bargaining systems, resulting in lower standards in terms of incomes, wage-setting arrangements and social cohesion (Bernaciak and Müller 2013).

This chapter aims to address the impact of the euro-crisis on wages and collective bargaining in three southern European economies, namely Spain, Italy and Portugal.[3] To meet this challenge, we decided to struc-

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1. We would especially like to thank Reinhard Naumann for his contributions and suggestions during the elaboration of this chapter, which were very relevant and constructive.
2. The International Monetary Fund admitted that large and rapid fiscal consolidation may lead to unintended economic consequences for growth and employment (Blanchard and Leigh 2013).
3. Taking into account other southern European countries, as Greece, where austerity policies have generated much more serious negative consequences, both economic and social (Triantafillou 2014).

ture our analysis by moving from more general to more specific aspects, for example, of legal and economic measures.

The structure of this chapter is as follows. In Section 1 we review so-called 'new economic governance' in Europe, as well as the main rationale put forward for austerity and internal devaluation. In Section 2 we explore some microeconomic aspects of labour market 'reforms' imposed by the Troika, focusing on (i) the intense privatisation process and (ii) the strong determination to reduce the importance of collective bargaining. We analyse these two dimensions in the three case studies. In Section 3 we present the main outcomes of labour reforms, in terms of wage development, economic growth and social indicators. Finally, in Section 4 we draw some conclusions.

In our analysis we also try to evaluate how homogeneous institutional reforms have had different practical consequences, addressing the diverse reactions of national governments, as well as the various intensities and outcomes of these reforms, especially with regard to wage trends.

It must be noted that our analysis is not based on a narrow comparison of experiences, but rather on a synthesis of the outcomes of austerity and internal devaluation in southern European countries. Therefore, in many cases the use of the data provided, both economic and regulatory, may serve as guidance for a more comprehensive understanding of the consequences of particular policies for wages and collective bargaining. The analysis covers wage developments and other variables until 2013, within the framework of the broader impact of austerity measures.

1. The euro-crisis in southern European countries: wage policy framework

The financial and economic crisis that began in 2008 metamorphosed during 2010–2012 into an intense crisis of the euro. The credit risk of government bond yields experienced a sharp rise in peripheral economies during these years to the point of forcing bailouts by the European Union of Greece (May 2010), Ireland (November 2010), Portugal (May 2011), Spain (June 2012) and Cyprus (March 2013).

The economies of southern Europe – particularly Spain, Italy and Portugal– had had no significant fiscal problems before the economic crisis.

Italy and Portugal had a moderate public deficit in 2007 (–1.6 per cent and –3.1 per cent of GDP, respectively), while Spain showed significant surplus (1.9 per cent). Similarly, the ratio of public debt to GDP was not excessive in the case of Portugal (68.4 per cent, in line with France and Germany), Spain had a low figure (36.3 per cent) and the high Italian public debt (103.3 per cent) was not considered critical due to its domestic nature (see below).

However, the development of the crisis in these three economies during the period 2008–2010 led to a significant increase in government deficits and public debt, making it very difficult to obtain financing on international capital markets. The economic cycle with an increase in spending associated with the automatic stabilisers, the bailouts of the financial system and the fall in tax revenues due to the slowdown of economic activity thus explain the deterioration of public finances.

On the other hand, Spain, Italy and Portugal accumulated – as did Greece and Ireland– substantial current account and financial imbalances from the establishment of the Economic and Monetary Union (EMU): the increase of external private debt (particularly in Spain and Portugal) was the consequence of growing trade deficits toward the core economies of the euro zone. With the adoption of the common currency and the absence of institutional arrangements to prevent and correct these external imbalances, current account deficits in 2007 reached –10 per cent of GDP in Spain and Portugal and –1.3 per cent in Italy.

The explanation given by the EU institutions for these fiscal and external imbalances has determined the type of policy response implemented. First, both Brussels institutions and the German government insist on presenting fiscal imbalances as one of the main reasons for the sovereign debt crisis. Second, the current account deficits of peripheral economies are interpreted as a result of their uncompetitiveness in relation to the central and northern countries, due to higher growth in unit labour costs.

Both macroeconomic imbalances are – according to Brussels– a clear sign that these countries have 'lived beyond their means'. The solution implemented is therefore based on strict fiscal austerity packages and wage cuts.

A complementary, but different explanation is not considered, however: the current account deficits within the EMU are not the result of 'policy

mistakes' by peripheral economies, but of unbalanced growth between core and periphery in 1995–2008.

This unbalanced development is based on two poles. One group of economies – particularly Germany – has been characterised by wage restraint and weak domestic demand, with economic growth driven mainly by a strategy of increasing exports (*export-led growth*). Another group – of which Spain is a good example – has based its expansion on strong internal demand financed by external debt (*debt-led growth*), thereby enabling recycling of the trade surpluses of the first group of countries.

Both strategies were in fact interdependent: growth in core countries was (in part) based on external demand in the peripheral economies and, simultaneously, the latter needed the surplus countries to finance their current account deficits. A common monetary policy and the existence of the single currency have played an important role in the development of this model, imposing the same interest rate on all economies and reducing the credit risk of peripheral government bond yields.

It is worth stressing the key element underlying the development of this unbalanced growth model: the establishment of the Economic and Monetary Union (EMU). The proposal to impose a single currency on different economies with diverse industrial structures and productivity levels without – crucially – any institutional mechanism aimed at limiting external imbalances between these economies resulted in an unsustainable model (Álvarez *et al.* 2013).With a single currency, the counterpart of a strong trade surplus in Germany – partially due to its reduced domestic demand – is an intense flow of capital towards more dynamic areas, such as the south, with corresponding external imbalance problems due to high domestic demand (as typified by Spain).

Furthermore, an expansionary monetary policy designed to meet the needs of the core countries during the years before the crisis contributed to very low real interest rates in the south, leading to rising debt levels.

In addition, the Monetary Union was constructed according to the model of the German Bundesbank, with a strategy favouring a strong currency and the priority of avoiding inflation. Companies in core countries had decades of 'practice' under these conditions and learned to live without currency devaluations. Companies in southern Europe, by contrast, had

a much shorter period to learn to compete in such a context and the result was that many of them got into trouble. This was not the result of wrong policies but of a race with very unequal competitors, and EMU had no mechanisms to compensate for the ensuing imbalances.

Taking this analytical framework into consideration would have required the implementation of quite different policy measures to those applied by the EU (for example, an increase in German domestic demand). However, the crisis has been used by the institutions in Brussels and by political and economic elites to deepen the neoliberal economic strategy and redefine labour and social relations in southern Europe.

1.1 Austerity policies and the new economic governance

The economic policy imposed in the euro zone since May 2010 contains a strong dose of external intervention: the influence of the EU – through the European Council, the Eurogroup, the Commission and the Troika– on the policies adopted by the governments of the different member states has increased considerably. EU influence has been consolidated by a series of agreements that strengthen the capacity of the European institutions to monitor member state economic policies and to impose financial sanctions on countries that do not comply with central directives.

This external intervention is overwhelming in the Memorandums of Understanding signed with the countries bailed out by the European Stability Mechanism (ESM). In these cases, the ESM bailout mechanism involves strong conditionality in terms of economic policy, similar to the structural adjustment policies imposed by the International Monetary Fund in Latin America during the 1980s and 1990s. Some authors even describe this economic policy as 'authoritarian neoliberalism' (Bruff 2012).

The main decisions adopted within the framework of new economic governance were taken outside the European Semester. The main actors were the Eurogroup and the ECB, neither of which is democratically accountable or open to public debate (Rocha 2014). As an example of this lack of open debate we have the ECB's 'secret letters' to Spain and Italy (August 2011), demanding reforms in collective bargaining, the abolition of inflation-adjustment clauses, private sector wage moderation and

other labour market regulations (Rodriguez Zapatero 2013), which were reflected in the measures finally adopted.[4]

Among the economic policies imposed by member state governments and European institutions on peripheral countries, two in particular shape the wage policy framework (European Commission 2011; Schulten and Müller 2013):

(i) *Fiscal consolidation should be the priority of any economic policy*. This consolidation has been understood as a prerequisite for reducing government bond yields in financial markets, restoring the country's access to external financing and stabilising the single currency. In accordance with this approach, even though European economies are still in crisis, governments decided to cease fiscal stimulus, restoring – in line with the Maastricht Treaty– the control of public deficits as the top priority. To guarantee such control, public spending is cut. History has thus repeated itself with, as in 1931 and German Chancellor Heinrich Brüning or in 1935 and the French government of Pierre Laval, major European governments implementing public spending cuts in a recession.

(ii) *Internal devaluation by reducing wages is supposed to correct differences in competitiveness and current account imbalances*. The increase in current account imbalances is perceived, as already mentioned, as being the result of diverging competitiveness between economies. At the same time, this divergence is explained by discrepant growth of unit labour costs. Since EMU's institutional framework does not allow currency devaluations to regain lost competitiveness, such recovery must come – according to the EU– from 'internal devaluation', understood as a reduction in unit labour costs in deficit countries. Wages are thus considered the main adjustment variable with regard to macroeconomic imbalances.

These two macroeconomic policies are presented by the Troika as necessary to ensure financial stability, facilitate international financing and

4. For example, in Italy we find Act. 148/2011, Berlusconi's immediate answer to the ECB's 'secret' letter (August 2011), in which for the first time a company or territorial 'proximity' agreement is allowed in Italy –concerning new investments, jobs, savings, adoption of new technologies or forms of workers' participation– to derogate, not only from national sectoral agreements, but even from laws, the only limit being respect for constitutional or international rights and conventions.

increase external competitiveness. They are supposed to lead to the recovery of credit, investment, exports and employment, as well as an increased potential for long-term growth.

In order to institutionalise these measures in the euro zone, governments have substantially transformed economic governance in Europe. In 2010, with the adoption of the Europe 2020 Strategy proposed by the European Commission, the European Semester got under way, which is an annual mechanism of macroeconomic, budgetary and structural policy coordination. According to this mechanism every year the EU issues a series of recommendations to member states that have to be embodied in a National Reform Programme, whose implementation is evaluated by the European Commission. Furthermore, states also have to submit their plans for sound public finances (stability or convergence programmes). The European Semester is therefore an instrument designed to enable the Commission to achieve more effective ex ante control of economic policy in different countries (European Commission 2011).

This new European economic governance has continued to develop. In 2011 the so-called Six-Pack was adopted, consisting of five Regulations and one Directive aimed at strengthening not only fiscal but also macroeconomic supervision of member states (especially in the countries of the euro area). This attempt to reinforce economic governance is being imposed by three instruments (European Commission 2012a; Uxó *et al.* 2011).

First, the Six-Pack ensures tighter fiscal discipline through a stricter interpretation of the Stability and Growth Pact. Second, a mechanism for preventing and correcting potential macroeconomic imbalances has been created, involving the monitoring of various economic indicators (not only fiscal indicators). Third, an automatic procedure for sanctions has been introduced for countries that do not comply with policy recommendations emanating from this EU alert mechanism. As a result, policy recommendations from the EU to member states have ceased to be voluntary (Schulten and Müller 2013).

In 2011, the member states ratified the so-called Euro-Plus Pact (later the Pact for the Euro). This agreement has also helped to institutionalise austerity and internal devaluation policies in the EU. The Pact for the Euro contains mechanisms to ensure the 'sustainability' of public finances by monitoring and reforming pension, health and unemployment sys-

tems. Furthermore, this agreement aims to supervise the growth of unit labour costs in order to link the evolution of (nominal) wages to (real) productivity and thereby improve the external competitiveness of the economies of the euro zone. In this sense, the pact was designed with the intention of promoting more 'flexible' labour markets and achieving (hypothetical) productivity gains.

1.2 Labour reforms and work deregulation in private and public sector

As already discussed, the increase in external imbalances experienced within the euro zone is perceived by the European institutions as resulting from the diverging competitiveness of core and peripheral countries, due to growing differences in unit labour costs. The European institutions explain these differences in unit labour costs as a result of so-called 'institutional rigidities' in labour markets: collective bargaining systems, regulation of layoffs, minimum wages and employment protection, among other things. These 'rigidities' explain, according to the orthodox approach, the 'excessive' growth of unit labour costs in peripheral countries, the decline in external competitiveness and structural unemployment, as well as loss of growth potential (Álvarez *et al.* 2013).

The strategy to reform labour markets – lowering the minimum wage, allowing more flexible dismissals, eroding collective bargaining and ultimately limiting the ability of unions to achieve agreements – is supposed to encourage the necessary 'internal devaluation' and to facilitate recovery of both competitiveness and GDP growth. Thus, wage cuts are part of an export-led recovery strategy for peripheral countries, while macroeconomic imbalances and aggregate demand problems are supposed to be solved by supply-side measures.

The EU is thus interfering with wage policy in the member states, an area traditionally closed to European regulation (Schulten and Müller 2013). The legal basis for this intervention is linked, as already mentioned, to the Six-Pack and the Pact for the Euro, as a result of which, as already mentioned, wage growth is used as the main adjustment variable to promote competitiveness and reduce macroeconomic imbalances.

Although Article 153 of the Treaty on European Union states that wage policy is beyond the powers of the EU, the Macroeconomic Imbalance

Procedure linked to the adoption of the Six-Pack provides the basis for new intervention in wages. This is not confined to monitoring wage growth,[5] but also covers other areas, such as national systems of collective bargaining.

In the context of the crisis, and according to the Macroeconomic Imbalance Procedure, the EU has recommended labour market reforms to half of the member countries (European Commission 2012b). These recommendations are increasingly unavoidable, to the extent that countries that fail to comply with them will risk significant economic sanctions.

However, in the case of peripheral countries with external financing difficulties this influence has been implemented with much greater intensity. Labour market reforms carried out since 2010 by Portugal, Spain and Italy have comprised strong deregulation of the institutional framework. These reforms – reviewed in Section 2– are supposed to decentralise collective bargaining, reduce the regulatory scope and duration of collective agreements, facilitate opt-out clauses and alleviate redundancy costs. Therefore, labour reforms adopted in these countries have the ambition of realigning the collective bargaining systems towards the current Anglo-Saxon model based on decentralisation and deregulation.

The high unemployment caused by the crisis has been particularly useful in legitimising such 'reforms'. Unemployment is used not only to claim (once again) that a more 'flexible' labour market would ensure the creation of new jobs, but also to limit employees' bargaining power in these countries (Baylos et al 2014).

In southern European economies labour policy is aimed not only to deregulate labour markets and reduce wages in the private sector. Cutting public sector wages and freezing the minimum wage are even more important.[6] As a consequence of these developments, southern Euro-

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5. The new monitoring of economic indicators adopted with the Six-Pack explicitly includes unit labour costs among the indicators to be controlled. The nominal growth of this variable may not exceed 9 per cent in a period of three years for euro zone economies (and 12 per cent for countries which are not members of EMU).

6. Public wages in Spain were cut by 5 per cent in June 2010 and Christmas bonuses were abolished in 2012. Later on, they were frozen. In Portugal public wages were frozen in 2010 and experienced a 5 per cent cut in 2011; furthermore, above a certain income threshold, the two annual bonus payments were eliminated in 2012 and 2013. In Italy public wages were frozen in 2012. Moreover, the minimum wage was not updated in 2012 and 2013 in either Spain or Portugal.

pean economies experienced severe wage devaluation during the period 2010–2014, in both the private and the public sector.

2. Collective bargaining systems in Italy, Portugal and Spain

The disruptive effect of the crisis on industrial relations has been considerable in southern European countries. It is too early to affirm that the reforms enacted in 2010–12 will lead to systemic change, but it is certain that they have affected a number of very important institutions, such as collective bargaining and thus wealth distribution and the working and living conditions of working people.

The southern European countries have traditionally shared some industrial relations features in the EU context, such as high collective bargaining coverage rates and national-level social dialogue.[7] Moreover, strikes are much more frequent and a class orientation more prevalent in the unions. They are also similar in relation to other features, such as union fragmentation and politicisation, gaps between large and small companies and a high degree of informality in the labour market. The Italian, Portuguese and Spanish systems are based on the principle of trade union pluralism.

Specifically, the collective bargaining systems share more commonalities than differences. These systems play an essential function in regulating labour relations. In the 1980s, collective bargaining developed in accordance with the *favor laboris* principle.[8] However, since the 1990s this principle has undergone significant change. It began with the implementation of special acts on specific issues aimed at introducing more flexibility in employment relationships. In this way, relations between legal and conventional regulations changed in order to introduce derogations *in peius* by collective bargaining to achieve greater 'flexibility'. This means that since then the *favor laboris* principle has undergone a major evolution in which legal regulation of collective bargain-

7. For instance, in Italy and in Spain very important labour market reforms were instigated by social dialogue (1997, 2003 and 2006).
8. This means, in this case, collective bargaining was obliged to improve legal regulations. In other words, relationships between legal and conventional regulations produced as a result a situation in which labour rules gave advantage to the labour relation weaker part (workers).

ing has ceased to respect minimum legal rights in an effort to improve 'flexibility'.

Approaches to collective bargaining differ in Italy, Portugal and Spain. While in Italy this process is based on the freedom of negotiators to balance different interests in bargaining (*flessibilità contrattata*), in Portugal and Spain the law has played a more substantial role, determining the areas and limits in which collective agreements could introduce this flexibility. This has made it possible for collective agreements to establish less favourable conditions than those prescribed by law (Palma Ramalho 2013). During the crisis, these relations between the law and collective bargaining have experienced another development in which legal provisions, often adopted directly by the executive and circumventing parliament, have abrogated collective agreements.

Generally, there is a tendency for legal provisions to override collective bargaining, sometimes violating the constitution, as in Spain (Art. 37.1 CE) and affecting trade union association rights.[9]

2.1 Features of the collective bargaining system of each country before the crisis

To understand the impact of the crisis and, above all, the anti-crisis measures on collective bargaining, it is essential to review corporate and industrial relations in Italy, Portugal and Spain prior to the crisis. The following features must be taken into account.

(i) The majority of Italian, Portuguese and Spanish companies are micro-size companies, with fewer than 10 workers.[10] However, these companies employ less than 50 per cent of the total workforce.[11]

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9. In this regard, it is interesting to analyse the two complaints brought by Spanish trade unions CC.OO. and UGT in 2011 and 2012. Case nº 2918 (http://www.ilo.org/dyn/normlex/en/f?p=1000:50001:0::NO:50001:P50001_COMPLAINT_FILE_ID:3056434) and Case nº 2947 (http://www.ilo.org/dyn/normlex/en/f?p=1000:50001:0::NO:50001:P50001_COMPLAINT_FILE_ID:3063806).

10. In Italy: 95 per cent of companies have fewer than 10 workers (source: ISTA. http://www.istat.it/it/archivio/4870; in Portugal around 95 per cent of companies have fewer than 10 workers (source: National Institute of Statistics); while in Spain 97.8 per cent of companies had fewer than 10 workers in 2008. (source: Spanish Statistical Office http://www.ine.es/daco/daco42/dirce/dirce08.pdf).

11. Perhaps Spain is the most representative because almost 99 per cent of companies are small or micro companies. See: http://www.ine.es/inebmenu/mnu_empresas.htm.

(ii) All systems have a long tradition of social dialogue between the government and the representative associations and organisations of employers and employees, especially at the highest level of representation. Social dialogue consists of regular consultations on the approval of new legislation on employment and industrial legislation, except in Italy, where social dialogue generally concerns wealth distribution policy and trade union regulation (EESC 2011).

(iii) There is also a long tradition of collective bargaining and collective agreements, whose structures are similar, principally at the sectoral level (national, regional and provincial). This preference for sectoral branch agreements is due to the small size of most companies and has played a significant role in the inclusiveness and homogenization of working conditions and living standards. In Italy, the national agreement establishes a basis of rights and standards, including minimum wages, for industry at large.

(iv) Competence to sign collective agreements, at every level, on behalf of employees is mainly accorded to trade unions, except at the company level, where works councils are the favoured bodies. In this regard, there are some differences between the countries, especially in Italy where since 1993 under the Inter-confederal Agreement one-third of the seats on works councils have been reserved for trade union representatives.[12] Usually, the company agreement is the level at which flexibility is introduced more frequently.

(v) In the case of binding collective agreements it is possible to apply the results of bargaining to all workers. In Italy (Ferraro 2013) and Portugal the general principle is that outcomes apply only to members of the trade unions or employer associations that signed the agreement (affiliation principle), but in practice it is also possible to apply the contents of collective agreements to unaffiliated workers [13] (in Italy by a judicial ruling and in Portugal through an administrative extension procedure). However, in Spain the main principle is general application to all workers, affiliated and non-affiliated

12. Collective bargaining depends only on the social partners' mutual recognition; agreements are not legally binding and their contents are only formally enforceable by affiliates of the signatories.

13. The exception here is the public sector, in respect of which since the late 1990s there has been a law on the selection of representative unions entitled to bargain (Legislative Decree No. 296/1997 and 165/2001, Art. 43). Unions need to pass a 5 per cent threshold to take part in national collective bargaining, whereas a final agreement is binding if signed by unions representing at least 51 per cent of the relevant workforce. These thresholds are calculated as a weighted average between votes and members.

– *erga omnes* – when collective agreements respect the legal provisions on bargaining legitimacy. Nevertheless, in Spain, trade unions and employers' associations can sign collective agreements in which the negotiating bodies are not composed in accordance with the relevant legal provisions. In this case, the contents of the collective agreement apply only to affiliated workers, although individual workers can ask for its extension to them (judicial ruling).

(vi) One of the most important features of collective agreements in Italy, Portugal and Spain is the period of validity. In these collective bargaining systems collective agreements remain in force until they are superseded by another one. In Italy, this provision is introduced by collective agreement, while in Portugal and Spain it is statutory. This kind of provision provides the workers with substantial security with regard to working conditions and living standards, but it has also hampered the development of collective bargaining over the years.

As a result of these institutional characteristics of collective bargaining, especially extension, coverage rates are very high in the three countries: in Italy, collective bargaining coverage in 2008 was about 80 per cent,[14] in Portugal, between 71 and 80 per cent[15] and in Spain (depending on the source) coverage was between 80 and 85 per cent (EPA 2008)[16] in 2008 (or 74.5 per cent according to the Social Security Survey 2008).

2.2 Main changes in collective bargaining systems: public and private sector

According to the European Commission and the institutions regulating the financial markets – such as the ECB and the IMF – economic measures aimed at reducing public deficits in Italy, Portugal and Spain should be accompanied by government action to impose in-depth 'structural reforms', which entails a series of reforms related to labour relations, the social security system and collective bargaining, with the express aim of creating and/or preserving jobs. In other words, while state macroeconomic action has tended towards reducing public deficits, and hence to

14. See: http://www.eurofound.europa.eu/eiro/country/italy_4.htm.
15. Ministério do Trabalho e da Solidariedade Social 2008: 86.
16. Also very useful is the information from Comisiones Obreras on collective agreement registration (REGCON). See in this regard, Secretaria Acción Sindical 2014.

contract the public sector, efforts to maintain and create jobs have been restricted to revising the regulation of employment relationships and social protection systems. Two main lines of action have thus emerged (Baylos and Trillo 2011).

The first concerns the 'inevitability' of austerity measures and public deficit reduction as the only way to exit the crisis and achieve economic recovery. The political and economic debate has therefore moved away from issues such as changing the production model and reforms needed to boost economic activity, thereby absolving economic and business actors of their responsibilities. Collective bargaining in the public sector has been affected by non-application of wage clauses (cutting or freezing, depending on the country).

The second line of action is closely related to the reforms carried out with regard to labour relations, based on the questionable principle that jobs can be created or maintained only by reducing legal and political employment guarantees and reducing average wages, redundancy costs and working conditions, setting job creation against robust employment rights. This view, which is hardly new, has not been shown to be correct, either in the current crisis or in previous crises, such as those in the 1980s and 1990s.[17] During 2009–2013, there was intense reform, both qualitative and quantitative, based on the assumption that employment rights are the main cause of legislative rigidity and hence job destruction.

Public deficit reduction measures have been introduced progressively since 2010, with particular emphasis on cutting spending within the different public authorities. This does not mean that no decision has been adopted affecting revenue, but the majority of legislative work has focussed on the restructuring of public personnel costs, reducing public deficits, policies intended to reduce social spending and the privatisation of public services.

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17. As we can see from several studies, employment creation is not in the power of labour market institutions. Naturally, greater flexibility in this respect can contribute to greater job insecurity, but ultimately the causes of employment creation are not on the supply side. It depends rather on demand, in a given model of organisation of production, the difference between more and less productive jobs, as well as in the business management model. As an example of the impact of trying to create jobs by relaxing statutory employment guarantees, in Spain there have been more than 52 labour reforms since 1980, most of them focused on employment growth, resulting more and more precarity of employment (Rocha and Aragón 2012).

Having stressed the significance of the public sector in Italy, Portugal and Spain, we should also mention measures aimed at reducing public spending as an anti-crisis strategy. The main measures in this respect include suspension of pension adjustments – except for minimum pensions and non-contributory pensions– and reductions in the wages of public employees, as already mentioned.

Public sector wage cuts have triggered an ongoing legal debate on the binding nature of collective agreements with general scope that govern labour relations of employees of public authorities and public companies. For instance, in Spain such cuts directly contravene the *Acuerdo Gobierno-Sindicatos para la función pública en el marco del Diálogo Social* (2010–2012) – a government/trade union agreement on public employees within the framework of social dialogue – which, a few months previously, had laid down wage rates that took account of the ongoing crisis. All collective agreements for people working for the various administrations were affected.

Other measures in the public sector concerned, for example: (i) the replacement rate for civil servants and (ii) working time increases for public employees. The same is true of certain public bodies in which working time is set by means of statutory collective bargaining. In this case, there was a conflict concerning the binding nature of collective agreements and, ultimately, the right to free collective bargaining.

In the private sector, very important legislative reforms have been adopted since 2010 in Spain, Portugal and Italy.[18] Significant measures have affected the main aspects of collective bargaining. Essentially, executive power has promoted collective bargaining at company level, even with regard to aspects regulated by sectoral agreements, such as wages or working time, when there are economic, technical or productive reasons for taking action. These reforms are intended to promote the preferential use of company-level agreements over sectoral agreements, except when prohibited by competition rules or by the terms of an agreement.

It is also worth stressing that – at the same time– the demand for decentralisation of collective bargaining made by the Troika and national

18. A good analysis of the legal reforms of the collective bargaining systems in Spain, Italy and Portugal could be seen in Rocha 2014.

governments could be hiding an other objective: the weakening of collective bargaining at sectoral level. A good example of this is the Portuguese case, which shows clearly that the real effect of these measures is the collapse of bargaining at sectoral level and its weakening in general (see below), without any sign of decentralisation. The demand for decentralisation is being used to make changes in southern European countries to reduce or even eliminate the space for collective bargaining.

The various regulations adopted in southern Europe include stipulations that:

- Priority should be given to the regulation of certain working conditions agreed in the company-level collective agreement, such as the amount of the basic wage and wage supplements; payment or compensation for over-time and specific payments for shift work; the hours and distribution of the working day; professional classification; measures for reconciling personal, family and working life.
- The list of issues forming the minimum content of a collective agreement has been increased significantly, while at the same time the freedom of the collective parties to decide the content of the text has been reduced.
- A restriction of the time during which a collective agreement can remain in force after it has expired, by setting a maximum negotiation period according to the agreement's period in force, establishing an obligatory system of arbitration for times when negotiations on the collective agreement are deadlocked, which was previously decided by the collective bargaining parties. This is intended to restrict the time period during which, once an agreement has elapsed, its provisions can remain in force until a new text is agreed.
- Labour reforms adopted in these countries generalise the application of opt-out clauses. (Rocha 2014)

Reforms were adopted against a background of no political debate nor participation of social partners. For example, the Spanish labour reform in 2012 came to light within two weeks of the *Second Agreement on Employment and Collective Bargaining* (2012–2014), reached by trade unions and business organisations (ibid.). This agreement, which required a major effort from the social partners, covers the structure of collective bargaining and lays down a set of coordination and implementation rules for collective bargaining, also introducing some changes to wage indexation (introducing GDP and other variables in the wage-setting

mechanism).[19] The efforts of social partners are evident also in Italy, with the last *Interconfederate Agreements on Workers' Representation and Collective Bargaining* (2011/2013/2014).[20]

2.3 Impact of collective bargaining reforms

In this section we examine how these austerity-oriented labour reforms are affecting collective bargaining. To this end we present statistical data on the crisis and collective bargaining. We shall look at how the anti-crisis measures have affected collective bargaining in Southern countries.

In the area of collective bargaining, the impact of the reforms manifests itself in three major areas: (i) growing collective bargaining decentralisation or, as in Portugal, the collapse of most negotiations at all levels (sectoral, branch and enterprise); (ii) the failure to apply collective agreements as a way of achieving internal devaluation, not only through cutting wages, but also modifying *in peius* other rights, such as working time; and (iii) limiting the validity of collective agreements as, allegedly, a *necessary reform*, originating in the productive context in which many economic changes are taking place very rapidly. All these policies on collective bargaining are the consequence of these national reform policies, supported by Memorandums of Understanding (ETUI 2014).

The first item, growing decentralisation, has been the most important action implemented by the Italian[21] and Spanish governments in relation to collective bargaining. The theoretical basis for this policy con-

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19. *Second Agreement on Employment and Collective Bargaining*, http://boe.es/boe/dias/2012/02/06/pdfs/BOE-A-2012-1778.pdf

20. In Italy, the key issue of certifying the number of trade union votes and members has not yet produced its effects because the whole procedure –involving the National Institute for Social Protection (INPS) and the almost defunct National Council for Economy and Labour (CNEL)– has been going quite slowly. As result, it's very unlikely that the new wave of sectoral agreements will be in accordance with the new rules.

21. In Italy, on 22 January 2009, a tripartite Framework Agreement for the Reform of Collective Bargaining (FARCB) was signed without CGIL and against its opposition. The new rules formally safeguarded the two-tier structure, with sectoral agreements continuing to provide basic protection nationwide. Their duration was set at three years for both the normative and economic parts, having previously been four and two years, respectively. The new system aimed to strengthen and enlarge the second level of collective bargaining, at company or territorial level. Decentralised collective bargaining will last three years (against the previous four) and will cover topics defined by sectoral agreements or legislation and which do not concern those already regulated at other bargaining levels.

cerns competitiveness, both domestically, as in Italy – for example, Fiat threatened its employees and the Italian government with production relocation due to the high labour costs imposed by the national collective agreement– and also internationally. In other words, wage cuts as the only way of improving competitiveness in international markets, thereby producing national economic recovery. Collective bargaining decentralisation has been considered a very important aim. In Portugal, against the background of decentralisation a policy has been implemented that has resulted in the almost complete collapse of bargaining at all levels (including the enterprise level).

Within this process, the data show us different collective bargaining dynamics. In Portugal, for example, the scope of collective bargaining has been reduced dramatically since 2010, first at sectoral level, but the number of multi-employer and company agreements has also decreased substantially. In this case, the huge reduction in the number of collective agreements at all levels expresses labour market deregulation and loss of bargaining power. The result can be clearly measured by the significant reduction of the number of workers covered by collective agreements, which has been drastically reduced (almost 1 million of workers fewer than in 2010 – see Table 1).

Table 1 **Number of collective agreements by type, extensions and coverage, Portugal, 2008–2013**

	2008	2009	2010	2011	2012	2013
Agreements	295	251	230	170	85	94
Branch agreements	173	142	141	93	36	27
Multi-employer agreements	27	22	25	22	10	19
Company agreements	95	87	64	55	39	48
Administrative extensions	137	102	116	17	12	9
Workers covered	1,894,788	1,397,355	1,407,066	1,236,919	327,662	242,239

Source: UGT, Relatório anual da negociação colectiva (2013).

With a similar trend but a different impact, collective bargaining in Spain manifests a smaller reduction, derived from the social partners' interest in maintaining collective agreements in exchange for substantial modifications of working conditions (mainly wages and working time). Here, there has also been a decrease in the number of collective agreements, with a progressive rise in the number of company-level agreements, but without significant changes in the structure of collective bargaining. As in the Portuguese case, the result of this process has been a significant reduction of the number of workers covered by collective agreements (Table 2). In Spain, sectoral bargaining has been more stable, while at the same time registering an increase in new collective agreements at the company level, whose main motivation has been the downward modification of wages and also the emergence of new enterprise agreements in sectors in which previously they were rarer (Secretaria Acción Sindical 2014) (in 2011, 1,033 new company agreements were signed, rising to 1 243 in 2012 and to 1 877 in 2013, see Ministry of Employment and Social Security of Spain 2015).

Table 2 **Number of collective agreements by type and workers covered, Spain, 2008–2013**

	2008	2009	2010	2011	2012	2013
Agreements	5 987.0	5 689.0	5 067.0	4 585.0	4 376.0	3 161.0
Company agreements	4 539.0	4 323.0	3 802.0	3 422.0	3 234.0	2 274.0
Higher level	1 448.0	1 366.0	1 265.0	1 163.0	1 142.0	887.0
Workers covered (1000)	11 968.1	11 557.8	10 794.3	10 662.8	10 099.0	8 531.1
Company agreements	1 215.3	1 114.6	923.2	929.0	925.7	656.0
Higher level	10 752.9	10 443.2	9 871.1	9 733.8	9 173.3	7 875.0

Note: Updated data, February, 2015 (registered until 31 January 2015). * 2013, provisional data.

Source: MEYSS, 2014 (2002–2010) Boletín de Estadísticas Labourales (2011–2014) Principales Series.

Behind these changes in collective bargaining (content and structure), it is worth stressing the importance of the production and business context of the southern European countries, in which more than 90 per cent of companies are small or micro-size.

Despite the general trend of collective bargaining decentralisation in these systems, in Italy, aware of the risks of chaos, the social partners have gradually re-established cooperative relations, signing new framework agreements concerning trade union representativeness and collective bargaining. The agreement of 28 June 2011 – signed by Confindustria and CGIL, CISL and UIL– confirmed the two-tier system and the primacy of the industry level, with the possibility of adopting 'modifying agreements' at company level, but only when permitted by the sectoral agreement. Moreover, such modifications need to be signed by a majority of works council members (RSUs).

The second item, the failure to apply collective agreements, is related to the aim of 'internal devaluation'. This policy was generally introduced in the first period of the crisis, at least in Portugal and Spain. The basic assumptions underlying this provision were the dire straits in which companies found themselves and the need to maintain employment. Employers were given the option to bargain on wage cuts with representative bodies in the company to ensure the company's economic survival and, at the same time, maintain employment rates.

However, these options were still not enough for the employers, who still raised complaints about downward rigidity. In Portugal's austerity packages and the latest labour 'reform' in Spain this provision was further developed to reinforce unilateral employer decision-making.[22] As a result, employers are no longer obliged to bargain with collective representative bodies, but only to engage in consultation. Moreover, this reformed legal provision provides the option to refrain from applying working conditions bargained in the company agreement. The result of this bargaining process is a failure to implement the wages provided for by collective agreement. Once again, the Spanish case is most representative of this trend among the three legal systems analysed. In 2012 there were 748 non-applications of collective agreements, affecting 29 352 workers and in 2013 the number increased to 2 512, affecting as many as 159 550 workers. The provisions not applied were related to wages in 1 932 cases, the rest concerning working time (duration and distribution).[23]

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22. Reforms implemented in Portugal, with the MoU's requirements on collective bargaining (Law 23/2012), and in Spain, through the labour reform adopted in 2012 (Royal Decree-Law 3/2012) have had a significant impact on collective bargaining, reinforcing employers' unilateral decision-making. See (Rocha 2014).

23. Data from Collective Agreement Statistics, Ministry of Employment and Social Security, Spain.

Last but not least, changes in the validity of collective agreements has been another way in which Italy, Portugal and Spain have converged. The theoretical justification, again, is that collective bargaining systems that are oriented towards the long term and maintain a certain level of working conditions until a new collective agreement is agreed are much too rigid, hindering the adaptation of production and other elements in companies. It is also argued that collective bargaining hinders development because trade unions are only interested in raising wages and improving working conditions, to the exclusion of other topics or considerations. Portugal and Spain have made statutory provisions in this regard. In Portugal, when a collective agreement expires, the Labour Code that came into force in 2003, with revisions in 2006, 2009 and 2014, applies.

Finally, it is very important to stress how anti-crisis measures have caused collective bargaining coverage rates to fall (ETUI 2013).[24] This indicates a key trend in the European social model regarding labour relations. The new European labour relations model is based on individual agreements between employer and employee, at least in those countries in which companies tend to be small or even micro-sized. This return to the principles of economic liberalism is justified in terms of governance – so-called *new economic governance*– by the European political institutions, especially the European Commission. Last but not least, this further diminution of democratic influences on labour relations is leading, among other things, to a rapid rise in inequality in certain European members states, as the OECD recently pointed out (OECD 2014).

3. Internal devaluation in southern European countries: the result of wage reforms

In this section we look at so-called 'internal devaluation' in the southern European countries Spain, Portugal and Italy during the economic crisis. Focusing mainly on wage trends, our analysis attempts to address the impact of austerity policies and labour reforms. In Sections 3.1 and 3.2 we analyse wage developments, related to the main economic indicators, sectoral trends and the role of collective bargaining; in Section 3.3 we

24. In Italy the collective bargaining rate is 80 per cent, in Portugal, 90 per cent and in Spain it fell to 70 per cent in 2013.

look at structural factors in wage developments; and finally in Section 3.4 we trace recent trends in the economic and social outcomes of internal devaluation.

3.1 Wage development during the crisis

Nominal gross wages – understood as compensation per employee in terms of the national accounts – in the southern European countries have shown similar dynamics since the beginning of the crisis. Despite difficulties arising from having to work with aggregated data,[25] two distinct periods can be identified. From 2008 to 2009, wages in these countries grew above the EU average (around 2 to 6 per cent), despite the consequences of the economic crisis. This trend can be explained by several factors, but mainly by the consequences of the crisis and the destruction of employment. During this period, in the southern European countries there was a significant loss of temporary jobs, which produced a general increase in average nominal wages.

Table 3 **Nominal and real compensation per employee in the EU28, Spain, Italy and Portugal, 2008–2013 (% of previous year)**

	2008	2009	2010	2011	2012	2013
Nominal compensation per employee						
EU28	0.6	–0.9	3.9	1.9	3.2	0.9
Spain	6.8	4.4	1.1	0.9	–0.6	1.7
Italy	3.7	2.2	2.7	1.1	0.9	1.2
Portugal	2.6	2.4	2.1	–1.8	–2.1	3.5
Real compensation per employee (HICP)						
EU28	–3.1	–1.9	1.8	–1.2	0.6	–0.6
Spain	2.7	4.6	–0.9	–2.2	–3.0	0.2
Italy	0.2	1.4	1.1	–1.8	–2.4	–0.1
Portugal	–0.1	3.3	0.7	–5.4	–4.9	3.1

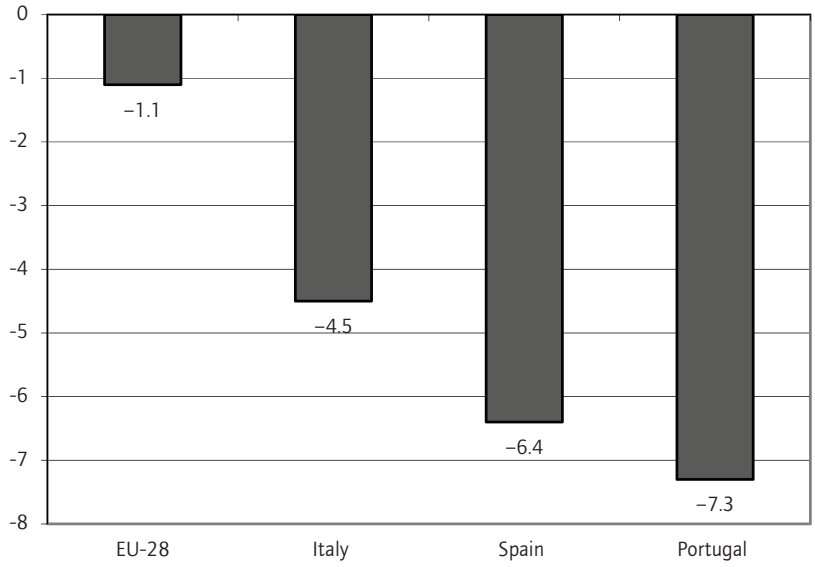
Note: Real compensation per employee = nominal compensation per employee adjusted by the HICP.
Source: Calculations based on AMECO and Eurostat, 2015 (update: 24 February 2015).

25. In the aggregate data differences between workers are not registered, although they can be very significant in terms of level of qualifications, job, company size, industrial sector, trade union influence and collective bargaining systems.

In the second period (2010–2013), gross wage dynamics in southern Europe was significantly lower than the EU average. In 2011, nominal wages decreased in Portugal, while Italy and Spain experienced much more modest wage development than in previous periods. These changes were used as justification for public sector cuts (employment and wages) made in southern European countries within the framework of so-called 'austerity' measures, with a profoundly negative impact on nominal wages.

This wage decline appears more sharply if we analyse real wage dynamics (wages per employee deflated by CPI). Thus, real wages fell (by between –3 and –2 per cent) in the EU28 in the first period (2008–2009), while in the southern European countries there was an substantial wage increase (1 to 4 per cent).This changed dramatically from 2010 with a general downward trend in wages in the EU28, which was particularly strong in Spain, Portugal and Italy, with reductions of around –1 per cent and –5 per cent in 2011 and 2012 (Table 3). In aggregate terms, the austerity period has led to a –1.1 per cent reduction in the EU28 average real wages, while in the southern European countries the fall has been significantly higher (from –4 per cent to –7 per cent), which clearly reflects the impact of austerity measures on wage development (Figure

Figure 1 **Real compensation per employee in the EU28, Italy, Spain and Portugal, 2010–2013 (in %)**



Note: Real compensation per employee = nominal compensation of employees/ total employees and adjusted by the HICP.
*Spain: provisional data, according to National Accounts, Eurostat (update: 24-02-2015).
Source: Calculations based on National Accounts, and HICP, Eurostat, 2015.

1). In this context, changes in the composition of employment have been marked and have played a notable role in aggregate wage developments, which could explain part of the increase in real wages early in the crisis and at the same time the bigger reduction in the second period. In Spain, for example, the process of moderation of nominal wages initiated in 2010 may be somewhat sharper than is indicated by the aggregate statistics on labour costs (Puente and Galán 2014).

Looking at this general context, it is worth stressing the impact of austerity measures on the different sectoral trends. The most recent published data show that in southern European countries the highest wage reductions have been in the public sector (public administration, defence, education, health care and social services), followed by real estate and financial services and construction, among others.[26] Government austerity has involved freezes or cuts of public sector wages in order to cut public expenditure directly, thereby also giving a lead to private sector wage reductions. This has also happened in other European countries subject to financial bailout programmes (such as Greece, Latvia and Hungary) (Bernaciak and Müller 2013).

In Portugal and Spain, the development of the public sector is a crucial element in understanding real-wage dynamics, mainly because the sector represents an important part of added value and employment in the whole economy.[27] In Italy, a country with a different production profile, the development of real wages in the public sector has had less impact on general wage dynamics, although it has also experienced a substantial fall in aggregate demand and industry recession during the economic crisis.

The public sector is also important in terms of the application of austerity measures in the southern European countries, given the relationship

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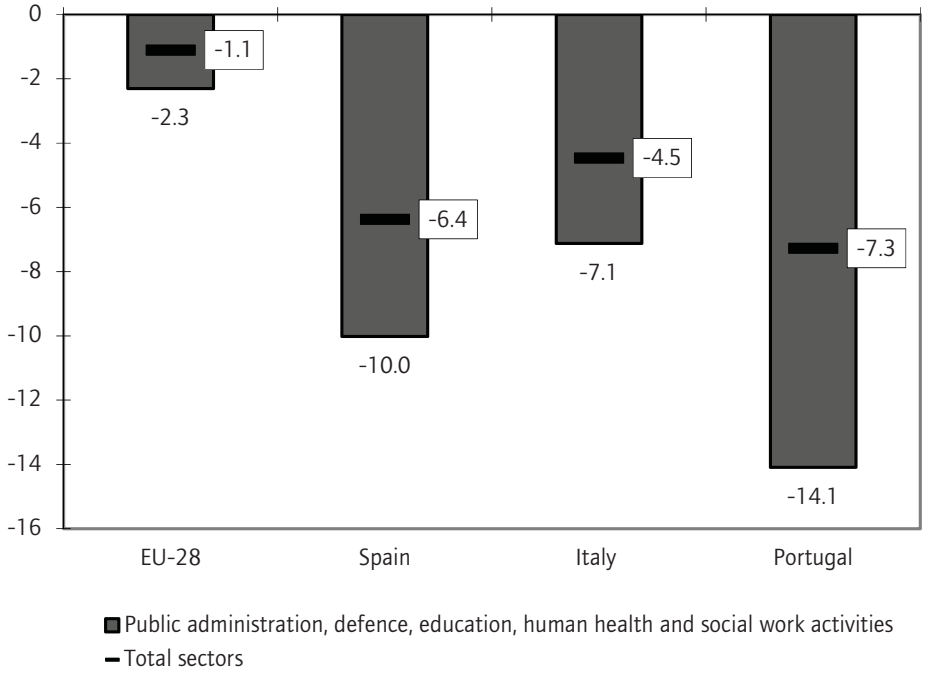
26. According to calculations based on the National Accounts and HICP, the sectors with the highest wage reductions between 2010 and 2013 vary between countries. In the EU28 the highest reductions have been registered in agriculture (–5.2 per cent), financial services (–3.8 per cent) and public administration (–2.3 per cent). In Spain, they have been concentrated in real estate (–11.3 per cent), agriculture (–10 per cent) and public administration (–10 per cent). In Italy, they were in public administration (–7.1 per cent), financial services (–6.3 per cent) and real estate (–6.2 per cent) and in Portugal, the reductions were in public administration (–14.1 per cent), real estate (–10.7 per cent) and construction (–7.4 per cent).

27. Despite the crisis, in Portugal and Spain the public sector represented around 18 per cent of total added value and 22 per cent of total employment in 2013. Authors' calculations based on National Accounts and Labour Force Survey, Eurostat, 2013.

Figure 2 **Real wages per employee in public administration, defence, education, health care and social work in the EU28, Spain, Italy and Portugal, 2010–2013 (in %)**



Note: Real wages per employee = nominal wages of employees/ total employees and adjusted by the HICP.
*Spain: provisional data, according to National Accounts, Eurostat (update: 24-02-2015).
Source: Calculations based on National Accounts, and HICP, Eurostat, 2015.

between the public sector and trade unions. In Greece, Italy, Spain and Portugal trade unions have been able to direct protests against plans to cut social expenditure and to mobilise people in general strikes. Governments have tried to reduce public employment and weaken the trade unions' political influence (Glassner 2010).

Within the framework of government austerity measures, either directly or indirectly, there have also been changes in the national development of minimum wages, particularly in Portugal and Spain.[28] Portugal's Troika agreement recognises that 'over the programme period, any increase

28. The main changes in national minimum wages were made in Portugal and Spain, where they can be changed by the unilateral decision of the government. In the case of Italy, collective agreements are the main mechanism used for regulating low pay, what means that minimum wage rates are bargained by the sectoral social partners in collective agreements and applied to everyone in the particular sector.

in the minimum wage will take place only if justified by economic conditions and agreed in the context of regular programme reviews'.[29] This formula limits the development of minimum wages (establishing cuts and freezes) and justifies future external intervention. In Spain, similar measures have been adopted since 2011, although intervention has not been so direct.[30] In both countries, the minimum wage has been frozen. As a result, the real minimum wage has fallen since 2011, with a general drop of 5 per cent in Spain and 4.6 per cent in Portugal (2011–2013).[31]

3.2 Development of agreed wages and wage drift

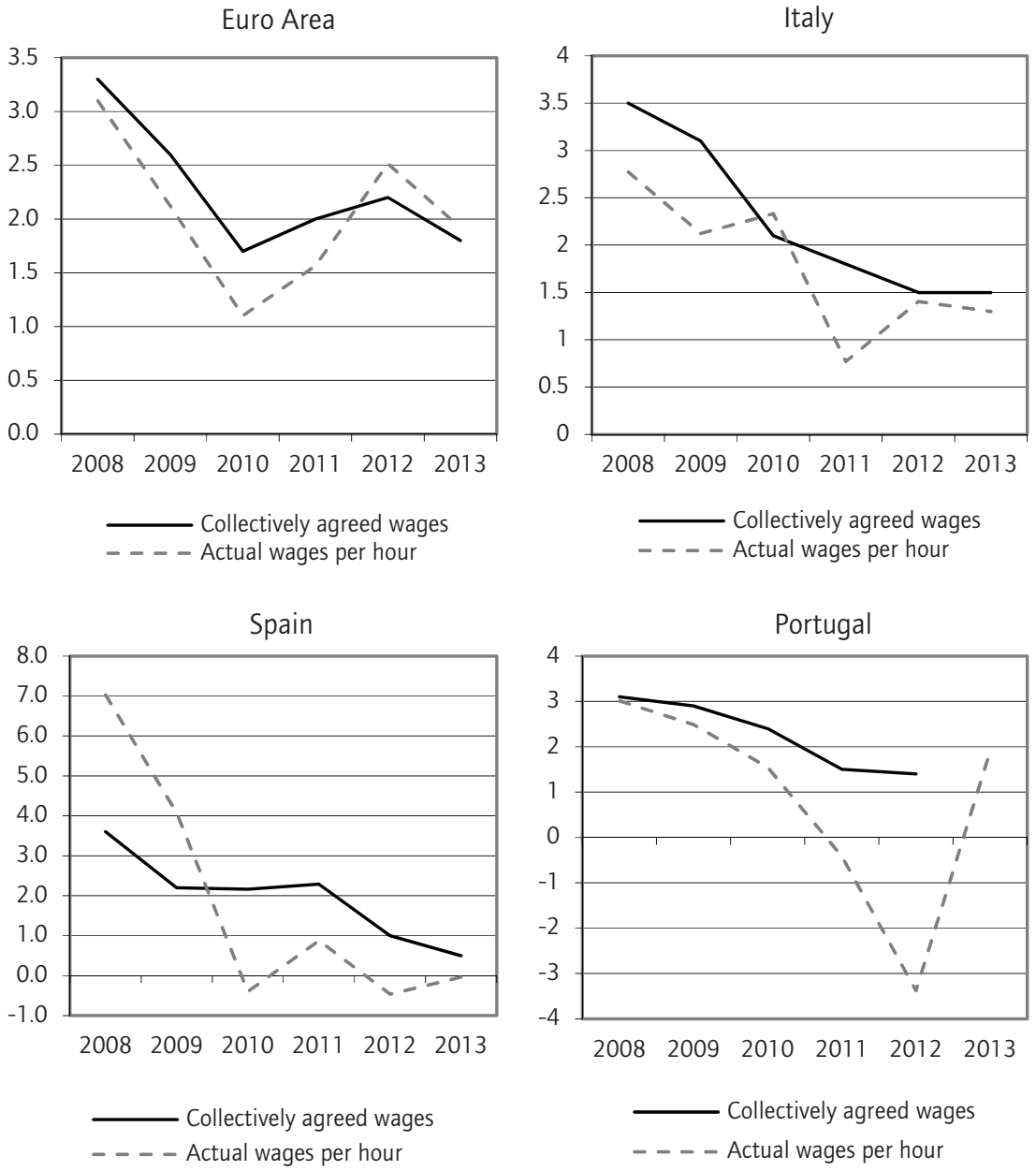
Over the past decade, wage dynamics in collective bargaining in southern European countries have been adjusted to the objective of curbing inflation, which has had a strong impact on wage moderation (Birindelli and Leonardi 2012; Naumann *et al.* 2012; Cruces *et al.* 2012). Since the crisis began, wages agreed in southern European countries have fallen progressively, demonstrating that collective bargaining has been a flexible instrument in the face of changes experienced by companies during the economic crisis. However, since 2010, as a result of the changes in collective bargaining – which have reinforced the employers' side and weakened collective action among workers– agreed wages have continued to register a substantial decline in southern European countries.

In the southern European countries, which are characterised by a comparatively high level of bargaining centralisation, austerity policies and labour reforms are having a huge impact on agreed wage development. At the beginning of the crisis, collective bargaining made it possible to preserve wage increases and prevent drastic reductions. However, the reforms of collective bargaining summarised above have enabled enterprises to reduce wages significantly, including collectively agreed ones.

There are, nevertheless, a few differences between the southern European countries that have to be taken into account. In Italy, for example, wage development – at least compared with other countries– has remained relatively stable and the trade unions (so far) have been able to

29. International Monetary Fund (2011), Portugal: Letter of Intent, Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding, 20 May 2011, IMF.
30. This issue was incorporated in the ECB letter to the Spanish government, in return for the financial commitments (El Pais, December 2011).
31. Authors' calculations based on Eurostat (2013).

Figure 3 **Collectively agreed wages and actual wages per hour, 2008–2013 (% of previous year)**



Note: * Euroarea: selection from the Cawie Database. 2012 and 2013, provisional data in Spain (agreed wages).
Source: CAWIE Database, 2014.
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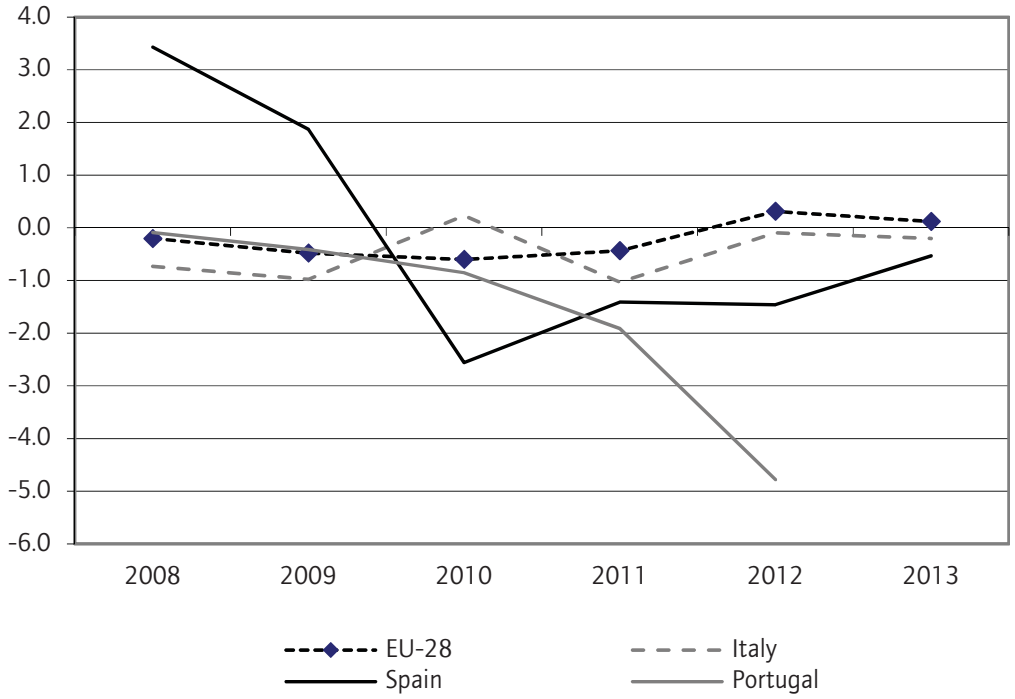
fend off the most radical procedural reforms of the traditional system of coordinated bargaining (Meardi 2012). The wage moderation achieved by the social partners through collective bargaining has produced a significant reduction in agreed wage increases (–1.4 per cent, 2008–2010) in line with actual wage development.

A similar reduction of agreed wages has been experienced in Spain (–1.4 per cent), due to a strategy based on wage moderation, combined with a much steeper fall in actual wages (–7.7 per cent). Among other factors, this particular evolution can be explained by the first consequences of austerity policies, linked to public sector wage cuts and the destruction of permanent employment. It is worth stressing that agreed wages in Spain are becoming less representative due to the impact of drastic employment cuts, the decline of collective agreement coverage and the significant increase in the non-application of collective agreements. In the negotiation process there has also been a moderate increase of agreed wages at sectoral level, which before 2012 was higher than the company level, but now is falling lower.

Finally, in Portugal the reduction of agreed wages, although less marked than in Italy and Spain (–0.7 per cent), was combined with a fall in gross wages (–1.5 per cent). In this case, it is important to point out the impact of wage cuts in the public sector and the freeze on wages in the private sector. The employers' demands – based on a very rigid position

Figure 4 **Wage drift in the euro area, Spain, Italy and Portugal, 2008–2013 (in percentage points)**



Note: * Euroarea: selection from the Cawie Database. 2012 and 2013, provisional data in Spain (agreed wages).
Source: CAWIE Database, 2014.

on wages– and the suspension of the extension mechanisms of collective agreements (many employers' associations did not sign any agreement) are the main factors that explain the deep crisis in collective bargaining. Workers in the private sector, subject to a wage freeze, have also experienced a significant reduction of their disposable income as a consequence of changes in taxes and benefits (tax and social contribution increases and benefit cuts).

As a result of these different trends with regard to agreed wages and gross wages in the southern European countries, substantial variation in terms of wage drift can be discerned. Current gross wages in Italy are in line with collective bargaining, resulting in very low (positive or negative) wage drift. In contrast, gross wages in Spain have fallen considerably since 2008. This can be explained by a number of factors that tend to reduce the average wage.[32]

Finally, in Portugal gross wages have also fallen substantially during this period, moving away from agreed wages. Both Portugal and Spain are clear examples of the impact of austerity policies (public sector wages) and labour reforms, where gross wages actually received deviate more from those agreed in the collective bargaining process.

At present (March 2015), in a deflationary context, wage negotiations are facing new challenges with a substantial impact on the social partners.[33] For example in Italy, the chemical and pharmaceutical employers' associations – at the beginning of the renewal rounds of the next three-year national agreements– have been wondered about the gap between real and forecasted inflation. For the first time, collectively agreed nominal wages have been higher than expected inflation. In Spain, a new Agreement on collective bargaining is expected to be signed, with a foreseeable wage increase and the deepening of changes made in wage indexation (incorporated in the previous agreement).[34]

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32. Here, we might mention the reduction or elimination of overtime; the reduction of working hours below the agreed hours (included in many measures of collective dismissals); the lowering or elimination of wage supplements, such those related to profits or sales; companies' unilateral cuts in wages not affected by collective agreements and derogations from wage conditions laid down in collective agreements.

33. It is important to be aware of the stratification of framework agreements; Italian industry-wide agreements, when it comes to economic issues, can address only purchasing power and nothing else. Variable and performance-related wages are dealt with at the second level of collective bargaining, if it exists.

34. Second agreement on collective bargaining (2012–2014) http://boe.es/boe/dias/2012/02/06/pdfs/BOE-A-2012-1778.pdf

3.3 Understanding other significant factors in wage development

Besides government intervention and collective bargaining, the internal devaluation being implemented in southern European countries can be fully understood only if we consider other important factors. This allows us to transcend the conventional approach of competitiveness based on wage cuts. It is important to mention such factors as employment and job quality; the specialisation of the economy; unemployment pressures; and the development of investment and corporate profits. All are structural factors that have influenced wage development (ILO 2012).

Productive specialisation

The specialisation of the economy is one of the most important variables to be taken into account in debates on wages, as a factor in a country's competitiveness in the global economy (what is produced and its value).[35] The southern European countries, despite their common situation, have several structural differences in terms of economic sectors (value added and employment) that must be analysed.

According to its National Accounts, Italy has a more industrially-oriented economy,[36] while Spain and Portugal have developed a similar productive structure focusing on wholesale, retail and public administration, although construction is also important in Spain.[37]

These economic structural differences, which were already there at the beginning of the crisis, explain why austerity policies have had a deeper impact in Portugal and Spain, especially in public services. Thus, between 2011 and 2013, the value added of public administration in Portugal fell by 24 per cent, followed by financial services (21 per cent) and

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35. As we have seen in the past, the real foundation of Germany's strong competitive position was not wage moderation but specialisation in high technology and high-quality niche markets, in which German companies enjoy strong pricing power. The specialisation model of German industry has focused on products that emerging economies are interested in buying (for example, machinery, telecommunications equipment, transport equipment). In this model, the demand for German products was unaffected by price, but rather by technology and quality (Felipe and Kurmar 2011; Janssen 2012; see also Chapter 7 in this volume).

36. In Italy, 21 per cent of value added in 2008 was concentrated in industry and 18 per cent in manufacturing. Portugal and Spain have a similar structure with regard to wholesale and retail (22 per cent in 2008) and public administration (16 and 21 per cent, respectively). The construction sector in Spain represented 14 per cent of total added value in 2008.

37. Authors' calculations based on National Accounts (second quarters), Eurostat, 2013. dias/2012/02/06/pdfs/BOE-A-2012-1778.pdf

construction (30 per cent). In Spain, public administration was cut by 6.5 per cent, but the most substantial fall during this period was registered in construction (19 per cent). In both Portugal and Spain, austerity measures have affected not only public administration, but other sectors. In Italy, however, economic decline during this period is linked more closely to industry and falling consumption.

In terms of employment, all countries have experienced a huge reduction since the beginning of the economic crisis, particularly in the construction sector in Spain and Portugal.[38] During the period of strictest austerity (2011–2013), employment destruction continued with this sectoral pattern, with the exception of public administration.[39] In Spain, for example, 15 per cent of total employment was destroyed in construction, followed by 13 per cent in public administration. In Italy and Portugal, the scenario is fairly similar, with construction losing a substantial number of jobs (25 and 24 per cent of total losses, respectively), but industry and manufacturing have also experienced significant losses (30 per cent). Finally, it is important to note the influence of declining consumption on employment. In Spain and Portugal there has also been substantial job destruction in wholesale and retail (12 and 10 per cent of total employment lost, respectively) during this period.

Quality of employment

The kind of employment is another factor that has to be taken into account in wage development. The volume and evolution of temporary and part-time jobs have a decisive influence. Furthermore, the destruction of temporary employment at particular times may produce a 'composition effect', which is a statistical result from eliminating low-paid wages, increasing the average wage. Similarly, an increase in part-time jobs with shorter hours and lower wages can have a significant downward effect on wages.

Southern countries registered a huge reduction in temporary employment in the initial stages of the economic crisis. During 2008 and 2009, 66 per cent of the jobs destroyed in Spain were temporary. A similar situ-

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38. The construction sector represented 24 per cent and 15 per cent of total employment destroyed from 2008 in Spain and Portugal, respectively. In Italy industry and manufacturing accounted for 28 per cent. Authors' calculations based on LFS data (second quarters), Eurostat, 2013.

39. Here we include public administration and defence, education, health care and social work. LFS, Eurostat.

ation was experienced in Italy (60 per cent) and Portugal (58 per cent), with values much higher than the European average (45 per cent),[40] which is reflected in the development of temporary employment. During the austerity period (2011–2013), this dynamic was less pronounced, partly because of the major loss of permanent jobs, which amounted to a qualitative change in employment trends (this represented 52 per cent of employment destruction in Spain, 88 per cent in Italy and 70 per cent in Portugal).

Table 4 **Temporary employment rate, unemployment, part-time employment and long-term unemployment in southern European countries, 2008–2013 (in %)**

	2008	2009	2010	2011	2012	2013
Temporary rate (15–74)						
EU28	14.1	13.6	13.9	14.0	13.7	13.7
Spain	29.1	25.2	24.7	25.1	23.4	23.1
Italy	13.3	12.5	12.8	13.4	13.8	13.2
Portugal	22.7	21.9	22.8	22.0	20.5	21.4
Part-time						
EU28	18.2	18.7	19.2	19.5	19.9	20.4
Spain	11.8	12.5	13.0	13.6	14.5	15.8
Italy	14.3	14.3	15.0	15.5	17.1	17.9
Portugal	12.2	11.9	11.9	13.6	14.6	14.3
Unemployment rate (15–74)						
EU28	7.0	8.9	9.6	9.6	10.5	10.8
Spain	11.3	17.9	19.9	21.4	24.8	26.1
Italy	6.8	7.8	8.4	8.4	10.7	12.2
Portugal	7.7	9.6	11.0	12.9	15.8	16.4
Long-term unemployment (15–74)						
EU28	37.2	33.4	40.0	43.1	44.6	47.4
Spain	18.0	23.8	36.6	41.6	44.4	49.7
Italy	45.7	44.4	48.5	51.9	53.0	56.9
Portugal	47.5	44.2	52.2	48.4	48.8	56.4

Source: LFS, Eurostat, 2015.

40. Authors' calculations based on LFS data (second quarters), Eurostat, 2013.

The austerity period is characterised, however, by growth in part-time employment, which is one of the consequences of legal reforms adopted in this period to promote labour market deregulation. As we can see, the proportion of part-time workers has risen significantly in Spain and Italy (2.2 and 2.4 percentage points, respectively, to 2013), less so in Portugal (0.7 percentage points).This trend underlies the reduction of real wages in all three countries.

Labour markets in southern Europe have experienced deep labour segmentation. It is important to stress that the most dynamic sectors have based their economic growth on intensive use of unskilled jobs, associated with poor working conditions and greater precariousness, generating deeper social inequalities, especially among women and immigrants.

Pressure of unemployment

Southern European countries have also experienced a sharp increase in unemployment, which in Spain is among the highest in Europe. Although the impact of unemployment on wages has not been sufficiently analysed (Gregg and Machin 2012), it is a very important variable at present. Unemployment has risen constantly during the crisis, but we can identify two periods in which austerity policies had a marked effect. Spain is the most relevant case: unemployment rose to 20 per cent in 2010 and 26 per cent in 2013. Italy and Portugal, although with lower unemployment rates, have experienced the same trend.[41]

Profits and investment

Finally, within the internal devaluation process we must also examine how profits and business investment have behaved during the crisis. Conventional economic doctrine claims that by imposing wage cuts companies can become more competitive, allowing them to invest more in production and increase their export options. However, the experience of the southern European countries – especially Spain and Italy– shows, wage cuts have not been accompanied by increased investment or a reduction in corporate profits (nor a significant fall in prices).

In Spain and Portugal the percentage of profits over gross value added (GVA), which has increased continuously since the beginning of the

41. Even more important is the percentage of long-term unemployment, which in these countries represented more than 50 per cent of total unemployment in 2013.

crisis, has experienced a substantial boost during the austerity period. In 2008, profits represented 41 per cent of GVA in Spain and 40 per cent in Portugal; in 2012 they reached 43.7 per cent and 43.2 per cent, respectively. In contrast, in Italy there was a significant reduction (1.5 percentage points in the same period). In terms of investment, all three countries have experienced a similar decline, particularly in Spain and Portugal (Table 5).

Table 5 **Profits and investment in southern Europe countries, 2008–2013**

	2008	2009	2010	2011	2012	2013
Gross operating surplus (% over GDP)						
EU28	41.4	40.4	40.7	40.9	40.3	40.2
Spain	41.7	42.2	41.3	42.2	43.4	43.7
Italy	48.6	47.9	47.7	47.8	46.7	47.1
Portugal	40.6	41.2	41.3	41.6	43.1	43.2
Gross fixed capital formation (% over GDP)						
EU28	22.5	20.6	20.1	20.2	19.7	19.3
Spain	29.2	24.3	23.0	21.4	19.7	18.5
Italy	21.2	20.0	19.9	19.6	18.6	17.8
Portugal	22.8	21.1	20.5	18.4	16.3	15.1

Source: Calculations based on National Accounts, Eurostat, 2015.

Thus, particularly in Spain and Portugal, the reduction of wages and unit labour costs has not resulted in a fall in export prices, which have remained stable, but to an increase in corporate profits. This upward trend in profits–in inverse relation to wage evolution– and the reduction of investment in these countries show clearly the shortcomings of a wage policy based on 'moderation', which, as already experienced in previous periods, does not improve export competitiveness, even in the most globally oriented economies.[42]

42. The result of the wage moderation that followed Germany during the past decade was a good example of this phenomenon (Jansen 2011).

3.4 Economic and social outcomes of internal devaluation

Internal devaluation has had different effects from those proclaimed by the Troika, both economically and socially. Economic growth has not recovered since the crisis and we have even experienced a double-dip recession since the implementation of austerity and internal devaluation. During the period 2010–2013 job losses continued in the EU, particularly in peripheral countries. Other macroeconomic variables have also evolved adversely: the deficit has not fallen by much and the targets laid down by the European authorities have been missed by a long way; in addition, public debt has increased markedly in both the euro zone and in peripheral countries, while private debt levels are still very high.

Overall, development of the real wage in southern European countries during the austerity period has had a negative impact on economic activity. In the early years of the crisis, the three countries analysed registered a significant drop in GDP, especially in 2009, as a result of the economic decline, especially Italy. During the period 2010–2013 austerity policies and internal devaluation deepened the crisis, due to a further drop in economic activity as a consequence of the sharp decline in aggregate demand. This occurred in all three countries, starting in Portugal in 2011 and continuing in Spain and Italy from 2012 (Table 6).

Table 6 **Real wage per employee, GDP at constant prices and employment in EU28, Spain, Italy and Portugal, 2008–2013 (% of previous year)**

	2008	2009	2010	2011	2012	2013
Real wage per employee (HICP)						
EU28	–3.0	–1.9	1.6	–1.0	0.5	–0.7
Spain	2.7	4.4	–1.6	–1.8	–2.2	–1.0
Italy	0.2	0.9	1.2	–1.6	–2.3	0.0
Portugal	0.4	3.7	0.6	–4.2	–4.8	2.3
GDP, constant prices (2005)						
EU28	0.4	–4.5	2.0	1.7	–0.4	0.1
Spain	0.9	–3.8	–0.2	0.1	–1.6	–1.2
Italy	–1.2	–5.5	1.7	0.5	–2.5	–1.9
Portugal	0.0	–2.9	1.9	–1.3	–3.2	–1.6

Table 6 **(cont.)**

	2008	2009	2010	2011	2012	2013
Employment						
EU28	0.8	–1.8	–0.6	0.2	–0.2	–0.4
Spain	–0.1	–6.5	–2.2	–1.9	–4.2	–2.9
Italy	0.2	–1.7	–0.7	0.3	–0.2	–2.0
Portugal	0.5	–2.8	–1.5	–1.9	–4.2	–3.2
Productivity						
EU28	–0.4	–1.5	2.1	1.3	0.6	–
Spain	0.7	2.4	1.9	1.6	3.5	–
Italy	–0.7	–2.2	2.4	0.2	–1.0	–
Portugal	0.2	–0.2	3.7	1.3	0.5	–

Notes: Real wages per employee = nominal compensation per employee adjusted by the HICP Productivity: Real labour productivity per hour worked.
Source: Calculations based on AMECO and Eurostat, 2014.

The decline in wages in peripheral countries since 2010 has, together with austerity policies, led to a deep fall in domestic demand. This reduction in domestic demand has been more substantial than the expansion of exports (Table 7). In other words, the negative trend in domestic demand could not be offset by the positive performance of external demand.

Why has the internal devaluation strategy failed in its objectives? First, when all the countries of the euro area try to implement a strategy of simultaneous and coordinated wage reductions, as is currently the case, they can scarcely expect to exit from the crisis on that basis: the 'internal devaluation' of one country is cancelled by those of the others.

Second, this strategy seems oblivious to the fact that wages are not just a cost, but also a crucial part of aggregate demand. The strategy of reducing unit labour costs is deflationary because it reduces domestic consumption and external demand for other economies. This is particularly important in a context of high household and business debt, with a rising debt-to-income ratio.

It is worth stressing that the fall in real wages in these countries is linked to a significant increase in 'passive' labour productivity – that is, produc-

Table 7 **Contribution to GDP increase at constant market prices, EU28, Spain, Italy and Portugal, 2008–2013 (% of GDP)**

	2008	2009	2010	2011	2012	2013
EU28						
Domestic demand	0.2	–4.4	1.5	0.8	–1.5	–0.4
Exports	0.6	–4.8	4.1	2.7	1.0	0.7
Imports	–0.4	4.7	–3.5	–1.7	0.1	–0.2
Spain						
Domestic demand	–0.6	–6.7	–0.6	–2.1	–4.1	–2.7
Exports	–0.3	–2.7	2.8	2.1	0.6	1.6
Imports	1.7	5.6	–2.4	0.0	1.8	–0.1
Italy						
Domestic demand	–1.2	–4.4	2.1	–1.0	–5.1	–2.7
Exports	–0.8	–5.0	2.7	1.7	0.6	0.0
Imports	0.9	3.9	–3.1	–0.2	2.1	0.8
Portugal						
Domestic demand	0.9	–3.7	1.9	–5.5	–6.9	–2.6
Exports	0.0	–3.5	2.9	2.2	1.1	2.4
Imports	–0.9	4.3	–2.8	2.1	2.6	–1.1

Source: AMECO, 2014.

tivity that stems from job losses (Rocha *et al.* 2008). During this period, productivity growth has not occurred as a result of rising value-added on the part of the factors of production, but rather through job destruction, which was much higher than GDP growth. This has happened in particular in Portugal and Spain. In Spain labour productivity has been rising since 2009, with annual growth rates between 2.4 and 3.5 per cent, as a consequence of massive employment destruction (–6.5 per cent in 2009 and –4.2 per cent in 2012), combined with a GDP reduction (or even light increase) during the same period (Table 7).

Although rising labour productivity in the southern European countries has been portrayed as indicating a clear improvement in their economies, due to enhanced competitiveness, in reality, job losses and wage cuts have depressed domestic demand and industrial production, which has produced a new downturn in economic activity.

The differences between Spain, Italy and Portugal can be attributed to various factors (as we shall see below). Among them we might mention production specialisation and employment structure (labour-intensive sectors), a strong presence of SMEs and the influence of various factors that contribute to poor overall efficiency in the use of production factors (infrastructure, R&D, low-skilled workers). These differences, which are profoundly related to the production model of each country and its role in the global economy, explain why Portugal and Spain have been more vulnerable to the economic crisis and austerity policies in terms of aggregate demand and employment.

Other economic variables have also been affected by wage development. Since the beginning of the crisis, southern European countries have experienced a huge reduction in the adjusted wage share – compensation per employee as a percentage of GDP– due to wage cuts and the substantial increase in corporate profits, in which austerity policies have played a key role.

Between 2008 and 2010, the adjusted wage share fell slightly in Spain, while there was a small increase in Italy and Portugal flat lined. However, dynamics changed from 2010 to 2013, when workers' income fell greatly in Spain (–3.5 percentage points) and Portugal (–2.8 percentage points). This reduction highlights how austerity policies – with strong intervention– have been a key instrument in cutting wages to maintain business margins, which could be seen as the foremost expression of internal devaluation in southern European countries.

Table 8 **Adjusted wage share* in southern European countries, 2008–2013 (in %)**

	2008	2009	2010	2011	2012	2013
EU28	55.5	57.2	56.4	55.9	56.2	56.2
Spain	58.0	58.7	57.7	57.0	55.2	54.5
Italy	52.9	54.2	54.0	53.6	53.8	53.8
Portugal	56.7	57.6	56.5	55.5	54.1	53.9

Note: * Percentage of GDP at current market prices (compensation per employee as percentage of GDP at market prices per person employed).
Source: AMECO, 2015.

In general terms, the decline in the wage share has entrenched a low-wage model, which has caused further segmentation and impoverishment of the working population. According to the EU-SILC, Spain and Italy have experienced substantial growth in poverty since 2010 and more markedly in 2012, when Portugal also increased its poverty rate, a dynamic which corresponds to the effects of austerity policies.[43] In Spain, inequality has also grown significantly, while other countries have not registered such variations.

Table 9 **Poverty and inequality indicators in southern European countries, 2008–2013**

	2008	2009	2010	2011	2012	2013
People at risk of poverty or social exclusion (18 and over; in %)						
EU28	–	–	22.8	23.6	24.0	23.8
Spain	23.2	23.1	24.5	25.5	26.1	26.1
Italy	24.5	23.8	23.6	27.3	29.1	27.7
Portugal	25.1	24.0	24.6	23.5	24.8	26.5
Gini coefficient (scale from 0 to 100)						
EU28	–	–	30.4	30.8	30.4	30.5
Spain	31.9	32.9	33.5	34.0	34.2	33.7
Italy	31.0	31.5	31.2	31.9	31.9	32.5
Portugal	35.8	35.4	33.7	34.2	34.5	34.2
Inequality of income distribution (80/20 income quintile share ratio)						
EU28	–	–	4.9	5.0	5.0	5.0
Spain	5.7	5.9	6.2	6.3	6.5	6.3
Italy	5.1	5.2	5.2	5.6	5.5	5.7
Portugal	6.1	6.0	5.6	5.7	5.8	6.0

Source: EU-SILC, Eurostat, 2015.

We have to recognise that, although these countries have very similar social situations, it is difficult to compare the impact of the economic crisis and the austerity policies by means of poverty and inequality indicators, such as in-work poverty (Pontieux 2010). The different trends

43. We have to keep in mind that the EU-SILC income data for 2012 correspond to the previous year, 2011.

are based on several factors, which are strongly influenced by employment status, household characteristics, the development of social and redistributive policies and the varying impact on inequality of different fiscal measures.[44]

4. Conclusions

The diagnoses of the economic and financial crisis, the situation in Italy, Portugal and Spain and the measures adopted to tackle it by the European and international institutions (European Commission, European Central Bank, IMF) are profoundly distorted by ideology. Various international forums are undertaking bold work that aims to expose the inconsistency of this economic analysis, however, showing the links between austerity policy/internal devaluation and the interests of big capital and business.

Furthermore, closely related to the above, the neoliberal ideology underlying technical analyses and the proposals derived from them is aimed ultimately at rewriting the rules on economic governance laid down in the Treaties of the European Union. This change is being implemented largely by neglecting the democratic principle of 'free collective bargaining' that appears in legal texts at European level, with serious repercussions in different national contexts. However, the impact of this process at the national level, as we have seen, has varied according to national context, indicating scope for political action between national and supranational levels.

We have noted an obsession with austerity and internal devaluation, which suggests that financial interests are putting all their bets on shaping a new European social model, characterised by capital unilateralism, boosting capital gains and a growing acceptance of social inequalities.

In this context, one of the strongest obstacles faced by neoliberal ideology has been trade union action through collective bargaining. Hence,

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44. To this we must add the varying impacts of fiscal measures on inequality, which in some cases can have a progressive effect and in others the opposite (Gutierrez 2013), although these factors are beyond the scope of our study. In addition, few comparative studies have analysed the effects of the crisis and austerity policies in terms of inequality data (Jenkins *et al.* 2012; Ayala 2013), given that due to the prolongation of the crisis the most severe effects came to light later.

beside the intense privatisation process imposed in return for bailouts, collective bargaining has been a prime target of the new austerity policies, with the revival of old debates, as is the relationship between the autonomy of the parties and the unilateralism of employers in setting working conditions. The latter is clearly expressed in the collective bargaining mechanisms that favour wage cuts: (i) weakening of collective bargaining at sectoral level, only partly compensated by the decentralisation of collective bargaining to the enterprise level in national frameworks characterised by a high percentage of SMEs; (ii) the unilateral imposition of labour conditions and the non-application of collective agreements (including those agreed at the enterprise level); and (iii) limiting the authorisation mechanisms concerning the validity of collective agreements.

We have also looked at the results of austerity measures and labour reforms. The experience of the southern European countries well illustrates how changes in collective bargaining frameworks have a strong negative impact on wage development.

Against the conventional wisdom, wage dynamics in collective bargaining show that they have not been an obstacle to competitiveness in recent decades, as reflected by fairly moderate price growth (as can be seen in other chapters in this volume). Why has such strong pressure been brought to bear on collective bargaining? The answer lies in its success. The increasing deregulation of labour and bargaining power is a clear and direct attack on the working population. Financial interests are taking advantage of the current situation to substantially reduce the labour share in the distribution of income and, at the same time, to weaken the options available to engage in collective action to improve working conditions. This not only increases the impoverishment of a large segment of the population, but also limits its ability to exercise a 'voice' on working conditions and living standards.

In addition to the enforced decline in collective bargaining, a number of other structural factors explain wage development in southern European countries. Austerity policies in the public sector have adversely affected employment and wages. Austerity has also squeezed the disposable income of private sector workers via increases in taxes and social contributions and cuts in all sorts of benefits. Portugal and Spain are a good example of this process. Other important factors include the structure of production, job quality (the increase of temporary and part-time em-

ployment), the pressure of unemployment and the growth of corporate profits.

All in all, internal devaluation policies in southern Europe have had a lamentable effect, both economically and socially, with a sharp drop in domestic demand and degradation of working conditions and living standards, with rising poverty and social inequality. Ultimately, this threatens to diminish democracy, given the inseparable relationship between democracy, wages and trade unions.

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Chapter 4
Changes in wage policy and collective bargaining in the Nordic countries – comparison of Denmark, Finland, Norway and Sweden

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1. Introduction

The policy responses of the European Union to the financial and economic crisis have brought wage-setting mechanisms within the sphere of the EU's economic governance regime. Even though these monitoring processes and, in some cases, recommendations have had an impact on collective bargaining processes in some EU states, the Nordic collective bargaining systems have remained relatively unaffected by the European initiatives.

One key explanation for the absence of reactions on the part of the Nordic wage-setting systems appears to be the fact that wage moderation and the strengthening of competitiveness have been high on the agenda in these countries for the past two decades. One repercussion of economic crisis in the 1980s and early 1990s was not destabilisation or deterioration, but rather reform of the collective bargaining systems in the Nordic states. Among other things this meant steps towards decentralised wage setting and therefore room for negotiations on wage setting at company level. This did not happen in a uniform way, but at different paces and with various consequences in the Nordic states. However, one shared characteristic is that decentralised bargaining takes place within a coordinated framework. In other words, national collective agreements concluded at sectoral level set the framework for company-level negotiations. In a sense it can be argued that competitiveness was enhanced by collective bargaining based on the relatively pragmatic positions of dominant trade unions and employers' associations. It is not that conflicts and power struggles were absent, rather there was – despite some uncertainties in, for example, Sweden– a basic willingness to try to develop the collective bargaining systems.

The Nordic states are all small, open economies with well-developed welfare states. Their labour markets are characterised by high incomes and high taxes, and manufacturing firms compete on innovation, competence and, with some variations, natural resources. Denmark has been a member of the European Union since 1972, while Finland and Sweden joined in 1995. Norway has taken part in the single market since 1994 through the EEA Agreement. All the countries have a substantial public sector. The collective bargaining systems are based on strong social partners and a centralised bargaining system, with various degrees of decentralisation.

The financial crisis has had diverse effects in the Nordic countries; the oil-based Norwegian economy remained virtually unaffected; Denmark was relatively hard hit due to a self-inflicted real estate bubble; while Sweden and Finland fared somewhere in between (Andersen *et al.* 2014). Despite these differences it can be argued that the crisis has emphasised that European integration does put a strain on Nordic bargaining systems and, to a large degree, also sets the limits for wage development. The strains on bargaining systems have to do with the deepening of the single market in the enlarged EU, in which domestic-market oriented sectors, such as construction and private services, have faced competition from migrant labour and service providers from central and eastern Europe. Furthermore, it seems evident that German wage trends have had a significant impact on national debates in the Nordic countries on the potential room for wage – or cost – increases. There is a relatively strong lobby, especially among employers' representatives, that there is 'a need to follow the German economy' in order to remain competitive and thereby safeguard the profitability of companies and jobs. We therefore raise the question of how and to what degree we should see German wage 'leadership' as decisive for wage development in the individual Nordic states.

Accordingly, in this chapter we review and compare wage policy and collective bargaining in the Nordic countries. Specifically, we do the following. First, explain how in recent decades collective bargaining and wage determination systems have been reformed in the Nordic countries with a view to securing competitiveness and job creation. Second, show how economic integration of European markets – and more specifically the so-called new economic governance regime of the European Union – have had limited direct effects on Nordic bargaining systems, while there might be more indirect effects, such as German wage leadership.

Therefore we discuss the influence of German wage and cost trends in Denmark, Finland and Norway. We also address the effects of labour migration and the presence of foreign service providers in, for example, construction and private services. In the concluding section we summarise the findings and discuss future trends regarding Nordic wage bargaining.

2. Changes in collective bargaining structures

The Nordic collective bargaining systems went through quite significant changes in the 1980s and 1990s against the background of economic problems. First, there was a need to overcome wage inflation and to adjust wage formation to the international shift to low-inflation economies. Second, employers demanded more flexibility in collective agreements. Increasing competition, shifting markets, new technology and new forms of work organisation resulted in these demands from employers and politicians for more flexible labour market regulation.

The Nordic economies fared very well through the 1990s and in the early 2000s; this included increased levels of employment and very low levels of unemployment, modest but stable real wage growth and balanced public budgets. The reforms of the Nordic collective bargaining systems must be seen as inherent to the relative success – economically and jobwise – of the Nordic states (Andersen *et al.* 2014; Dølvik *et al.* 2014; Dølvik 2009).

It is important to emphasise that, in contrast to other countries, where the coordination of negotiations broke down and collective agreements were entirely replaced by workplace human resource management – for example, the United Kingdom – the Nordic countries have maintained a high level of coordination concomitantly with considerable decentralisation, particularly in Denmark and Sweden. This process has been referred to as 'centralised decentralisation' (Due *et al.* 1993) or 'organised decentralisation' (Traxler 1995). This section describes the respective national solutions to the tension between decentralisation/flexibility and coordination, as well as their significance for the development of collective bargaining processes and outcomes.

2.1 Denmark: centralised decentralisation

Since the 1980s, negotiations in Denmark have taken place at the branch level with multiple-employer agreements that set wages and working conditions within a specific trade or profession or economic area. The confederations LO and DA coordinate negotiations in the private labour market, but are not parties to the agreements. Since the major conflict of 1998 in particular, the confederations have taken it upon themselves to ensure tightly coordinated bargaining in order to avoid conflicts (Due and Madsen 2006). This is achieved by means of so-called 'climate agreements' or road maps that establish the timetable for negotiations, common notification concerning conflicts and joint statements in relation to bargaining results in order to avoid any doubt about the bargaining results.

Bargaining is spearheaded by the parties of the manufacturing agreements for blue-collar and white-collar workers. Here, a framework for wage and labour cost increases in general is negotiated as part of the agreements, which then sets the pattern for the other bargaining areas. This principle has been in force since the beginning of the 1990s and there has only been a single instance – in 1995 – where other areas have reached a collective agreement first. This ensures coordination in the private sector – and because of the regulation device, which stipulates that if public sector wage increases differ from those in the private sector, 80 per cent of that difference will be adjusted positively or 100 per cent of the difference will be adjusted negatively, as the case may be. This ensures that wage developments in the two sectors are parallel. One of the main reasons for strong coordination has been the centralisation of the employers over the past three decades, the number of associations in DA having fallen from 150 to 13. On the trade union side, centralisation has also been reinforced, as the LO associations in manufacturing have developed the bargaining cartel CO-industry. Other branches have also developed negotiation cartels, but they are not parties to agreements.

The mediation institution (*forligsinstitutionen*) plays a key role in the Danish bargaining systems (Galenson 1955). If negotiations at branch level do not result in renewed agreements, the mediation institution convenes for mediation. If the parties are not able to reach a settlement, the agreement is transferred to a so-called linkage procedure (*sammenkædning*), which is based on the final negotiations between LO and DA in which the mediator is involved. Here, the non-renewed agreements

are linked and made part of a total settlement proposal, which is then sent to the parties for their approval. The mediation proposal will only be made if none of the parties objects. In other words, LO and DA can oppose proposals that are not in line with what manufacturing has received (Ibsen 2013). Additionally, the trade union ballots must produce a qualified majority in order to reject the proposed renewal. This means that the linkage procedure ensures a high degree of coordination.

Within the DA area, 80–85 per cent of employees now have minimum wage agreements with local wage bargaining, and some even have figureless agreements without wage provisions, whereas 15–20 per cent have so-called normal wage agreements, where wages are set at the sectoral level (DA 2013). The content of bargaining coordination has thus changed in tandem with the decentralisation of wages and working hours to the workplace level. In the public sector, the scope for local bargaining is still negotiated as part of central collective bargaining agreements, and the implementation of decentralised wage setting can often be modest in relation to the collective agreement pay scale. In return for the decentralisation of wages and working hours, the Danish trade unions in the private sector have developed a number of social benefits in the branch agreements. This applies to the occupational labour market pension since the late 1980s and early 1990s, maternity leave benefits in 2004, continued education in 2007, the so-called free-choice account (*fritvalgskontoen*[1]) in 2007 and the severance pay arrangement reached in 2010. Most of these benefits are also found in the public sector.

2.2 Finland: centralised incomes policy

Among the Nordic countries Finland has a lengthy history of incomes policy, based on centrally negotiated incomes policy agreements. They have resulted from tripartite cooperation between employees' and employers' central confederations and the government. Between 1968 and 2013 twenty-two centrally negotiated incomes policy agreements were concluded, while in eleven cases wage agreements were at sectoral level. As regards wage policy, Finland therefore represents continuity rather than change. This does not mean, however, that nothing has changed.

1. 'Fritvalgskontoen' is an individual account, where part of the wage or salary is deposited and can later be withdrawn either in the form of extra pension, extra paid vacation or wages.

Demands for reforming the bargaining system have increased, especially during the past twenty years. Among the participants in tripartite co-operation, employers' associations have been most active in questioning the benefits of centrally negotiated incomes policy agreements. In 2007 the Confederation of Finnish Industries (EK), the employers' central confederation, declared that it would cease to negotiate wages at the central level. The announcement was followed by two wage negotiation rounds which resulted in sectoral agreements, but since then two centrally negotiated framework agreements have been concluded.

After the 2007 announcement by EK the revitalisation of incomes policy has been somewhat surprising. It can be explained by special circumstances, however. In difficult times centrally negotiated incomes policy agreements have been used as the means of concluding very moderate wage increases. In the incomes policy agreement concluded in 1991 wage increases were frozen for two years. The latest incomes policy agreement, concluded in October 2013 – that is, in the middle of a recession of the Finnish economy – is also based on very moderate wage increases. During the past twenty years, centralised incomes policy agreements have been proof of consensual behaviour on the part of the peak labour market confederations and the government.

Besides special circumstances some peculiarities in Finnish corporatism may provide an additional explanation for the continuity of centralised incomes policy. In Finland employees' and employers' central confederations have traditionally had a very strong position not only in the arena of industrial relations but also in the political system. This has mainly been due to the lack of strong 'friendly' left-wing and bourgeois parties which would have represented employers' and employees' interests in the political system. For example, in comparison with the Swedish Social Democratic Party, the Finnish Social Democratic Party has traditionally been much weaker. Nor has there been a strong bourgeois party which would have represented employers' interests. The peak confederations have therefore had a strong incentive to enter into the political arena as political actors.

This history provides one reason for the comprehensiveness of the centrally negotiated incomes policy agreements in Finland. In addition to agreements on wages and salaries, comprehensive incomes policy agreements have included important social policy reforms and other policy issues (Kiander *et al.* 2011). They have involved, for example, major

changes in earnings-related social security and in transfer payments in general. In comparison, for example, with Sweden the role of labour market confederations as active actors in the political arena has been very different in Finland (Kiander *et al.* 2011).

During the past twenty years, the importance of local bargaining has increased, but not at the cost of centrally negotiated comprehensive incomes policy agreements. Decentralisation has been organised and complementary to higher-level bargaining. It has taken place such that higher-order collective agreements constitute benchmarks for local bargaining (Sippola 2012). The role of higher-order agreements have been crucial and, for example, the use of opening clauses has been exceptional. In addition, the high bargaining coverage has increased the importance of collective agreements in wage formation. It has been one factor behind the high level of bargaining coordination.

The Finnish way of putting decentralisation into practise reflects the traditionally strong position of trade unions at local level. It has been accompanied by high union membership. Furthermore, trade unions have been central actors both in company bargaining and codetermination activities. Codetermination has been trade union-based.

2.3 Norway: tripartite cooperation and reinforcing the frontrunner model

The Norwegian collective bargaining system has never decentralised to the same degree as the Danish and Swedish ones. Except for parts of the 1980s, incomes policy and coordinating measures by the social partners at peak level have been key elements of the wage-setting model. Whereas the early and mid-1990s were marked by relatively extensive incomes policy measures combined with moderate wage increases – triggered by an economic downturn (Solidarity Alternative) – the end of the 1990s was characterised by high wage increases compared with Norway's trading partners, high wage drift and tensions within the bargaining system as public employees felt that their wages were lagging behind the private sector. This led to renewed focus on the wage-setting mechanisms.

In 2000 and 2003, state appointed committees with representatives from all the major trade unions and employer organisations confirmed the relevance of and support for the so-called 'trendsetting industries

model'. The theory behind the model was first published in the 1960s and later formulated as a macroeconomic two-sector model for wage setting and inflation in small open economies (Aukrust 1977). In Norway the rationale has been that the framework for wage increases is given by price increases in international export markets and productivity increases in export industries. In addition, currency rates influence the competitiveness of the export industries and the monetary regime – and changes in it – is an important factor in the model. Since 2001 the central bank (Norges Bank) has pursued a monetary policy aimed at a stable inflation rate.

Multi-employer bargaining at peak and industry level is the dominant model of collective bargaining, often supplemented by bargaining at workplace level. The running period for collective agreements is two years, although wage rates are renegotiated after one year. The pay rounds always start out with the export industries if agreements are renegotiated separately, or with all the LO/NHO agreements if negotiations are conducted at peak level. No agreements will be signed before a settlement is reached for the trend-setting industries. Cross-sector renegotiations at confederation level were originally seen as a main characteristic of the collective bargaining model. However, since 2000 only two of eight main renegotiations have taken place between the main confederations. So, over the past decade other types of coordination have dominated, such as coordination between employer associations and within the main trade union confederation, LO.

In the public sector, blue-collar and white-collar workers are covered by the same agreements, and negotiations are undertaken by bargaining cartels within the labour confederations. The implication is that all trade union confederations will end up with the same agreement. However, the wage structure of academic positions is more decentralised than other positions in collective agreements covering municipal employees.

The Norwegian system of bargaining and incomes policies is anchored in tripartite committees and state-supported mediation. The trade union and employers' confederations, the state and Statistics Norway all participate in the TBU committee (*Teknisk beregningsutvalg*). The committee publishes detailed wage figures, including carry-over effects and wage drift for the main bargaining areas, as well as developments in labour costs among Norway's most important trading partners. In this way the committee contributes to a common understanding of the

economic situation among the social partners. The National Mediator plays an important role in facilitating new agreements and will normally follow the main framework given by the trend-setting industries agreement in its proposals. In cases in which industrial action is ended by compulsory arbitration, the National Wage Board will normally look to the trend-setting industries agreement in order to discourage breakaways. Lastly, the state has contributed to moderate settlements through incomes policy. Although less pronounced over recent decades compared with the 1970s and late 1980s/early 1990s, it is not uncommon that social reforms or labour market measures are introduced through collective bargaining.

2.4 Sweden: coordinated decentralisation

Lack of coordination in Swedish wage bargaining in the 1980s and the economic crisis at the beginning of the 1990s, spurred the Swedish government to step in. First, with a failed attempt at incomes policy, thereafter with the Rehnberg Commission, which assisted the parties with mediation and coordination in order to restore wage restraint across branches and sectors in line with wage developments abroad (the so-called 'Edin norm') (Elvander 2002). The Commission was a success from 1991, but coordination broke down in 1995, when bargaining was plagued by conflict and led to higher wage increases than abroad, despite high unemployment and continued economic problems.

In the wake of the 1995 breakdown, the manufacturing trade unions across LO, TCO and SACO invited their employer counterparts in 1996 to draft a new bargaining arrangement based on wage restraint, synchronised negotiations and a strong mediation institution. This resulted in the Industry Agreement (*Industriavtalet*) of 1997, which firmly established the new principles of the Swedish collective bargaining system (Elvander 2002).

First, competitiveness was to be restored by means of reasonable wage development in line with developments among trade partners abroad. Second, the negotiations were to be synchronised with consideration of the expiration date and length of the collective bargaining agreements in order to avoid wage spirals. Third, impartial mediators (*opartiska ordföranda*) were entrusted with helping the parties reach agreement and ensuring coordination across the collective agreements in manu-

facturing. Coordination between the manufacturing partners was also strengthened by the establishment of the Swedish Unions within Manufacturing (*Facken inom Industrin*). The employers in manufacturing industry also increased their coordination, in which Teknikföretagen (previously, *Verkstadsföreningan*) assumed the most important role (Ibsen 2013).

Agreements regarding cooperation and negotiations were also established in other branches in the wake of the Industry Agreement. Moreover, the state established the Swedish National Mediation Office (*Medlingsinstitutet*) in 2000, which includes obligatory mediation for parties when they are unable to reach agreement and when they do not have their own bargaining agreement with built-in mediation. The Swedish National Mediation Office was entrusted with ensuring labour peace and socio-economically defensible wage development based on the pattern-setting manufacturing agreements. This means that the mediators will never present a settlement proposal that exceeds the manufacturing pattern, even in the event that the employers might be willing to accept. This is to ensure wage restraint in the mediation procedure (Ibsen 2013).

Since decentralisation from central to branch and sectoral levels, the new Swedish collective bargaining system has increased coordination significantly, while also more agreements have now become framework agreements with regard to wages and working hours. In the private sector, 83 per cent of the agreements include local wage formation, whereas 17 per cent pertain to central wage determination (Medlingsinstitutet 2013). However, the collective agreements in the private sector still include minimum guarantees and clauses guaranteeing wage increases in the local and individual negotiations – also for civil servants (*tjenestemænd*) and academic groups. Wages are set locally to a much higher degree in the public sector. Issues such as continued training, however, have not become widespread in collective agreements (Ibsen 2013).

To conclude this short review of changes to collective bargaining structures, it seems fair to claim that the Nordic countries have maintained a high level of coordination together with much decentralisation despite national variations. Moreover, the export-oriented industries – especially manufacturing – were the driving force behind institutional changes in the late 1980s and up through the 1990s. Increased interna-

tional competition and new production methods in the 1980s seem to have motivated employers, but in contrast to other European countries, reforms did not erode comprehensive bargaining. This does not, however, mean that the bargaining systems are free from both internal and external challenges. It is to some of the most salient challenges that we now turn.

3. European economic integration and challenges facing the Nordic bargaining systems

Even though the Nordic collective bargaining systems have been reformed in recent decades and thereby have been adapted to more intensified cross-border competition it does not mean that Nordic wage bargaining has remained unaffected by the EU's new economic governance. The direct effects of new European policy initiatives might have been limited, but other more indirect effects or consequences of European political and economic integration are present. This concerns strains on the bargaining systems due to the deepening of the single market in the enlarged EU, where domestic market–oriented sectors, such as construction and private services, face competition from migrant labour and service providers from central and eastern Europe. Furthermore, German wage trends have an impact on national debates in the Nordic countries on the potential room for wage – or labour cost – increases. Nordic wage trends are particularly affected by European trends via trade dependence on the German economy. This is not new, but the need to remain competitive and therefore also to keep wage and cost increases on a par with the most important trading partners – Germany – has been reinforced since the financial crisis. The relative success of the German economy in recent years has enhanced its position, creating what could be termed a discourse about the 'need to follow the German economy in order to secure balanced budgets and competitiveness'. In the following we raise the question of how and to what degree we should see German wage leadership as decisive for wage development in, respectively, Denmark, Finland and Norway. But before focussing on German influence on wage bargaining we turn briefly to the strain on wages and wage regulation caused by competition from migrant labour and service providers from central and eastern Europe.

3.1 Labour migration – potential effects on wage levels and bargaining systems

The expansion of the EU/EEA labour market has led to a strong influx of labour migrants and service providers from central and eastern Europe (CEE) into the Nordic countries. The volume of migration from those countries has varied over time. While Denmark and Sweden were the top destinations before 2004, Norway has received an increasing share since the 2004 enlargement. In 2006 Norway became the top receiving country with almost half of all the migrants from CEE countries to the Nordic region in 2011. The Finnish share decreased from 2004 to 2008, but has increased again since then (Tronstad and Joona 2013). In the years 2003 to 2011, 335 000 citizens from the new EU countries moved to the Nordic countries. In addition, a large number were working temporarily in the Nordic countries, for instance as workers posted by foreign service providers. It has been estimated that this group in Norway, Sweden and Denmark made up about 40 per cent of workers from CEE countries (Eldring and Friberg 2013; Friberg and Eldring 2013). The use of migrant workers has been particularly high in construction, manufacturing and the low-skilled parts of private services.

Labour migration has satisfied a great demand for labour in the Nordic countries. This has benefitted the economy, but has also implied challenges for the system of collective bargaining and wage coordination. Due to large pay differences between CEE countries and the Nordic countries, migrant workers often accept or might be compelled to accept wages that are lower than those prevailing in the Nordic labour markets (Friberg *et al.* 2013). None of the Nordic countries have a national statutory minimum wage. In Finland and Iceland the minimum wage floor is secured by generally applicable collective agreements. This is also the case for a few industries in Norway, such as construction, shipyards, cleaning and the green sector. Sweden and Denmark, as well as the majority of Norwegian industries rely on collective agreements alone to secure a minimum wage floor. Foreign service providers are less likely to be bound by collective agreements and can in such cases offer lower wages and worse working conditions to their employees, thereby reducing costs and enhancing their competitiveness. The same may apply to unorganised domestic firms (unbound by collective agreements) that rely on hiring cheap migrant labour, either directly or through subcontractors.

Decreasing union density and collective bargaining coverage in combination with a large supply of low-wage employees can make it more tempting also for domestic employers to opt out of collective agreements, thus leading to a downward spiral. General application of collective agreements can to some extent counteract this effect. The Finnish system, however, is dependent on collective agreements to cover close to half of the workers by being made generally applicable (Seip 2010). In Norway it is essentially only the minimum wages of collective agreements that are made generally binding. An increase in the proportion of enterprises and workers standing outside organisations and agreements, could, everything else being equal, affect the competitive situation between organised versus unorganised firms and workers and thereby weaken the organised actors' influence and membership base (Andersen *et al.* 2014). A growing share of unorganised workers reduces the negotiating power of trade unions and can alter the balance between employers and employees and accordingly affect wage trends. The Nordic countries may also face greater disparities between groups of employers, with low skilled workers receiving less and high skilled workers more than they would have in a more coordinated wage policy regime. Analyses from the Norwegian construction industry show that labour migration has had a negative effect on wages for domestic workers, partly due to substitution effects, but that extension of collective agreements may counteract this (Bratsberg *et al.* 2013; Holden 2014).

Table 1 **Mechanisms for determining wages in the Nordic countries**

	Coverage of collective agreements in the private sector*	Extension of collective agreements	Regime
Denmark	74%	No	Autonomous collective bargaining model
Sweden	85%	No	Autonomous collective bargaining model
Norway	50%	Yes, some since 2004	Mixed model
Finland	85%	Yes, widespread	Statutory regulations (and strong unions)
Iceland	95%	Yes, widespread	Statutory regulations (and strong unions)

Note: *Numbers from Finland and Iceland include employees covered by generally applicable collective agreements. In Finland bargaining coverage excluding generally applicable agreements was 73 per cent in 2008 (Ahtiainen 2011). Source: Alsos and Eldring 2014.

3.2 Influence of the new European economic governance on the collective bargaining systems of the four Nordic countries

As members of the EU, Denmark, Finland and Sweden have been potential objects of the new political interventionism exercised by the EU. In the field of collective bargaining, the major instruments of wage policy intervention have been Country-specific Recommendations (CSRs) issued within the context of the European Semester. CSRs could have been related to wages and wage-policy institutions. The recommendations are prepared by the European Commission, but their final adoption is carried out by national leaders in the European Council. Accordingly, the recommendations prepared by the Commission might be approved by the Council only after some modification. In addition to CSRs, the European Commission can produce, for example in Alert Mechanism Reports and in-depth reviews, commentaries on wages and wage-policy institutions.

Among the three Nordic EU countries, only Finland and Sweden received wage-related recommendations from the European Commission during 2012–2014. Finland obtained two, one in 2012 and one in 2013. In both of them, wage restraint, or the alignment of real wages and productivity developments, was recommended. The reason for these recommendations was primarily that Finland within the alert mechanism had exceeded the threshold of increases in unit labour costs. In the in-depth review for 2012 'rigidities in the wage settlement process' are regarded as causes of the significant rise in unit labour costs (European Commission 2012c: 2). The recommendations, which are not binding, had no influence on Finnish policy discussions. Nor was the tone of the recommendations demanding. The Commission's recommendation on Finland's 2013 national reform programme advised that Finland should take action to 'support the alignment of real wage and productivity developments whilst fully respecting the role of social partners and in line with national practices' (European Commission 2013: 6). Any recommendations that might concern the Finnish system of multi-employer bargaining have not been put forward. However, there is a comment on wage dispersion which can be interpreted as being about the Finnish bargaining system: in the in-depth review for 2014 compressed wage distribution is regarded as a cause of high prices, eroding both domestic welfare and external competitiveness (European Commission 2014a: 51).

Sweden received one wage-related recommendation from the Commission (in 2012). It reflects one of the main objectives of EU policies; the

desire to increase downward flexibility of wages. The European Commission recommends that Sweden should 'take further measures to improve the labour market participation of youth and vulnerable groups by focusing on effective active labour market policy measures, encouraging increased wage flexibility, notably at the lower end of the wage scale' (European Commission 2012d: 5). Sweden is a country with both a highly compressed wage structure and, accordingly, a very small low-wage sector. The recommendation was aimed at enlarging the low-wage sector. Overall, in the Commission's view Sweden is among the most competitive EU countries, which explains the absence of comments and recommendations related to cost competitiveness.

Denmark has not received wage-related CSRs from the Commission, but in some commentaries the Commission has paid attention to the deterioration of price competitiveness which, it said, was due to high nominal wage increases in the period of overheating and weak productivity growth in the years leading up to the financial crisis (European Commission 2012a: 14; 2012b: 8). Unit labour costs have since decreased. On the whole, in comparison with the crisis countries, the new European interventionism has so far not had a notable influence on collective bargaining in the three Nordic EU countries.

4. German impact on Nordic wage bargaining

Germany's success in job creation since the financial crisis and the fact that wage increases there were modest in the years leading up to it have affected debates on wage development in the Nordic countries. Looking at wage development, all the Nordic countries experienced a relatively high wage growth from 2000 to 2013, whereas German relative wages decreased (see figures in chapter 2). The country differences within manufacturing are smaller, but still we see clear differences in relative wage developments. In this section we will discuss the influence of German wage policy in Denmark, Norway and Finland in recent years.

4.1 Denmark: influence of new economic governance and German wage policy

Although Denmark is not part of the EMU, the government (in office since 2011) has nevertheless committed itself to the convergence criteria

and carefully sought to restore trust in Danish finances. It has done so by restoring balanced public budgets and pursuing a reform programme designed to increase labour supply and labour productivity. This is in line with the Commission's recommendations to Denmark on preserving a sound fiscal position (European Commission 2014b). Moreover, central tight control on public spending and sanctions for over-spending in local government meant that municipalities have underspent during the crisis with a knock-on depressing effect on fiscal stimulus from these important public sources (Pedersen and Andersen 2014). Critics – among them trade union economists – have therefore remarked that the strict Danish adherence to the EMU-criteria is dampening growth and the reliance on export-led job-growth might be too one-sided. Indeed, Danish exports are healthy but have not produced the expected job-rebound.

With regard to the Danish wage bargaining system, the EU has not – as shown above – made any recommendations of reform. As noted in the previous section, Danish wage-setting was gradually transformed during the 1980s and 1990s to become quite flexible while keeping a high degree of coordination – what has been called 'centralised decentralisation' (Due *et al.* 1993). At the onset of the crisis in 2008, the social partners were quick to agree on the real economic consequences for the open Danish economy. As thousands of jobs were shed, the pattern-setting social partners in manufacturing agreed very modest wage increases in 2010 and 2012, but the real changes happened on the shop-floor with wage freezes or sometimes wage cuts in company level bargaining. This was possible due to the flexible wage-systems in most private sector companies.

According to Danish Industry – the largest employer federation – between a quarter and a third of employees in manufacturing accepted a wage freeze in local wage bargaining, setting a new record. Moreover, supplementary pay for over-time, odd-hours and so on virtually disappeared overnight, depressing wage development even further. Real wages consequently suffered and did not become positive again – albeit very modestly – in the private sector until the first quarter of 2013. Wage competitiveness has increased relative to pre-crisis levels with employers and workers using wage flexibility inherent in collective agreements.

Some industries have been under such strain from job losses and cost competition that minimum wage levels in collective agreements have come under pressure. For example, the management of Danish Crown

(meat processing) argued that competition from German labour costs will force the company to relocate production if wages are not cut drastically (see also below). Other companies, such as in retail, have also questioned the minimum wage levels due to the crisis in private consumption. It remains to be seen whether the call for opt-out clauses is a passing phenomenon linked to the business cycle or an enduring phenomenon due to structural problems in some industries.

The influence of German wage policies in Denmark

Denmark has a long and deep rooted history of German influence on Danish economic and political life. This is first of all a consequence of Denmark being a small open economy neighbouring the much larger German economy. Looking at recent decades Germany has been the most important trading partner for Denmark. Further, many Danish manufacturing companies have been and still are operating as subcontractors for German corporations. The bottom line is that the state of the German economy will always have an impact on the Danish economy. Attention towards fluctuations in the German economy is therefore inherent in Danish economic decision-making; both at company and national level.

This includes attention towards processes of collective bargaining in Germany and wage trends in general. Not least due to fact that since the 1980s the Danish Krone has been pegged first to the D Mark, and later the Euro, the awareness of Danish policy makers, including representatives of employers' associations and trade unions towards German wage developments has deepened. The fixed exchange rate policy has created a strong transparency on Danish wage trends versus German trends which in turn gives immediate indications whether wage increases hamper companies competitiveness or not. In more recent years we also know that the Danish metalworking trade union, Dansk Metal, has intensified contacts to their German colleagues in the Baltic Sea region, IG Metall Bezirk Küste, in order to be able to follow trends and developments in Germany (Andersen 2006). Similar contacts exist for the employers.

Next to this long known interest in and dependence of wage trends in Germany the German success on job creation since the outbreak of the financial crisis has paved the way for an even stronger focus on job creation and wage trends in Germany in the Danish debate. Especially representatives of the dominant employers' associations are emphasising that

the competitiveness of Danish exporting industries has been weakened not least due to relatively high wage increases from around year 2000 and until the crisis emerged. Often Germany has been the point of reference in this debate. Real wages in manufacturing increased quite considerably in Danish manufacturing compared to Germany from 1998 to 2010. Since then real wages in Danish manufacturing has by and large stabilised.

Dominant trade unions did recognise that wage increases in the years leading up to the financial crisis were 'unbalanced'. Still in the subsequent years think tanks linked to the trade union movement have produced a number of reports and policy papers responding to the diagnosis of staggering wages and lost competitiveness as causes of failing job growth. In a report entitled *Danes will not be richer following the German path* the Economic Council of the Labour Movement argues that one important difference between the two countries is that Denmark was faced with a housing-bubble leading to a drop in house prices, declining fortunes and shrinking private consumption. The Council argues that the Danish labour market is healthy and well-functioning and warns against some German trends i.e. what is termed a polarisation as wage developments for some groups like private services are lagging behind manufacturing (AE 2014).

The centre-left think tank Cevea presents an identical critical perspective on the development on the German labour market and thereby also warns against adopting lessons from Germany. Growing wage inequality is once again a core theme in this publication (Cevea 2013).

Specific challenges arise from the quite significant differences in wage-levels between low wage groups in Germany and Denmark. Germany has from January 2015 introduced a statutory minimum wage at 8.50 € per hour. The minimum wage stipulated in the Danish collective agreements is around 15 € per hour for unskilled jobs. This wide gap in minimum wage levels between the two countries is to some degree explained by different social systems; employers' social contributions in Germany versus a universal social system financed via personal taxes in Denmark. Nevertheless, this makes low skilled jobs attractive for some Germans as well as other groups of foreign workers. This causes worries in trade unions as foreign workers might accept working at minimum wages in jobs where native workers typically are paid above minimum wage levels. This has often been framed as 'wage dumping' by the trade unions.

Another effect of the substantial wage gap between the two countries is the outsourcing of jobs to Germany.

Probably the most prominent example is the slaughter houses. Danish Crown is a multinational company accounting for around two-thirds of jobs in slaughter houses. Since 2003 Danish Crown has been both centralising and relocating. Some 20 sites have been closed and jobs have been sourced both to larger sites in Denmark and abroad – especially to Germany. Approximately 2,000 jobs have been relocated to sites outside Denmark (Refslund 2012). One of the main reasons for relocating jobs in Germany is that slaughter house workers typically earn 8–12 euros per hour there, whereas Danish workers earn 24–27 euros, according to Danish Crown. Typically, the German sites employ sub-contracted eastern European workers who are exempt from non-wage social contributions and collectively agreed wage rates as they are posted workers employed by, for example, eastern European agencies.

Summing up, it can be argued the influence of German wage policies and trends are both quite direct due to the small and open Danish economy's dependence on German markets and has especially in recent years had a strong effect at a more discursive level due to the apparent success of the German economy, in the sense of how to interpret and understand the relatively poor Danish economic performance and what are the necessary policy initiatives in order to bring back growth, jobs and increase in real wages for all groups in the labour market.

4.2 Finland: the influence of German wage policy is apparent

As a full member of EMU, Finland is in a special position among the Nordic countries. In the absence of a sovereign currency, it is impossible to use exchange rate policy as a means of affecting price competitiveness. Consequently, the importance of domestic wage policy increases, as does that of wage policies in neighbouring competing countries. As Germany traditionally has been an important trading partner for Finland, its economic importance as the core country of the EMU has made it even more important. Therefore wage trends in Germany have been monitored closely especially since entering the euro zone, and German wage policy has been an important topic in Finnish discussions on wages and costs. Not only German wage developments but also the German collective bargaining system has been part of the debate. The most important

driver behind these debates has been the employers in the Confederation of Finnish Industries (EK).

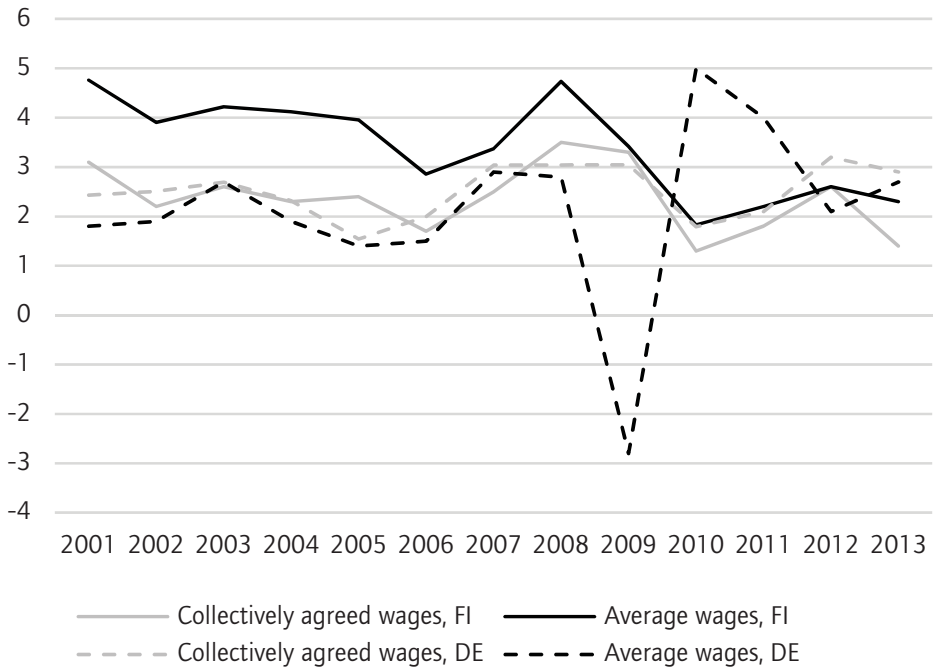
Employers' representatives have maintained that, because of too costly collective agreements, the Finnish exports industry has lost its price competitiveness. In its statements, EK has emphasised that, in particular, a drastic deterioration of price competitiveness vis-à-vis Germany has taken place. Regarding the bargaining system representatives of employer's confederation have proposed that Finland should learn from German experiences. Meaning that wage bargaining should be decentralised in Finland, for example, via expanding the possibility to use various kinds of derogation clauses. Currently options to deviate from pay norms set by collective agreements are substantially more limited in Finland than in Germany. Obviously Finland provides an interesting case as developments since entering the euro illustrates how, within a monetary union, not only wage policies but also systems of wage bargaining are interconnected. In what follows, we give a more detailed comparison between Finland and Germany.

Figure 1 summarises some similarities and differences in wage trends within manufacturing in Finland and Germany during 2001–2013. Evidently there is a strong similarity in collectively agreed wages during the period. Annual changes may have differed a little, but in both countries collectively agreed wages increased by 30 per cent from 2000 to 2011. There is, however, a noticeable difference between changes in average actual wages during the period from 2000 until 2011. In Finland average actual wages increased faster than collectively agreed wages, while in Germany they increased less than collectively agreed wages. This means that German wage drift – that is, the difference between the increase in actual and collectively agreed pay – has been negative, while it has been positive in the Finnish case.

Even though the difference between increases in actual wages in Finnish and German manufacturing is obvious, it needs to be emphasised that the difference is not due to the conclusion of too costly agreements in spite of what some employers' representatives often state.

The discrepancy is due to the difference between the collective bargaining systems in the two countries. In Finland, collectively agreed pay increases normally set a minimum for actual pay increases, while in Germany this is not the case. An important explanation for negative wage

Figure 1 **Developments of average wages and collectively agreed wages in Finland and in Germany 2001–2013, manufacturing (%)**



Source: TURI database on collectively agreed wages, Destatis, Statistics Finland.

drift has been the use of opening clauses see, for example (Bispinck and Schulten 2011; Schulten and Bispinck 2014). As employers may benefit from the use of opening clauses, it has not come as a big surprise that employers in EK are interested in having at least a partial reconstruction of the Finnish collective bargaining system.

Despite higher wage increases in the Finnish manufacturing industry, there have not been any significant differences in unit labour cost developments compared to Germany. Labour productivity growth has compensated for higher labour cost increases. According to unit labour cost developments in manufacturing, the Finnish exports industry has not experienced any dramatic loss of competitiveness. However, if one looks at unit labour cost developments in the entire economy, a clear discrepancy has developed between Finland and Germany. During 2001-2012, price competitiveness has deteriorated by some twenty per cent. The above mentioned CSRs delivered by the Commission are based on the use of unit labour costs in the whole economy as the relevant indicator for price competitiveness. In the Finnish debate, employers' representatives have systematically used developments of this indicator

as the proof that the Finnish competitiveness has decreased significantly vis-à-vis Germany.

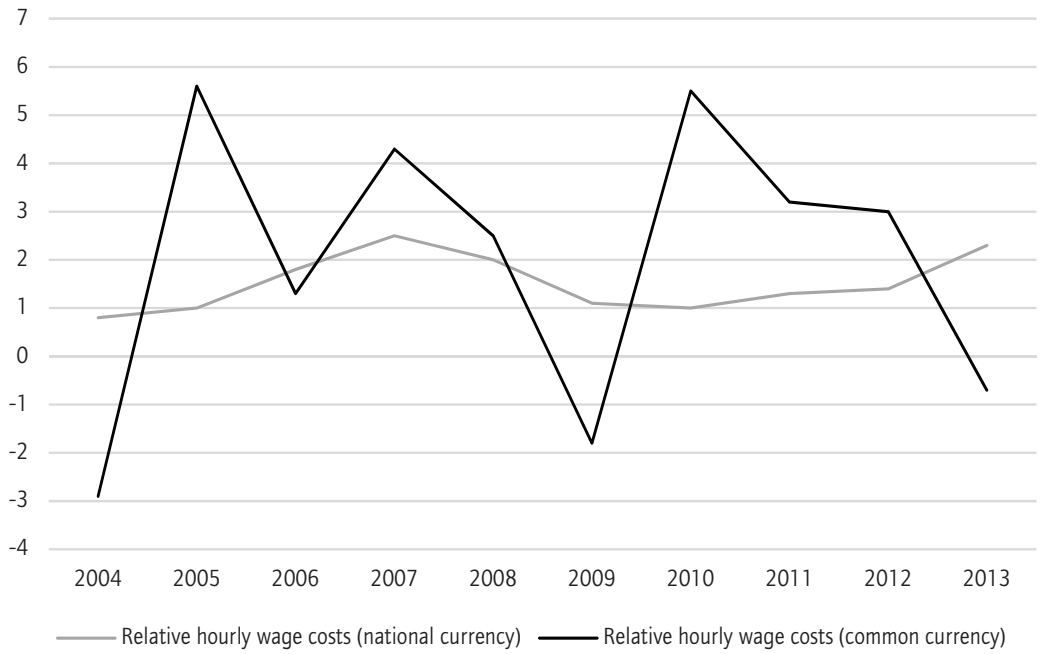
Some noteworthy conclusions can be drawn from the comparison between Finland and Germany. Within a monetary union, differences in wage bargaining systems may give rise to notable differences in actual wages even if increases in collectively agreed pay have been similar, and consequently, to corresponding differences in unit labour costs. This means that the coordination of wage policies, or wage claims between trade unions located in various countries, may be extremely difficult if wage bargaining systems differ among these countries.

The current situation in Finland supports the view that the basic prerequisite for the strengthening of labour unions' attempts towards European-level coordination of collective bargaining is the maintenance of the strengths of multi-employer bargaining systems. On the other hand, it is not surprising that currently one of the employer's organisation, EK's, main objectives is to 'import German elements' into the Finnish collective bargaining system.

4.3 Norway: Benchmarking of trading partners in a petroleum driven economy

The European economic integration has had less effect in Norway, as there is no currency binding to the Euro and as Norway is not part of the economic coordination. However, this does not mean that Norway is unaffected by the EU development in this field. As mentioned earlier international export markets play an important role in the trend setting bargaining model. The competiveness of the Norwegian export industries, or terms of trade, is measured by the tripartite committee Technical Calculation Committee (TBU), with representatives from all the major social partners. The TBU committee has developed an indicator based on the Norwegian wage level or the Norwegian labour costs compared to an average wage costs among the most important trading partners. These ratios are measured in common currency (see Figure 2). In this context Germany is playing an important role as topping the list of the most important trading partners in 2011 to 2013 followed by Sweden and Great Britain (NOU 2014: 3). However, a number of other countries are included in this indicator as well. The terms of trade, included the future prospects of the Norwegian economy, are discussed in the annual

Figure 2 **Developments of relatively hourly wage costs in Norway compared with average wage costs among trade partners**



Note: Changes from the previous year. Employees in the manufacturing/industry sector.
Source: Norwegian Technical Calculation Committee for Wage Settlements (TBU).

reports presented by the TBU committee. The committee does not give any recommendation for the coming wage settlement, but is rather contributing to a common understanding of the economic situation which is seen as an imperative factor for the opening negotiations in the export sectors as well as for coordination across industries and sectors.

The wage setting model has been under pressure on a number of occasions, among others as a result of high wage settlements or high wage drift compared to trading partners. Such periods have often been followed by moderate settlements and stronger coordination, often supported by strengthened tripartite cooperation. In addition the Norwegian dependence on petroleum exports, and thereby the importance of the petroleum related industry, means that the Norwegian economy may develop otherwise than the neighbouring countries. In 2013 the tripartite *Holden Committee* which included social partners together with economic experts discussed whether the trendsetting industries model had to be reconsidered, due to the way the labour market has been affected by changes in the Norwegian as well as the international economy. In the period 2010–2012 the Norwegian manufacturing sector lost out in

terms of trade, and representatives from both sides in industry called for moderation in wages and costs in order to save jobs. Among the questions asked by the Holden Committee, was whether the wage bargaining model is able to handle a situation with high demand in the petroleum sector combined with an international market in recession for the more traditional export industries. Major parts of the metal industry – which always are part of the trend-setting industries collective agreement – are suppliers to the petroleum industry and thereby strongly influenced by the oil price (which might be high even in a period of international crises). However, the committee did not propose any changes of the trend setting industries model such as removing suppliers to the petroleum industry from the relevant collective agreement. The recommendation from the committee was to strengthen voluntary coordination measures, and pointed to the fact that Norway will face lower income form the petroleum sector due to decreasing oil revenues as well as more variable oil prices over time.

In major parts of the private sector company level bargaining on average make up more than 50 percent of the annual wage increases. As in the other Nordic countries, company bargaining takes place under a peace duty clause and under the framework of the central level agreements. The parties have agreed that company level bargaining should be guided by the profitability, productivity, future prospects and competitiveness of the company ('the four criteria' from 1990s) although the compliance of this principle is based on a common understanding without any instruments for enforcement. The unions for white collar workers never had the strength and high density rates as seen in Denmark and Sweden, and in the private sector wage setting for white collar workers is mainly decentralised and to a large degree based on individual criteria.

Although the employer side argues in favour of less detailed regulations at central level, multi-employer bargaining and the sector-wide agreements have not been challenged by the employer side. Opening-clauses or opt-outs from collective agreements have not had any major impact. In the 2009 bargaining round, when many companies experienced economic insecurity as a result of the financial crises, the trendsetting industries decided that the general wage increases awarded at central level could be postponed or ignored in situations where company finances were poor. However, this did not open up for local partners to reduce wages below the minimum rates in the collective agreement for the industry and the option was hardly used. Still, in a long-time perspective

the trend setting industries model and its strong reliance on coordination might be challenged by the weakened capacity to regulate wages in low-pay sectors as well as by groups who no longer see an interest in submitting to the normative framework set by a deceasing number of traditional blue-collar workers and their employers.

5. Discussion: The future of Nordic wage bargaining

The export-oriented industries – especially manufacturing – have been the driving force behind changes in the collective bargaining systems in the Nordic countries in the late 1980s and up through the 1990s. Increased international competition and new production methods in the 1980s was the motivation for employers calling for changes. As we have seen, the collective bargaining systems are intact, but changed. Across the Nordic countries, the industrial structure is varied and different types of industry dominate in the individual countries. Overall, however, manufacturing companies and their exports have maintained an important role for the national economies.

As we have shown, institutional changes in the collective bargaining systems did not happen in a uniform way, but had varying paces and consequences in the Nordic states. In spite of the differences we find in all these bargaining systems decentralised bargaining within a coordinated framework. In other words national collective agreements concluded at sector level is setting the framework for company level negotiations. Taking into account the overall economic performance of the Nordic states we argued that competitiveness was enhanced via collective bargaining based on the relatively pragmatic positions of dominant trade unions and employers' associations. As emphasised this does not mean that conflicts and power struggles have been absent, rather that we have seen a basic willingness to try to develop the collective bargaining systems.

This overall trend first and foremost cover the period between the crisis of the 1980s and the very early 1990s and the financial crisis. Hereby said that over recent years – and accelerated by the financial crisis – new challenges have become apparent. Manufacturing industries have experienced an accelerating internationalisation in recent decades, which in turn has increased the competition for the remaining workplaces and led to debates as to whether parts of the Nordic manufacturing industry are close to hitting the critical levels for what is required to maintain

the national preconditions for innovation and competence development that are essential for job creation in manufacturing. Many jobs were for instance lost in Danish manufacturing in the early years of the financial crisis. In most recent years employment in Danish manufacturing has increased, however, with relatively modest figures. The question is whether we in the years to come will see a substantial increase in innovation, production and job-creation or not.

After underlining the importance of the reform of the collective bargaining systems in the Nordic states we turned to the question of the potential impact of the new economic governance regime of the European Union on the Nordic collective bargaining systems. We concluded that the direct effect of these policy initiatives have been limited. Few and rather insignificant recommendations have been forwarded to the Nordic states regarding the development in wages and income. On the other hand, we raised the question of indirect effects, such as the potential German wage leadership. The basic argument was that the small and open Nordic economies are very interwoven with and therefore dependent of the much larger German economy. The discussion of how German wage trends have influenced national debates on wages and costs seems to suggest that in recent years there we have seen a rather substantial influence of German wage trends in Finland and Denmark on the national debates on the potential room for wages increase – or even the institutional set-up of the bargaining system (the Finnish case), while this is less so in Norway. The reason for Norway to a larger degree bypassing the German 'wage-leadership' might be Norwegian dependence of petrol industry which therefore also influence economic dynamics and priorities. With regard to Finland and Denmark it appears to be evident that the German economic success in recent years has made the discourse of German wage leadership stronger whereas in the pre-crisis years Nordic wage increases clearly exceeded German trends.

Furthermore, we raised the question how European integration in other ways influence wage developments in the Nordic countries. In recent years there has been a quite heated debate on social dumping, especially voiced by the trade unions. Moreover, since EU's enlargement into eastern and central Europe, companies in some sectors, typically construction, shipbuilding, the food industry, slaughterhouses, agriculture and horticulture, are exploiting the free movement of labour and services to use cheaper subcontractors and temporary employment agencies. Some businesses are also employing cheaper workers from abroad in their do-

mestic manufacturing. There are employers who argue that this is necessary to compensate for the high Nordic labour costs in order to avoid increased outsourcing or simply closing the activity in the host country, which they claim to be the alternative. This is a major dilemma for the employer organisations, where the large companies can exploit the advantages of free mobility, while many of the members from smaller companies are often left with a difficult struggle merely to survive (Alfonso 2012).

The market integration and internationalisation have also progressed rapidly in the transport industry, where the large international logistics and transport companies place trucks and drivers in complicated systems using the various wage and costs levels in the respective European countries in order to maximise their returns (Dølvik *et al.* 2003; Jensen *et al.* 2014). As with manufacturing and construction, road transport is a part of the internal market, but there are still rules for how many trips a foreign truck or bus may run in another EU country with national goods or passengers – the so-called *cabotage rules*. Nevertheless, international road transport in and out of the Nordic countries has largely been taken over by foreign drivers, often from eastern and central Europe, and in the domestic road transport there is a recurring debate about how difficult it is to control *cabotage* rules and the increased low-wage competition.

The opening of markets has thus intensified price competition between companies and the struggle for earnings and jobs in large parts of the domestic-oriented sectors. In this manner, the broader market integration puts the collective bargaining systems in the affected sectors under pressure. In addition to transport and construction, there is reason to assume that especially the labour-intensive private service sectors, such as retail trade, hotels and restaurants as well as cleaning will be particularly vulnerable, as the development in productivity and added value is more modest than in manufacturing, unionisation is much weaker and the hiring of foreign labour is increasing. In the longer term, such trends may undermine the basis for the close coordination of agreements and wage formation across industries in the Nordic countries and provide the basis for increased differentiation of wages between and within branches in line with what has been seen most clearly in Germany in recent decades.

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Chapter 5
Similarities and diversity in the development of wages and collective bargaining in central and eastern European countries – a comparison of Hungary, Slovakia and the Czech Republic

Szilvia Borbély and László Neumann

1. Introduction[1]

Besides a common historical background, the three countries examined in this chapter have strikingly similar economies (small, landlocked, export-oriented countries, relying heavily on manufacturing dominated by multinational companies) and thus they are, to some extent, competitors in export markets and for foreign investment. All three economies are highly vulnerable: they are characterised by low diversification, a small domestic market and dependence on a few export-oriented industries (for example, Slovakia depends on the car industry). Their labour market systems are characterised by income policies – the particularly focus of this chapter – that have to find a sustainable balance between the population's social needs and producer competitiveness, although labour policy is strongly influenced by the ideological standpoint and political manoeuvring of whichever government happens to be in power. We argue that the role of wage bargaining in the past five years has been influenced not only by the economic crisis and recovery, but also significantly by government policies, even if their facilitating or constraining role changes over time and across countries. Beyond government policies on collective bargaining, state intervention in income policies and wage determination takes various forms, from setting the minimum wage to redistribution through taxation, whose importance also varies. (Unfortunately, due to limited space, we cannot deal with the unilateral wage setting that characterises the public sector).

Although they all are far from being 'developmental states' (Johnson 1982), policies endorsing economic development and competitiveness

1. We owe special thanks to Marta Kahancova for her highly valued comments and suggestions.

often outweigh social and foreign policy considerations. As to the latter, at the time of writing (September 2014), a clear example of overriding economic interests is the current outlier position of these three countries concerning EU sanctions against Russia. When EU leaders negotiated a round of sanctions with the outright support of Poland and the Baltic states, the Czech, Slovak and Hungarian governments focused on shielding their economies from the impact of trade restrictions.[2] More generally this is an outcome of the policy of 'selective economic nationalism' (Tóth 2014) which is most prevalent in Hungary, although its elements sometimes emerge in competitor countries in the region as well. Such opportunistic behaviour and other palpable differences in political priorities in comparison with the established western European democracies stem not only from the still immature democratic institutions, but also from post-socialist legacies that continue to shape how politicians perceive their countries' interests. This chapter does not deal with foreign policy in detail but this example is one instance of divergence from the EU mainstream and of commonalities among the three countries investigated.

The chapter is organised as follows. Section 2 assesses wage development in the macroeconomic context, embracing the development of labour cost determinants following the crisis. It also deals with the social context, social inclusion and risk of poverty. Section 3 focuses on the institutional approach to wage bargaining, namely the legal background and collective bargaining structures and coverage. Section 4 deals with 'collectively agreed wages', from both the methodological perspective and the point of view of bargaining outcomes, presenting the main available data. Based on our analysis the concluding section tries to answer the question of whether a special economic development model for central and eastern European region can be identified. It also highlights the diversities and similarities we identified in the region and what role a collective system of wage formation plays in this regard.

2. See: http://washpost.bloomberg.com/Story?docId=1376-NAZBDN6KLVRJ01-545LCK-V041C6SRS34NG8V1J6D8 , http://www.bloombergview.com/articles/2014-08-15/eastern-europe-don-t-sanction-putin

2. Wage development in a macroeconomic context

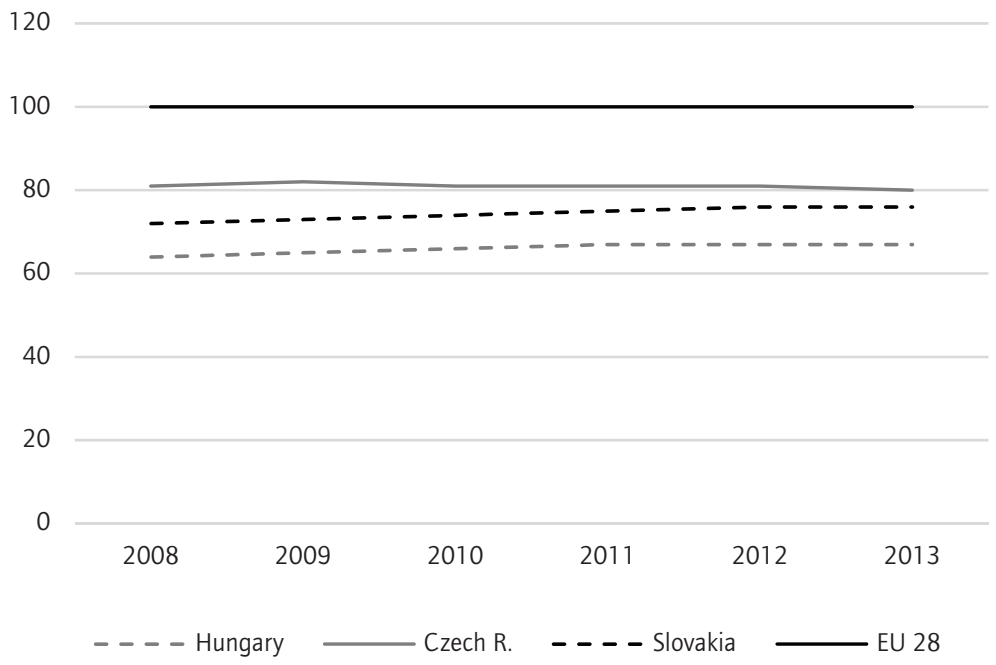
2.1 Economic, and social policy context

The Czech Republic, Hungary and Slovakia have a similar historical and political background. In 1989 Czechoslovakia and Hungary returned to liberal democracy. On 1 January 1993 Czechoslovakia split into the Czech Republic and Slovakia. In the 1990s all three countries underwent economic reforms and privatisation to create a market economy. All of them are small countries: the Czech Republic has a population of 10.5 million, Hungary 9.9 million and Slovakia 5.4 million according to Eurostat most recent population data.

Similar level of development

Looking at GDP per capita (in PPS, EU27=100), in 2008–2013 GDP per capita in PPS was highest in the Czech Republic and lowest in Hungary. The GDP per capita of all three countries is well below the EU28 average: in 2008, it was 19 per cent below in the Czech Republic, 28 per cent below in Slovakia and 36 per cent below in Hungary. This gap has not changed substantially during the crisis and recovery; in 2013, the figures

Figure 1 **GDP per capita (PPS)**



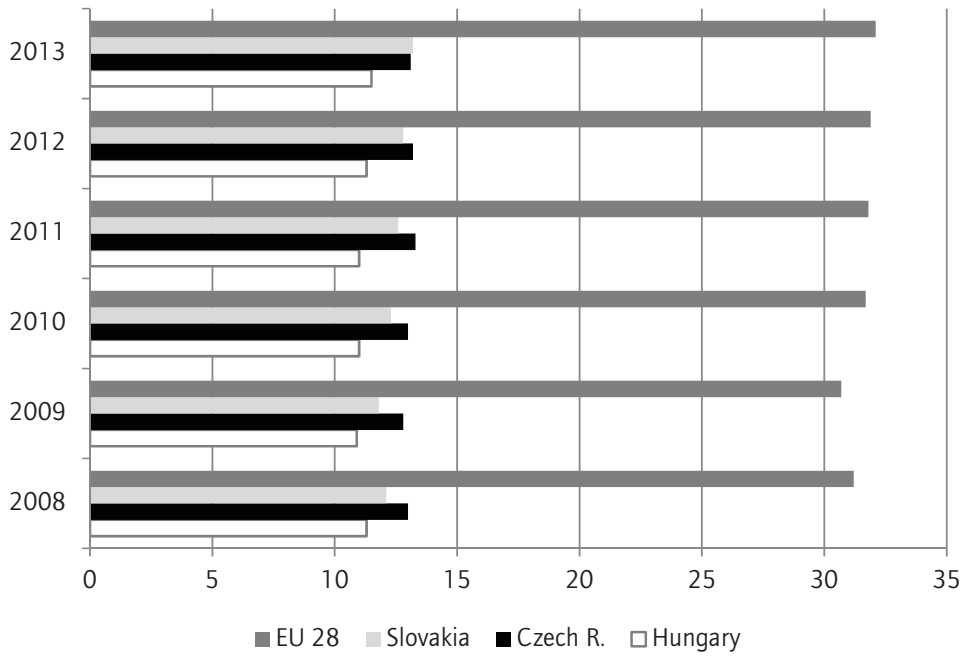
Source: Eurostat

were 20 per cent in the Czech Republic, 24 per cent in Slovakia and 33 per cent in Hungary.

Referring to the Europe 2020 Index[3] on terms of competitiveness Hungary occupies twenty-fifth place in the 2014 EU28 ranking, followed only by Greece, Romania and Bulgaria. Slovakia is in twenty-third place. Czech Republic is the best performing country of the three (eighteenth place), although it fell back two places compared with its 2012 ranking (World Economic Forum 2014: 12).

Labour productivity, measured by unit labour costs – a major component of competitiveness in countries relying on export-oriented manufacturing – also reflects the relative lagging behind of the three countries with regard to the EU28 average and it did not change in 2008–2013.

Figure 2 **Labour productivity per hour worked (euro/hours)**



Note: Calculated as real output per unit of labour input which is measured by the total number of hours worked.
Source: Eurostat.

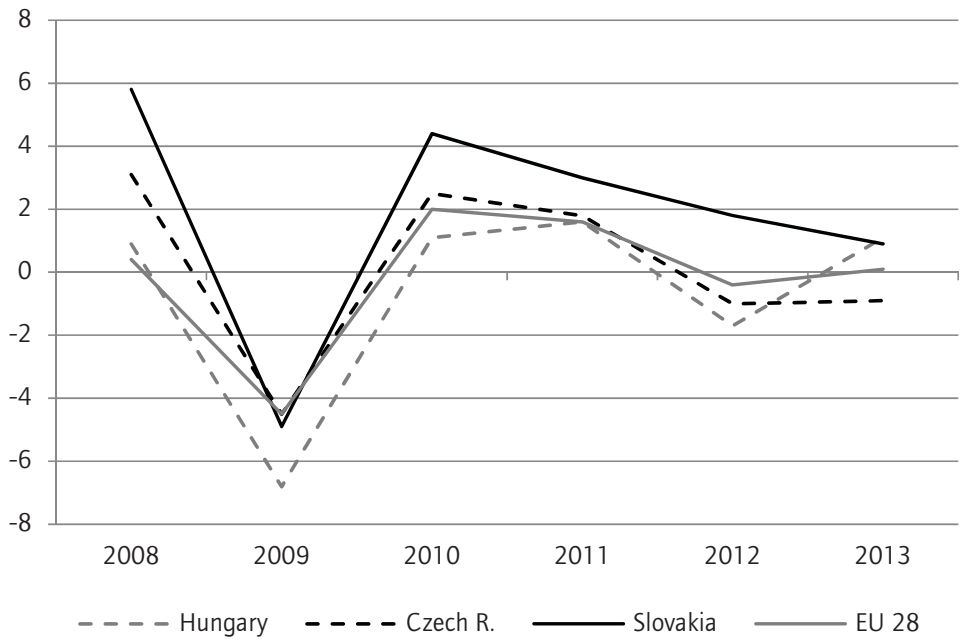
3. The Europe 2020 Index is composed of seven pillars: enterprise environment, digital agenda, innovative Europe, education and training, labour market and employment, social inclusion and environmental sustainability. Each pillar has the same weight (1/7) in the overall Europe 2020 Competitiveness Index score.

In 2008 and also in 2013 labour productivity per hour worked in the EU28 was 2.8 times higher than in Hungary and 2.4 times more than in Czech Republic. Compared with Slovakia the EU28 average was 2.6 times higher in 2008 and 'only' 2.4 times higher in 2013.

Similar growth dynamics

As the crisis unfolded, in 2009 real GDP decreased substantially in all three countries. Later on, as the recovery set in, Hungary in 2012 and the Czech Republic in 2012–2013 stagnated or fell further back behind. It is noteworthy that Slovakia outperformed the other two countries and also the EU28 average: its real GDP growth was 4.4 per cent in 2010 and 3 per cent in 2011. However, later on, Slovakian real GDP growth also slowed down. Taking into consideration the period as a whole, Hungary's economic growth has been lowest, not least because of the worsening business environment due to government measures restraining investors and imposing special corporate taxation, in particular on multinational companies in the financial, retail and telecom sectors.[4]

Figure 3 **Real GDP growth rate (percentage change on previous year)**



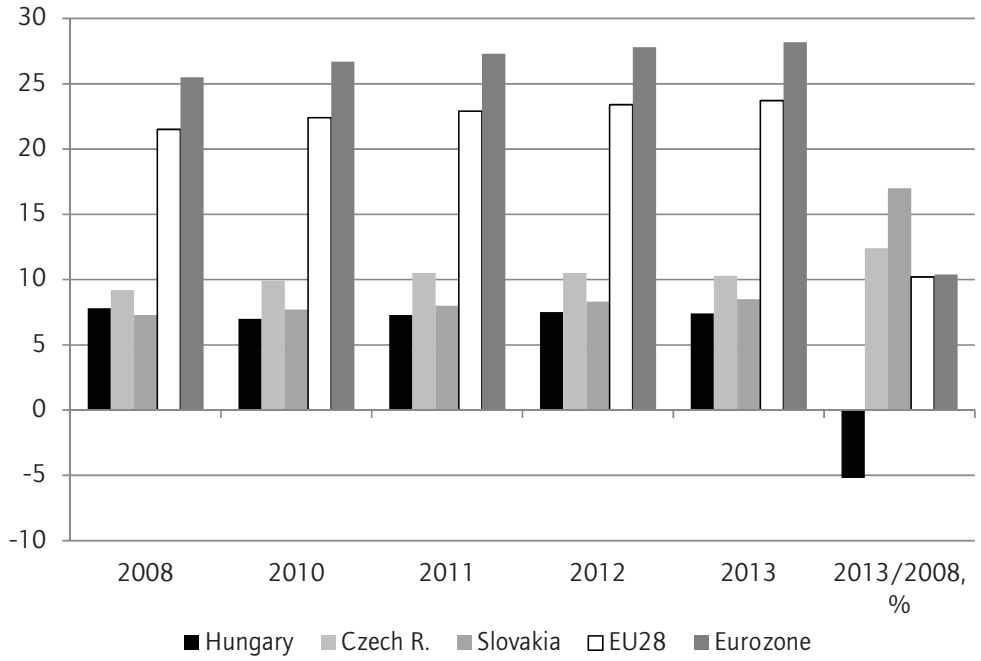
Source: Eurostat.

4. See: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00115

Importance of labour costs and their determinants

Their comparative advantage has been relatively low labour costs and qualified labour. In 2013, average hourly labour costs[5] were 23.7 euros in the EU28 as a whole and 28.2 euros in the euro zone (EU18) (Eurostat News release 49/2014).

Figure 4 **Hourly labour costs in the whole economy (excluding agriculture and public administration), 2008–2013 (euros)**



Source: Eurostat.

Between 2008 and 2013 average hourly labour costs in Hungary and Slovakia were around one-third of those in the EU28 and half in the Czech Republic.

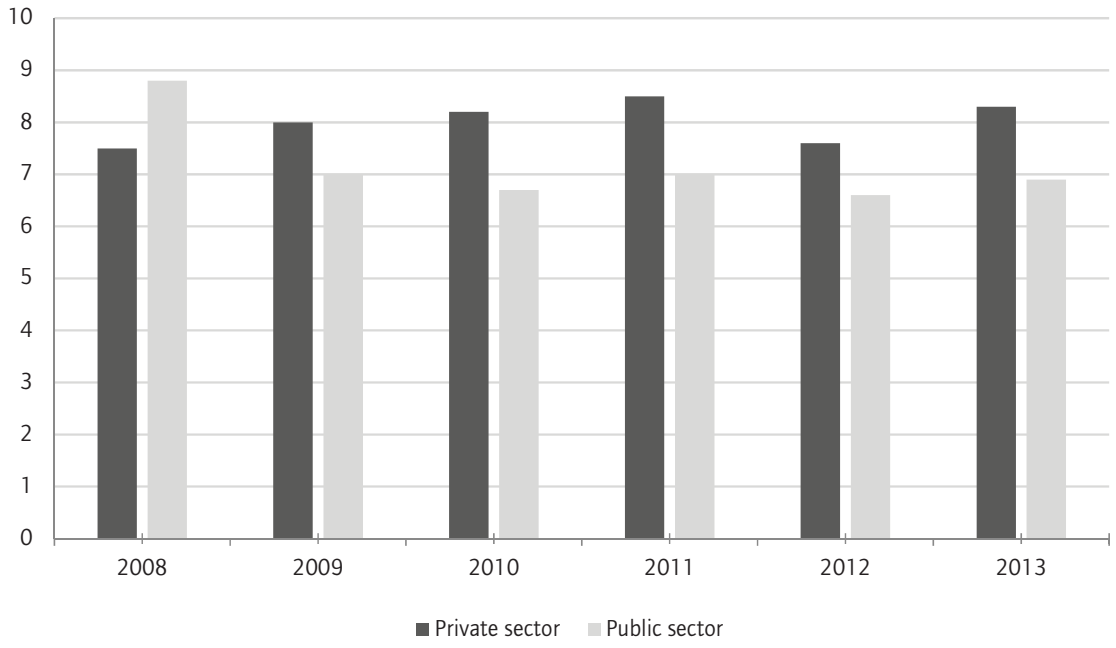
Hungarian hourly labour costs in euros seem to have stagnated or even decreased between 2008 and 2013. In 2013, Hungarian hourly labour costs were only slightly more than one-quarter of average labour costs in the euro zone. This is the result of the depreciation of the national currency during this time (in 2008, 1 euro was worth 251.51 HUF, while

5. Labour costs in the whole economy, excluding agriculture and public administration.

in 2013 it was 296.87 HUF). This means that calculated in Hungarian forints hourly labour costs increased (by around 12 per cent). In more detail, private sector wage costs exceeded public sector wage costs not least as a result of the long wage freeze on public sector employees.

In 2008 Slovakia had the biggest hourly labour cost gap with the euro zone, at 28 per cent. While the relative gap in wage costs between the euro zone and Hungary widened from 2008 to 2013, Hungarian labour costs became relatively cheaper, while the labour cost gap decreased somewhat between the euro zone and Slovakia and the Czech Republic. In both the Czech Republic and Slovakia the trend of hourly labour costs showed an increase of 12.4 per cent and 17 per cent, respectively, which is higher than the increase experienced in the EU28 and the euro zone, meaning that some progress had been made towards labour cost harmonisation.

Figure 5 **Hourly labour costs in the private and public sectors, Hungary (euros)**

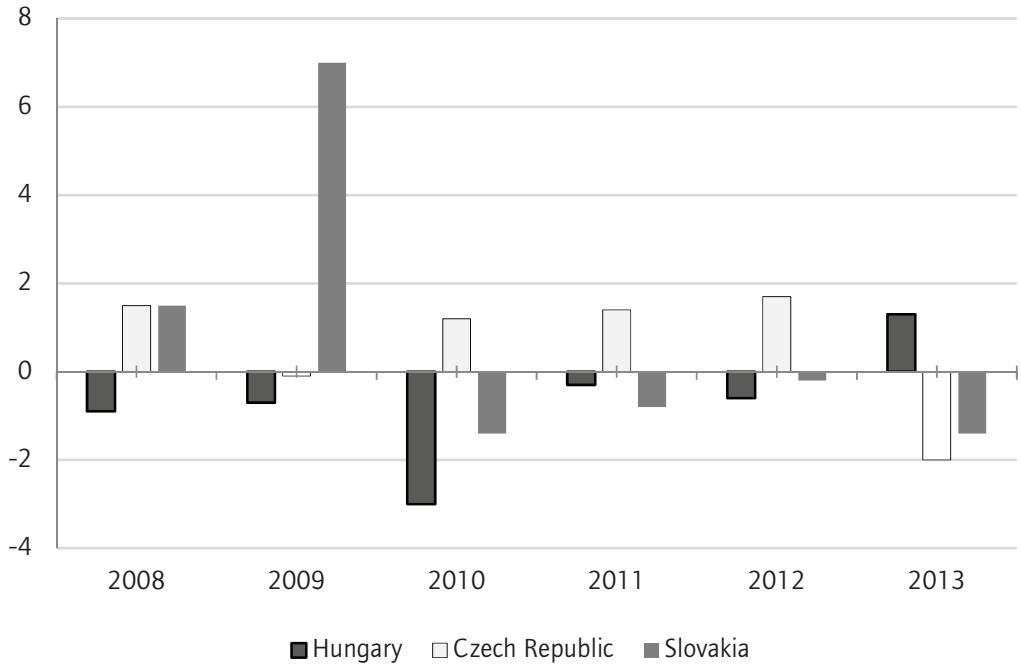


Source: Eurostat.

2.2 Development of labour cost determinants following the crisis

If we look at the dynamics of real unit labour cost development we may establish that after 2008 in Hungary real unit labour costs permanently decreased and only in 2013 was the a slight (1.3 per cent) increase. In the Czech Republic there was a moderate real unit labour cost increase in 2010–2012, and in 2013 a decrease of 2 per cent. In Slovakia a significant increase of 7 per cent took place in 2009.

Figure 6 **Real unit labour cost growth (%)**

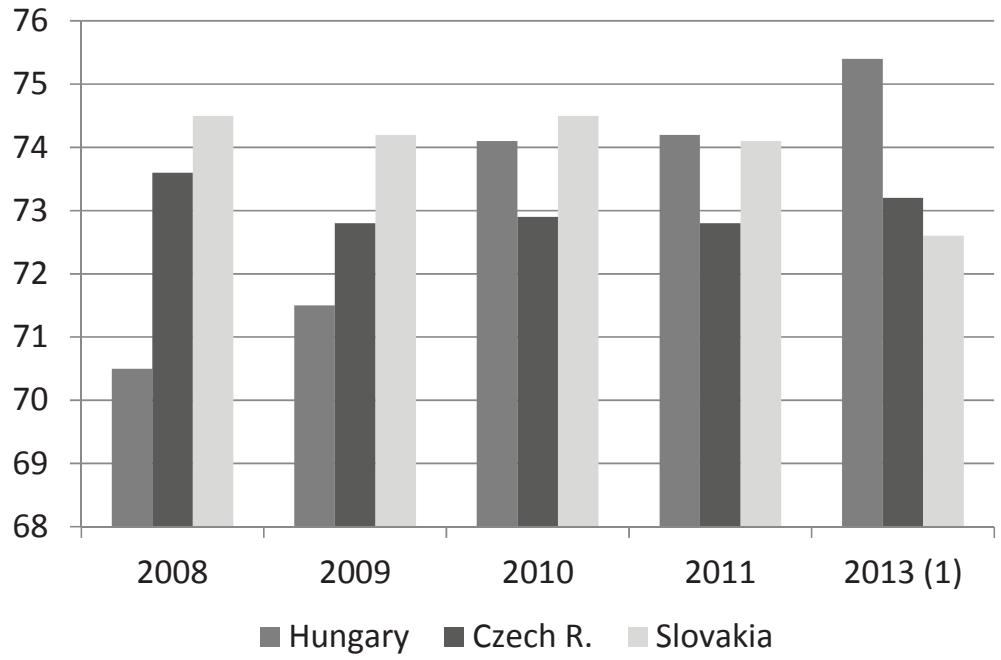


Source: Eurostat.

While the level and development of labour costs is, by and large, similar for all three countries, the components and determinants of labour costs may differ. As labour costs are made up of wages and non-wage costs, such as employers' social contributions, they depend, on one hand, on wage developments (not least the outcome of wage bargaining at different levels) and, on the other hand, on social security contributions which are subject to government policies. The development of (statutory) minimum wages may also have a pull effect.

In Hungary the wage cost part of labour costs has increased since 2008; in 2013 it already amounted to more than two-thirds of labour costs, while the non-wage component decreased to 24.6 per cent. Slovakia experienced a reverse process: the wage part of labour costs decreased from 74.5 per cent (2008) to 72.6 per cent (2013), as did the non-wage component, from 25.5 per cent (2008) to 27.4 per cent (2013). In the Czech Republic the proportion of wage and non-wage components varied only slightly in 2009–2011, but in 2013 the wage cost part was again a little more than 73 per cent, as in 2008. In 2013 the wage cost component in the EU28 was higher than in the two countries not in the euro zone, Hungary and the Czech Republic (76.3 per cent) and also higher in the euro zone than in euro-zone member Slovakia (74.1 per cent).

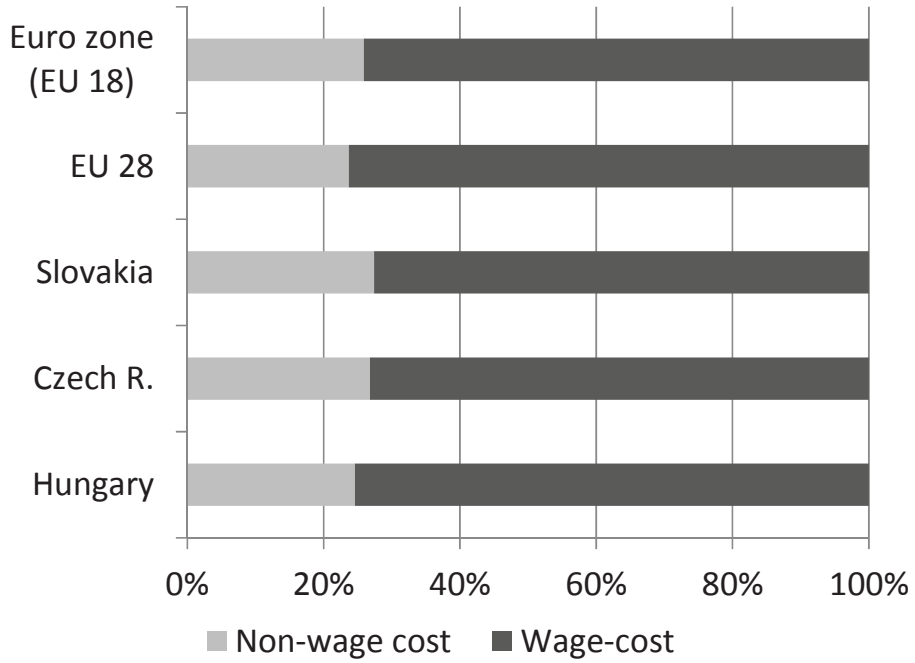
Figure 7 **Total wages and salaries as a percentage of total labour costs**



Source: Eurostat.

In 2013 the share of non-wage costs in the whole economy was 23.7 per cent in the EU28 and 25.9 per cent in the euro zone, varying between 8.0 per cent in Malta and 33.3 per cent in Sweden (Eurostat news release 49/2014). In all three countries (Hungary, Czech Republic, Slovakia) the share of the non-wage component of labour costs exceeds the EU28 average and the Slovakian and Czech non-wage cost components are above the same value in the euro zone.

Figure 8 **Distribution of labour costs, 2013 (%)**



Source: Eurostat.

Personal income tax: implementation of progressivity (Czech Republic, Slovakia)

Since 2011 Hungary has gradually introduced a 16 per cent flat rate of personal income tax. The trade union confederation MSZOSZ at its seventh congress in autumn 2010 emphasised that 'single rate and proportional personal tax transforms incomes disproportionately and unfairly, making it more favourable for people on higher incomes at employees' expense'. From 2011 tax credit for employees started to be gradually revoked and was stopped completely in 2012. Meanwhile the so-called *super gross tax base*[6] introduced in 2010 was gradually phased out by 2013. In 2011 a tax credit for children was introduced. The problem is that families on average and even above-average earnings do not have a sufficient tax base to benefit from this.

6. This means that the personal income tax base should be calculated on the sum which contains the gross wage plus the employer's social security contributions. (The idea was to promote transparency; employees should see details of their whole salary.)

In 2011 and 2012 in the Czech Republic all earnings were taxed at a flat rate of 15 per cent,[7] to rise to 19 per cent, probably from 2015. In Slovakia a flat-rate tax was introduced in 2004 – the year it joined to EU – with the aim of encouraging (foreign) investment. All earnings were taxed at a fixed rate of 19 per cent (Deloitte 2013: 11). It seems that in 2013 the previously preferred flat-rate taxes started to lose ground in the Czech Republic and Slovakia, not at least by the endeavour to curb the growing income differences somewhat. In 2013 the Czech Republic imposed a solidarity tax of 7 per cent on higher incomes.[8] In 2013, Slovakia included some progressivity in income taxation: a tax rate of 25 per cent was introduced on taxable earnings exceeding 2 866 euros per month.

Social contributions: implementation of progressivity (Czech Republic) and increased limits (Czech Republic and Slovakia)

The social security contribution as part of labour/wage costs in the Czech Republic in 2011 was 11 per cent for employees and 34 per cent for employers (maximum of 72 585 euros). In 2012 a kind of progressivity was implemented in this system, too: employees contribute 6.5 per cent and employers 25 per cent (maximum of 48 389 euros) and employees pay plus 4.5 per cent and employers plus 9 per cent (maximum of 72 583 euros).

In 2013 in the Czech Republic the limit for social security contribution was increased and the limit for health insurance payments was abolished (the employer has to finance 9 per cent of health insurance on the full income and not only on the maximum income of the previous year). In 2012 Slovakian employees paid 13.4 per cent and employers 32.5 per cent with a limit for contributions between 1 153.5 euros and 3 076 euros (depending on the type of unemployment insurance, pension and so on) and up to +/– 34 000 euros, in 2013 up to 47 160 euros (Deloitte 2013: 15, 16; Deloitte 2014: 18).

In Hungary the social security contributions from the employee side amount to 17 per cent (health insurances and pensions' contribution),

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7. According to Deloitte in practice the effective tax rate is 20.1 per cent as the tax base is increased with SSHI (social security and health) contributions made by the employer. (Deloitte 2014: 15).
8. Solidarity tax of 7 per cent is due on annual income that exceeds the threshold of 1 242 432 CZK or 48 627.5 euros. The solidarity tax of 7 per cent is also applied on monthly income exceeding the threshold of 103 536 CZK or 4 052.5 euros.

Table 1 **Tax rate (income tax on gross wage earnings plus the employee's social security contribution; %)**

	2008	2009	2010	2011	2012	2013
Hungary	23.35	23.82	23.77	26.75	34.50	34.50
Czech Republic	14.53	13.48	13.88	14.82	14.70	14.47
Slovakia	15.77	12.94	13.13	15.85	15.74	15.68
European Union (27 countries)	21.29	21.16	21.30	21.86	22.19	
Euro area (17 countries)	21.05	21.02	21.16	22.22	22.57	

Source: Eurostat.

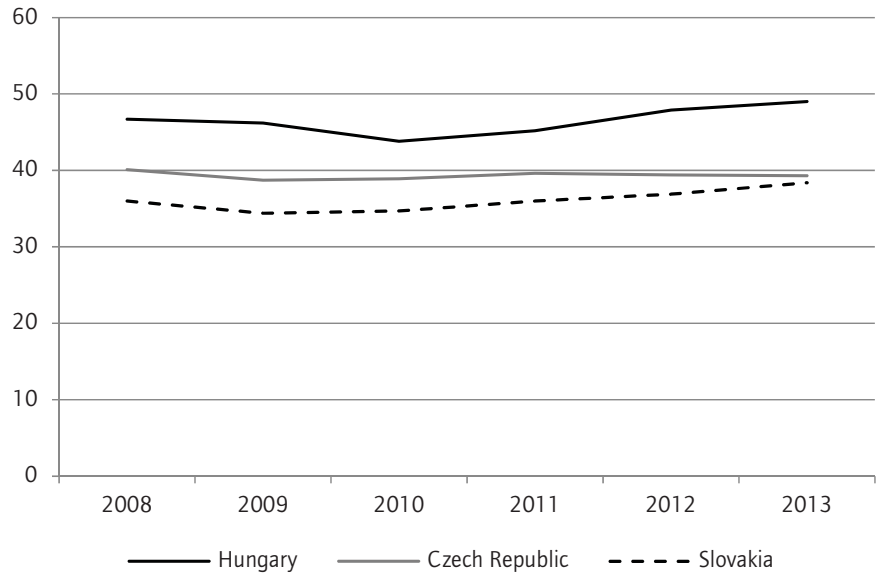
the employer has to pay a 27 per cent social security contribution. Hungary is characterised by the highest and increasing average tax rate:[9] in 2008 it was 23.35 per cent and in 2013 it was already 34.50 per cent. In the Czech Republic the tax rate oscillated around 14 per cent and in Slovakia 15 per cent, almost half the Hungarian value.

Hungary: very high tax wedge on low wage earners

Hungary has a very high and increasing tax wedge on labour costs, particularly in the case of low wage earners: in 2008 it was 46.7 per cent and in 2013 it was already 48 per cent. In the Czech Republic and Slovakia the tax wedge has been around the EU27 average. The high tax wedge[10] not only has a negative effect on net earnings and has hit low wage-earners particularly, but it also puts downward pressure on labour demand. Nickell (2003) reported that a 10 percentage point rise in the tax wedge reduces the labour input of the working age population by somewhere between 1 and 3 per cent (Dolenc and Laporsek 2010: 346).

9. Average tax rate is defined as 'the income tax on gross wage earnings plus the employee's social security contributions less universal cash benefits, expressed as a percentage of gross wage earnings'. See Eurostat http://epp.eurostat.ec.europa.eu/cache/ITY_SDDS/EN/earn_net_esms.htm
10. The tax wedge on labour costs is defined as income tax on gross wage earnings plus the employee's and the employer's social security contributions, expressed as a percentage of the total labour costs of the earner. The total labour costs of the earner are defined as gross earnings plus the employer's social security contributions plus payroll taxes.

Figure 9 **Tax wedge on labour costs (%)**



Source: Eurostat.

2.3 Risk of poverty and social inclusion: Hungary at highest risk

In the three countries – more in Hungary and Slovakia and less in the Czech Republic – the middle class has remained relatively weak, especially in Hungary. The Gini coefficient of disposable income measuring inequality in income after taxes and transfers shows a significant increase of inequality in income distribution in Hungary between 2008 and 2013.

Table 2 **Gini coefficient of equalised disposable income**

	2008	2009	2010	2011	2012	2013
Hungary	25.2	24.7	24.1	26.8	26.9	28
Czech Republic	24.7	25.1	24.9	25.2	24.9	24.6
Slovakia	23.7	24.8	25.9	25.7	25.3	24.2
European Union (27 countries)	30.9	30.5	30.5	30.8	30.4	30.5

Source: Eurostat.

The proportion of people living in households with very low work intensity in Hungary was double that in the Czech Republic and higher than in Slovakia and the EU28 (around 12 per cent in 2011/2012).[11]

It is again Hungary that, among the three countries, is in the worst situation concerning the risk of poverty or social exclusion: in 2008/2010 slightly less than 30 per cent and in 2011/2012 more than 30 per cent of the population was at risk of poverty,[12] materially deprived[13] or living in a household with very low work intensity.

In Hungary particularly high is the percentage of people at risk of poverty before social transfers (29 per cent in 2011 and 27.1 per cent in 2012 – Eurostat). Also high and growing is the percentage of severely materially deprived people (23.1 in 2011 and 25.7 per cent in 2012). Social transfers have some effect: the proportion of people at risk of poverty after social transfers in Hungary was 13.8 per cent in 2011 and 14 per cent in 2012.

The Czech Republic is in the best situation also in comparison with the EU average: in 2008–2012 around 15 per cent of the population could be considered to be at risk of poverty or social inclusion. In Slovakia during the same period the value of this indicator was around 20 per cent, while in Hungary around 32.4 per cent of the population was affected.

In 2011–2012 in the Czech Republic the proportion of severely materially deprived people was around 6 per cent and in Slovakia 10 per cent while in Hungary around 25 per cent of the population was affected.
To compare, in 2012 the EU28 average for being at risk of poverty was 24.8 per cent, while the proportion of severely materially deprived people was 9.9 per cent.

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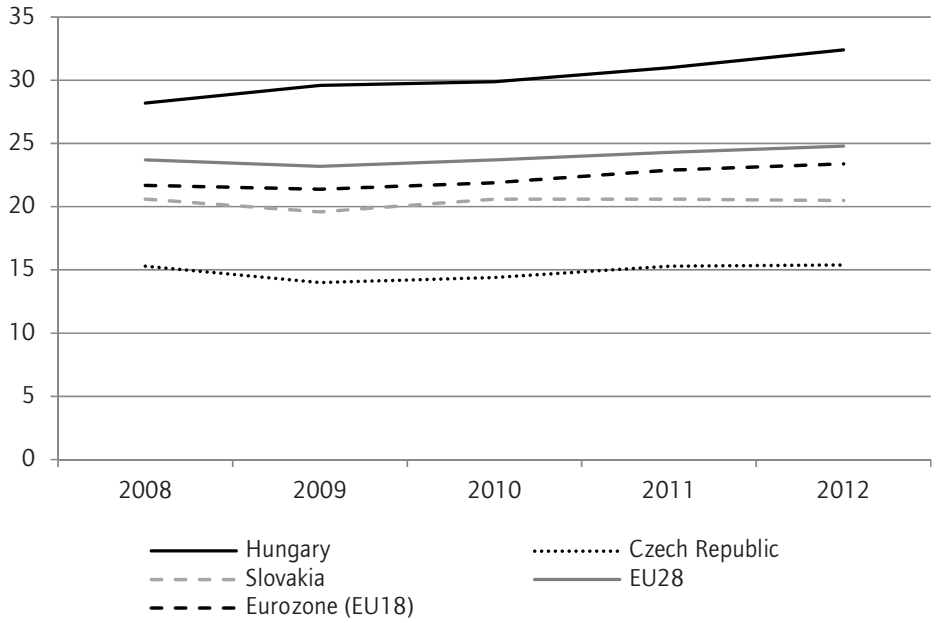
11. http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=t2020_51&language=en

12. tHE at-risk-of-poverty threshold in Hungary in 2012 was HUF 796 784/year, in the Czech Republic CzK 114 953 and in Slovakia 4 156 euros (source: Eurostat, http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/File:At-risk-of-poverty_rate_before_and_after_social_transfers_and_at-risk-of-poverty_threshold_(for_a_single_person),_2011_and_2012.png

13. Severely materially deprived persons (persons whose living conditions are constrained by a lack of resources and experience at least four out of the nine deprivation items, which are as follows: cannot afford (i) to pay rent/mortgage or utility bills on time, (ii) to keep home adequately warm, (iii) to face unexpected expenses, (iv) to eat meat, fish or a protein equivalent every second day, (v) a one week holiday away from home, (vi) a car, (vii) a washing machine, (viii) a colour TV, or (ix) a telephone (including mobile phone).

Figure 10 **People at risk of poverty or social exclusion* (% of population)**



Note: * People at risk of poverty – that is, persons with an equalised disposable income below the at-risk-of-poverty threshold, set at 60 per cent of national median equalised disposable income (after social transfers) plus severely materially deprived persons plus people living in households with very low work intensity (those aged 0–59 who live in households in which, on average, the adults [aged 18–59] worked less than 20 per cent of their total work potential during the past year). The total number of people at risk of poverty or social exclusion is lower than the sum of people in the three forms of poverty or social exclusion as some are affected by more than one of these situations. Source: Eurostat.

2.4 Interplay between macroeconomic performance and labour-cost and wage development

Wage development

Table 3 **Average gross monthly nominal wage, Czech Republic, Hungary and Slovakia (national currency)**

	2008	2009	2010	2011	2012	2013	2014 1st quarter
Hungary (HUF)	177 738	183 804	188 048	197 911	208 677	215 676	229 817
Czech Republic (CZK)	22 592	23 344	23 864	24 455	25 112	25 074	24 806
Slovakia (EUR)	723	744.5	769	786	805	824	821

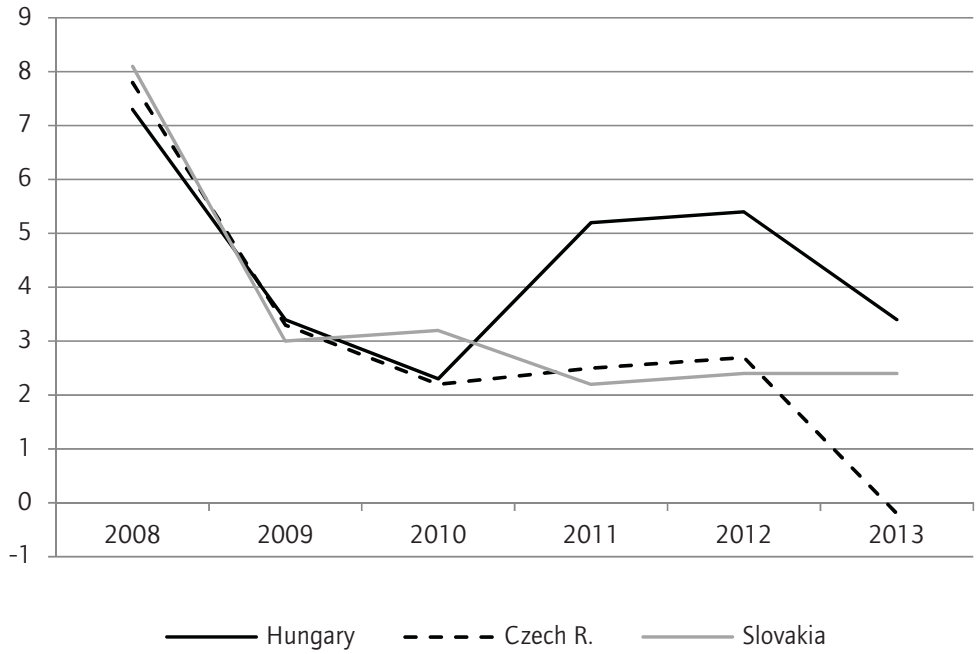
Source: National statistical offices.

Table 4 **Average gross monthly nominal wage, Czech Republic, Hungary and Slovakia (euros*)**

	2008	2009	2010	2011	2012	2013	2014 1st quarter
Hungary (HUF)	706.7	655.7	682.6	708.4	721.4	726.5	746
Czech Republic (CZK)	905.6	883	943.8	994.5	966.6	997	902
Slovakia (EUR)	723	744.5	769	786	805	824	821

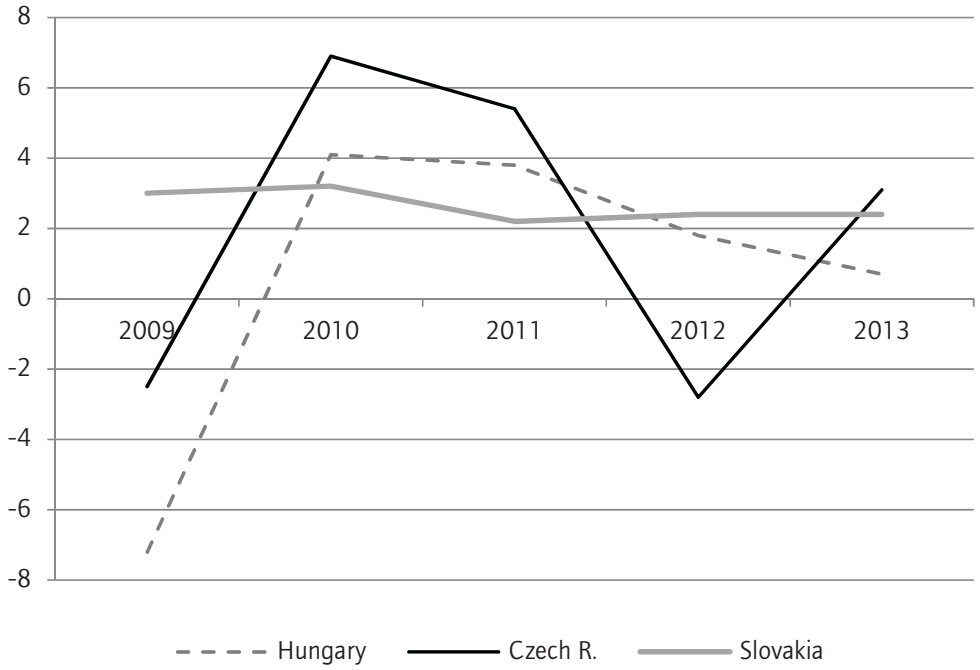
Note: * Calculations based on the tables 'Average gross monthly nominal wage' and 'Exchange rate'.

Figure 11 **Growth of average gross nominal wage in national currency, national economy (%)**



Source: Eurostat.

Figure 12 **Growth of average gross nominal wage in euros, Czech Republic, Hungary and Slovakia (%)**



Note: Calculations based on the table 'Average gross monthly nominal wage'.

In Hungary nominal wage growth in 2009, 2011 and 2012 and (almost) in 2013 matched the wage growth proposal of the national-level social partners; in 2010 the wage increase was slightly less than that proposed.[14]

Since 2008 the effects of exchange rates on wages may be observed only in Hungary and the Czech Republic (as Slovakia has entered the euro zone). The difference in the development of wages in the national currency and the euro was particularly salient following the outbreak of the crisis in 2009. In 2009 the growth of average gross nominal wages in national currency was 3.4 per cent in Hungary and 3.3 per cent in Czech Republic, while wages converted into euros fell by 7 per cent in Hungary and 2.5 per cent in the Czech Republic, indicating wage depre-

14. The National Interest Reconciliation Council –in which the annual wage growth proposal agreements were reached– was abolished in 2011. The new body, the Standing Consultative Forum for the Private Sector and the Government (VKF) made a wage proposal for 2014. For 2013 they did not provide a specific figure, but only referred to the need to maintain the real value of wages during wage bargaining at companies.

ciation (and so of labour costs) in euros;[15] something similar happened in 2012.

Golden wage rule – regulatory tool for the euro zone

In the euro zone – that is, within a monetary union, an economic area without exchange rates – nominal wage setting plays a crucial role in driving or preventing macroeconomic imbalances. Competitiveness is about prices, especially of tradable goods. There is some scope for governments to influence price-setting (for instance, by breaking up or regulating monopolistic structures), but it is rather limited. Empirically (price) inflation in a country is closely correlated to changes in unit labour costs (the growth of money wages minus the rate of productivity growth). To a considerable extent, wages are agreed collectively in most European countries. Thus money wages are a decisive lever. Used intelligently, (nominal) wage policy can help to correct existing imbalances. All that is required, in theory, is to follow a simple rule, the 'golden wage rule' of monetary unions: the rate of nominal wage growth should be lower than indicated by the above formula in deficit countries and higher in surplus countries, so as to bring countries back into equilibrium. This wage norm – nominal wage growth in each country equals medium-term national productivity growth, plus the target inflation rate of the central bank, plus/minus a competitiveness correction in surplus/deficit countries – can be seen as the 'golden rule' of a monetary union. There is one important caveat: in applying this rule, negative nominal wage growth (that is, pay cuts) in deficit countries should be avoided in order to prevent the risk of deflation (Watt 2010). The 'golden rule' as regulatory tool for the euro zone has been promoted by the European Trade Union Confederation (ETUC) as a target for wage bargaining. Among the three countries in focus here, only Slovakia is a member of the euro zone, adopting the euro as its national currency in January 2009. Nevertheless, we also look at the other two countries in terms of the 'golden rule'.

The crisis hit the three countries hard in 2009. Therefore, according to the 'golden rule', both in Slovakia and in the Czech Republic a pay cut would have been expected to take place and almost zero growth in Hungary. Instead, there were nominal wage increases (in national currency):

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15. In 2009 in both countries – particularly in Hungary - the national currencies were significantly depreciated. In 2008 in Hungary the average HUF/EUR annual exchange rate was HUF 251.5, rising to 280.3 HUF/EUR in 2009, while in the Czech Republic the exchange rate for 1 euro was CZK 24.9 in 2008 and CZK 26.4 in 2009.

Table 5 **Wage development required by the 'golden rule' (%; productivity + inflation)**

Golden rule	2008	2009	2010	2011	2012	2013
Hungary	8.6	0.6	5.2	4.3	8.6	2.6
Czech Republic	6.7	-0.9	2.9	3.9	2.6	1.2
Slovakia	6.2	-1.4	5.1	6.1	5.7	4.3

Source: Eurostat.

in Hungary by 3.4 per cent, in the Czech Republic by 3.3 per cent and in Slovakia by 3 per cent.

Concerning Slovakia the biggest gap between the required wage growth according to the 'golden rule' and wage development was in 2011: instead of wage growth of 6.1 per cent wage growth of 2.2 per cent took place. In 2012 the situation was not much better: instead of wage growth of 5.7 per cent wage growth was 2.4 per cent. In 2013 in place of an increase of 4.3 per cent, wage growth of 2.4 per cent occurred. That is, in Slovakia – after entering the euro zone – with the exception of one year (2009) wage increases were far less than the wage development required by the 'golden rule'.

Gross real GDP and real wage growth

Following the outbreak of the crisis in 2009 real GDP decreased significantly – well above the EU28 average – in all three countries, although after 2009 they recovered quickly. In sum, in these countries the crisis only had a short-term effect on GDP. Among the three countries the worst real GDP growth rate was observed in Hungary (–6.8 per cent). Real wage development did not follow GDP with the same intensity. In Hungary in 2009, indeed, we observed a decrease in the real wage, but of only 0.8 per cent. The harsh GDP decline in 2009 had its (delayed) effect in 2010: in this year the gross monthly real wage in Hungary decreased by 2.6 per cent.

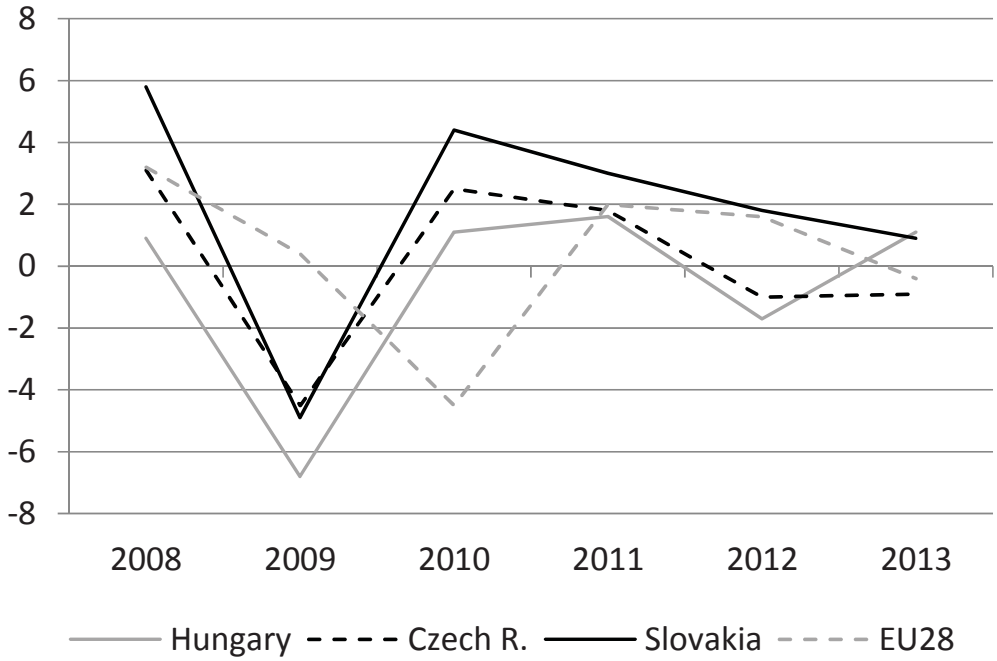
Similarly, in 2012 Hungary and the Czech Republic faced a drop – although not so intensive as in 2009 – in real GDP (–1.7 and –1 per cent, respectively) and a lower real wage decrease (–0.3 per cent in Hungary and –0.6 per cent in the Czech Republic). In the Czech Republic the real wage fall had a delayed effect in 2013 (–1.6 per cent), too.

As we can see, the decrease of real GDP did not cause the same volume of wage decrease: not least because of the (downward) inflexibility of wages. This – the mitigating effect – and also the delayed effect depend on wage bargaining practice and efficiency.

In the recovery period Slovakia experienced relatively major real GDP growth (4.4 per cent in 2010 and 3 per cent in 2011) and lower real wage growth of 2.5 per cent in 2010 and a wage decline (–1.9 per cent) in 2011. The Czech real GDP growth rate was 2.5 per cent in 2010 and 1.8 per cent in 2011, the wage increase also in this case was less than GDP growth, that is 1 per cent (2010) and 0.4 per cent (2011). Hungarian GDP growth was 1.1 per cent (2010) and 1.6 per cent (2011). In 2010 – as we have already seen – Hungary faced a real wage fall (–2.4 per cent) and in 2011 only a slight increase (1.3 per cent).

Real wage growth was slightly higher than real GDP growth in Hungary in 2008 and 2013 and in 2009 and 2012 the wage fall was less than the fall in GDP. In the Czech Republic and Slovakia the same happened in 2009: wages slightly increased, while GDP fell. Further, in the Czech Republic in 2012 the wage fall was slightly less than the decrease in GDP.

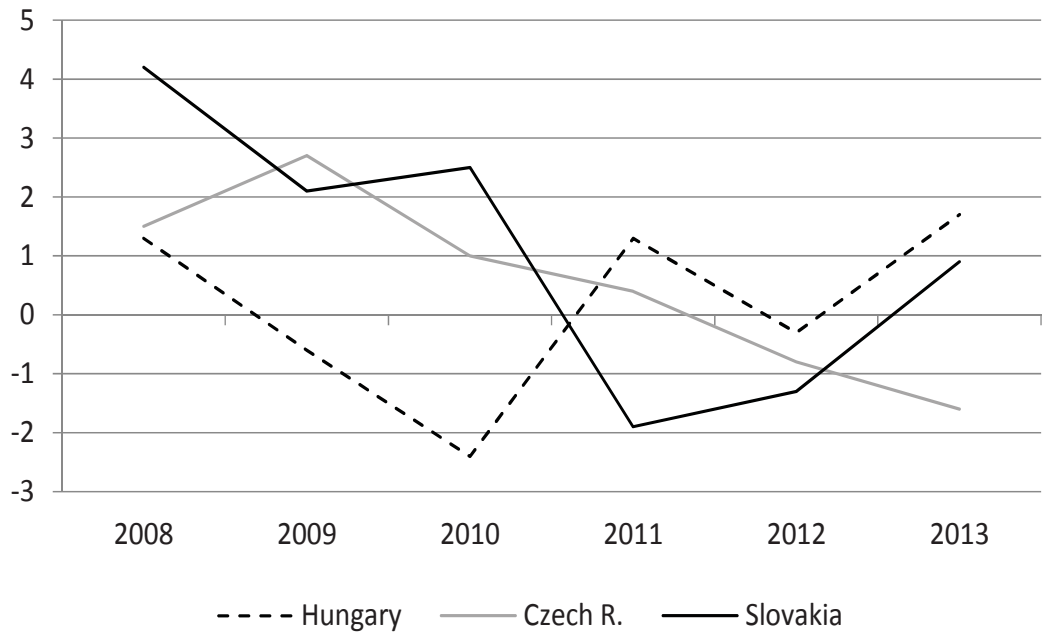
Figure 13 **Real GDP growth rate (%)**



Source: Eurostat.

The real wage increase in general was less than GDP growth and a delayed effect was not observed. This shows the upward and downward inflexibility of wages (see the well-known phenomenon of wage 'stickiness'), but also the bargaining power of the social partners.

Figure 14 **Gross monthly real wage, Czech Republic, Hungary and Slovakia (%)**



Note: Calculations based on tables: 'Growth of average gross nominal wage in national currency' and Eurostat..

Role of the mandatory minimum wage

In all three countries there is a statutory minimum wage. In the Czech Republic the minimum wage is set by the government, while in Hungary it has been – with the exception of a few years – set by tripartite negotiations and made binding by government regulation. In Slovakia the minimum wage is subject to tripartite negotiations, but the institutional mechanism is such that the government may take unilateral action if the social partners do not reach an agreement.

Table 6 **Minimum wage setting**

	Czech Republic	Slovakia	Hungary
National minimum wage	Statutory national minimum wage – no change since 1991	Statutory national minimum wage	Statutory national minimum wage since 1989; since 1992 revised annually
Minimum wage setting	Set by government since 1991. The government determines the amount of the monthly or hourly minimum wage (not the amount of a minimum wage increase).	In some years the national minimum wage was set by agreement but extended and made binding by law (1993–1996; 1991–2001; 2006–2007) or set by government decree (1997–1998; 2002–2005; 2008–2012). 2012: as the social partners were not able to agree on an increase in the minimum wage, the government decided unilaterally.	1992–2011 national minimum wage set by tripartite negotiations in National Interest Reconciliation Council. In July 2011 the National Interest Reconciliation Council was abolished and the new body – the National Economic and Social Council – has only right of proposal. Government decree 390/2012 (20 December) fixed the minimum wage valid in 2013. 2013: national minimum wage for 2014 negotiated in the tripartite body for the private sector (VKF) and made binding by government regulation (government decree 483/2013. XII. 17).

Source: ICTWSS database version 4.0. (2013), 2011.

The statutory minimum wage in all three countries is far below those of the EU15 member states, such as the United Kingdom (1 301 euros a month in 2014) and France (1 445 euros a month in 2014), but also lower than in Poland (404 euros a month in 2014 or Slovenia (789 euros a month in 2014, according to Eurostat). However, purchasing power parity data and the Kaitz index (minimum wage as a proportion of average monthly earnings) highlight the differences across the three countries.

Table 7 **Statutory minimum wage and the Kaitz index**

	2008 (2)	2009 (2)	2010 (2)	2011 (2)	2012 (3)	2013 (1)	2014 (4)
Minimum wage, EUR							
Hungary	274	255	267	279	322	330	328
Czech Republic	335	309	311	326	326	332	310
Slovakia	269	296	308	317	327	337	352
Kaitz index, per cent (5)							
Hungary	38.8	38.3	38.0	38.6	42.5	43.3	–
Czech Republic	40.6	39.1	36.3	35.5	37.8	38.2	–
Slovakia	33.6	35.7	36.0	36.1	35.6	36.0	–

Sources: (1) Eurostat (online data code: earn_mw_cur), (2) ILO Global Wage Database - 2012, (3) Deloitte: European salary survey 2013 European employer pays for the crisis, 4th edition of the European Salary Survey, p. 51 and Deloitte: European salary survey 2012, 3d edition, p. 18 and Deloitte: European salary survey 2012, 3d edition, p. 5, (4) Eurostat, (5) Eurostat.

The 2012 hike in Hungary reflects the above-mentioned changes in taxation; the elimination of the tax-credit was compensated by increasing the gross minimum wage, although the net value of the minimum wage remained unchanged.

In the Czech Republic 2.3 per cent, in Hungary 4.4 per cent and in Slovakia 4.7 per cent of employees earned less than 105 per cent of the monthly minimum wage (October 2010, source: Eurostat).

3. Institutional framework of collective wage bargaining

3.1 National level: fading role of tripartite negotiations

In central and eastern Europe the institution of tripartite social dialogue (between government, trade unions and employers' organisations) plays a more important role than collective bargaining and other forms of bipartite social dialogue. These bodies were created at the beginning of the transition process – that is, at the end of the 1980s and the beginning of the 1990s – to serve as forums for consultation and negotiation on programmes for restructuring national economies on the ruins of the communist regime. According to the ILO they helped governments to un-

dertake painful economic reforms and pass laws (although some of the latter reduced employees' rights from the communist era) without major unrest. Also, they enabled the social partners to access information on government reform plans and thus to participate in shaping them, while at the same time attaining legitimacy and recognition as partners in social dialogue (Casale *et al.* 2001). However, the evaluation of tripartism in the academic literature is far from positive; it is enough on this point to cite the widespread term 'illusory corporatism' coined by David Ost (2000).

In the Czech Republic, the Rada hospodářské a sociální dohody (Council for Economic and Social Accord, RHSD) is the tripartite forum at national level. It was created at federal (Czechoslovakia) and national level (Czech and Slovak) in October 1990. The break-up of Czechoslovakia made no substantial difference; tripartism continued through the Czech and Slovak bodies. The RHSD also provided legitimacy for the social partners, especially for employers' organisations, which were rudimentary at first. This is because on the union side most federations of the old union movement joined the newly founded ČSKOS in March 1990. Thus, in contrast to Hungary's trade union pluralism, the Czech (and Slovak) unions could more or less preserve the unity of the movement (Myant 2000). For instance, KOZ SR, the major Slovakian confederation, brought together 28 sectoral trade union federations in 2010, organising 96 per cent of trade unionists in the country (Cziria 2013). Not incidentally, tripartite negotiations were more important for trade unions in Hungary where from 1988 the Országos Érdekegyeztető Tanács (National Council for the Reconciliation of Interests, OÉT) provided the institutional framework. In all three countries the relevant bodies' consultative agenda embraced a wide range of issues beyond the traditional collective bargaining issues, such as macroeconomic, employment, incomes and social policy. In Slovakia the government and social partners concluded seven tripartite General Agreements ('social pacts') between 1991 and 2000, dealing with major economic and social reforms.

However, the significance of tripartite forums has always been subject to the willingness of governments to enter into negotiations. All three countries witnessed several political 'ebbs and flows', the common pattern being that right-wing governments withdrew from tripartite negotiations, while left-wing successors restored the functions of these bodies. For instance, in the early 1990s in the Czech Republic a series of 'general

agreements' played a major role, which provided a framework for collective bargaining. Between 1995 and 1997, however, the Vaclav Klaus government restricted the agenda of tripartite dialogue, created a new body and no further general agreement was concluded. A similar restriction and revival cycle took place in 2012–2014, when first the discontented trade unions abandoned tripartite talks and then the incoming government restored them. In Slovakia tripartite consultation was also reduced, and its structures were changed during the period of the centre-right government between 2004 and 2006. Nonetheless, following the 2006 election the Economic and Social Partnership Council (RHSP) was re-established and became merely a consultative body making recommendations to the government and no further General Agreement was concluded (Cziria 2013). In Hungary, between 1998 and 2002 the first Orbán government similarly reorganised the tripartite body, but the successor socialist government returned to its original function and institutional framework. However, the socialist-led government later also weakened OÉT when it established a parallel body, the Economic and Social Council (GSZT), which also included civil society organisations, economic chambers and other organisations. With the landslide right-wing election victory in 2010 the second Orbán government eliminated the standing tripartite forum (OÉT) and replaced it with a quarterly convened representative consulting council which includes – apart from the earlier members of the GSZT – churches and ethnic Hungarians in the adjoining countries. The situation changed again in February 2012, when a new tripartite body, the Standing Consultative Forum for the Private Sector and the Government (VKF) was set up to discuss employment issues on the initiative of the social partners. However, only three confederations on each side of the social partners have been invited to participate in this new body and its role is more limited than the former OÉT.

The 2008–2010 economic crisis and austerity packages in connection with macroeconomic stabilisation and convergence with the euro regime were a great challenge for tripartite bodies. During the crisis, which hit all three countries hard, at most there were consultations on government anti-crisis measures in the three countries, conducted in accordance with established consultative routine. The crisis even brought temporary improvements in tripartite negotiations; for instance, in Slovakia a special body, the Council for Economic Crisis, operated for a couple of months (Kahancová 2013). However, there was no coordinated response and a lack of consensus on the measures taken in these

countries, which indicated the overall weakness and fading role of tripartite institutions.[16]

Despite the tripartite bodies' consultative nature, their role in wage determination cannot be underestimated. This holds in particular for setting the national minimum wage. In the Czech Republic the minimum wage was increased annually by the government after consultation with employers and unions from 1998 until 2007, but after the crisis it was frozen until 2013. In Slovakia the minimum wage is set annually following discussions in the tripartite HSR between the unions, employers and government. However, the government can set the rate if the three parties cannot agree.[17] Nowadays a similar regulation on unilateral government intervention is in force in Hungary, too, although it does not include any rule on the calculation of the minimum wage. Nonetheless, from 1990 to 1998 and from 2002 to 2010, formally, the three parties' unanimous decision was needed in the OÉT, and afterwards the government issued a decree in line with the decision. This was the only binding agreement concluded in the body. The OÉT (and its successor the VKF) also issued an annual recommendation for an average wage increase to provide 'orientation' for lower level bargaining. Participation in minimum wage setting was particularly important for Hungarian unions, as it somewhat compensated for trade union weakness in sectoral and company-level bargaining. There were several years before the crisis when the minimum wage increase was far higher than the level that unions could successfully bargain at companies, especially in low-wage indus-

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16. See, for instance, Bohle (2011) on the Hungarian case. The expected consensus with the social partners, a comprehensive general agreement (practically a western European–style social pact) could not be achieved in these countries. According to Meardi (2011): 'In the Visegrád countries (Poland, Czech and Slovak Republics, and Hungary), … public debt (and to a lesser extent inflation) is an open problem, but governments have opted, rather than for social pacts, for two opposite strategies: unilateral enforcement of macroeconomic convergence, at the cost of electoral defeat (Slovakia, Poland and Czech Republic) or a Maastricht-ignoring euro deferral in order to ensure political survival (Hungary). Even more than in the West, then, EMU entry and socio-political stability are mutually irreconcilable: you cannot satisfy at the same time the electorate on one side, and international financial institutions on the other – unless you have an instrument to involve society in the reforms, and make the latter acceptable. This is what social pacts were meant to offer, and why governments should have looked for support from the social partners. However, this has not happened. Social pacts did not occur, or they occurred in one-sided, ineffective ways.'

17. The law consists of a formula for a government-set minimum wage: the new level should be an arithmetical product of the current minimum wage and the index of the annual growth of the average monthly nominal wage in the previous year. Changes in 2008 allowed the government to set a level above this calculated minimum. Nevertheless, due to the impact of the economic crisis, the government did not exercise the option to increase its level above the calculated minimum until 2013.

tries. The national agreement to some extent substituted for the lack of established wage levels tied to qualification and experience in collective agreements, too; from 2007 a special minimum rate was established for skilled workers and a recommendation for employees with a university degree. Similarly, in Slovakia the mandatory minimum wage is set for 12 different levels.

3.2 Legal background of collective bargaining

All post-socialist countries introduced new Labour Codes in the early 1990s as part of the project to create the institutions of a market economy. Dismantling the socialist system meant that trade unions lost some of their former prerogatives, but at the same time new fundamental rights were established – sometimes in the Constitution – such as freedom of association, freedom to take strike action and freedom of collective bargaining. For instance in the Czech Republic common legal provisions on collective bargaining were laid down in the course of general social reforms. Act 2/1991 on Collective Bargaining regulates collective labour relations in both the private and the public sector and has not been substantially modified. The Act regulates collective negotiations between the social partners and requirements and procedures with regard to concluding collective agreements, as well as collective disputes (Kuncová 2010). Although it has been amended many times, the same law (Act No. 2/1991) regulates collective bargaining and conflict resolution in Slovakia. Similarly, in Hungary the 1992 Labour Code regulated such issues in the private sector, but in part of the public sector collective bargaining – where it is allowed at all – is regulated by a separate Act. In this section we cannot follow the fairly numerous amendments of these laws, only highlight the most important issues concerning labour law reform that have emerged in more than one country in recent years.

Flexibility is probably the most frequent buzzword in labour law reforms, especially in legislative changes implemented in the course of the crisis. However, since the mid-1990s in Hungary a series of legislative changes have gradually made greater flexibility possible in working time arrangements, provided that it is negotiated at industry or company level. For instance, the reference period of working time accounts was increased by collective agreement and in this way annualised working time has been allowed since 2001. The 2012 new Labour Code went further, in certain cases, allowing greater flexibility without collective agreements, by

unilateral management decision. In Slovakia also changes in the Labour Code made employment conditions more flexible. Since March 2009, the Labour Code has allowed the implementation of '*flexikontos*' (working time accounts) which, on one hand, help employers to meet fluctuating market demand and, on the other hand, helped to maintain employment during the economic crisis. As a crisis measure it was initially applicable until the end of 2012 but further amendments to the Labour Code allowed its continued implementation (Cziria 2013). Employment flexibility was also fostered by other tools, for instance, by introducing job sharing, abolishing redundancy payments to employees working during their notice period and extending the period for fixed-term employment contracts. Following the crisis, however, from 2013 Labour Code amendments introduced more favourable terms for employees taking redundancy and shortened the maximum period for fixed-term employment contracts by one year.

Possible deviation from the law and from the higher level agreement is another field of reforms also related to the flexibility issue. While to begin with all countries adopted the German 'favourability principle' – company agreements may only improve on what has been stipulated by law or negotiated at industry level – legislation later gradually relaxed this rule. In Slovakia amendments to the Labour Code introduced by the centre-right government in 2011 permitted collective agreements to worsen legal provisions in some areas, such as probation periods and overtime arrangements. However, the government elected in 2012 rejected these changes. Probably the new Hungarian Labour Code (2012) made the most radical changes in this respect; by default, it allows any kind of deviation from the law in terms of individual employment relations, unless the law explicitly prohibits it (by enumerating such exceptional conditions at the end of each section of the law).

Bargaining authorisation of trade unions and, sometimes, of works councils. Initially the countries' Labour Codes considered collective bargaining a basic trade union right; only trade unions had such rights. In the Czech Republic the 2001 amendment introduced works councils in undertakings in which there is no trade union organisation. While in the Czech Republic works councils have only subsidiary status to the trade unions, the latter maintaining a bargaining 'monopoly', in Slovakia –from January 2012 – works councils also had negotiating rights where there was no union present. Works councils could conclude agreements covering the same areas as a collective agreement. In Hungary

the Labour Code amendment that came into effect in 2012 also allowed works councils – which otherwise cannot organise strikes and have a very limited ability to influence employers – to negotiate agreements with the employer, where there is no union authorized to bargain at the workplace. The one important exception is that these agreements cannot cover pay. This is virtually a return to the position under an earlier right-wing government when works councils were given negotiating rights at company level, where there were no unions present – something that was reversed by the socialist government in 2002.

Criteria concerning *trade union representativeness/authorisation to bargain/union pluralism* have been changed several times, too. According to the Czech and Slovak Labour Codes the preferred solution for union pluralism is to negotiate with a joint body if unions agree; otherwise the biggest union has to be recognised as bargaining partner. However, in the Czech Republic legislation which stated that an employer could negotiate with the largest union at a workplace, where there were several and they could not agree, was ruled unconstitutional by the Constitutional Court in March 2008. In Hungary between 1992 and 2012 union rights to negotiate depended on their candidates' support in works council elections. A union needed to get 10 per cent of the votes in the works council elections to be entitled to negotiate. Local agreements could be signed by a coalition of unions in the workplace, provided that together they had the support of at least 50 per cent of the workforce – a measure which encouraged the creation of local union coalitions. If a single union had more than 65 per cent support, it could sign the agreements alone. However, here again the Labour Code has made changes. According to the 2012 Labour Code, now trade unions can conclude collective agreements at company level only if their membership exceeds 10 per cent of those employed at the company. The same 10 per cent rule also applies to industry-level agreements: unions must cover 10 per cent of those employed in the industry to be able to reach an agreement. Setting the representativeness threshold at an even higher level (30 per cent) was on the agenda in Slovakia for a while before the 2012 election.

Trade union protection, support and other rights have also emerged on the legislative agenda. While in Hungary in 2011–2012 legislation substantially undermined unions' operating conditions (legal protection, time-off, essential services during strikes, financial support) and curbed trade union rights in the workplace (Nacsa and Neumann 2013), it is noteworthy that in the Czech Republic even under right-wing govern-

ments there has been no significant attempt to reduce existing legal protection of employee or trade union rights (Myant 2013).

Re-regulation of *extension procedure* is another area of state intervention. In the Czech Republic the rules on extending industry-level collective agreements were revised in 2004, following the ruling by the Constitutional Court. Under the revised procedure, requests to extend collective agreements must be made jointly by the largest union and the largest employers' association in the industry. The extended agreements do not apply to companies employing fewer than 20 employees. In Slovakia the regulations have changed three times in the past decade (European Commission 2013). The centre-right governments in power from 2002 to 2006 and from 2010 to 2012 required the consent of the employer concerned before an agreement could be extended; in other words, they gave the individual employer a clear veto. However, the social democrat-led government, in office between 2006 and 2010, changed the procedure, allowing an extension provided this was requested by one or both of the parties (unions and employers), with the final decision being taken by the government following discussions in the tripartite consultative committee. According to legislation entering into effect on 1 January 2014, extension would be possible again without the consent of the employer. Fundamentally, the different opinions of trade unions and employers on the extension of collective agreements resulted in frequent legislative changes; nonetheless these changes were usually related to the political orientation of the government, too.

Legislation may also change the possible *scope of collective agreements*. In Hungary the new Labour Code introduced significant restrictions on what can be negotiated in state and local government owned companies. In many areas – working time, severance pay, notice periods, industrial relations issues including trade union representatives' rights, protection and time-off – it is not permitted for a collective agreement to include terms that improve on the minimum set out by law.

Since the 1990s in all three countries governments have intervened directly and sometimes strongly in wage bargaining; for example, in Slovakia with regard to extension rules and in Hungary to reshape bargaining authorisation and the scope of collective agreements, as already mentioned. With regard to other labour issues statutory regulations (Labour Code) also come before social partner negotiations. As a consequence, for example, EU-level social partner autonomous agreements are imple-

mented by law rather than by negotiations between the social partners. Nowadays the extent of government intervention in wage bargaining seems to be lowest in the Czech Republic. In the other two countries the government has recently influenced wage bargaining in various ways.

3.3 Collective bargaining structures and coverage

The main measures concerning collective bargaining are fairly similar in the three countries; for instance, the ICTWSS database figures and scores differ only slightly. Employer-organisation and trade-union density, as well as collective agreement coverage are highest in the Czech Republic, lowest in Hungary. (It is worth noting that the claimed 40 per cent density of employers' organisations in Hungary is not a realistic figure; no

Table 8 **Major collective bargaining indicators in Czech Republic, Slovakia and Hungary**

	Employer organisation density	Employees' organisation density	Collective agreement coverage	Dominant level of bargaining	Coordination of wage setting	Government intervention in wage bargaining
Czech Republic	35.0	17.3	40.9	Local or company	2	2
Slovakia	29.2	16.7	35.0	Intermediate (sector and company)	2	3
Hungary	40.0	16.0	33.5	Local or company	2	3

Notes:
Coordination scores:
2 = mixed industry and firm-level bargaining, with no or little pattern bargaining and relatively weak elements of government coordination through the setting of basic pay rates (statutory minimum wage) or wage indexation.
Government intervention scores:
3 = the government influences wage bargaining outcomes indirectly through price-ceilings, indexation, tax measures, minimum wages, and/or pattern setting through public sector wages;
2 = the government influences wage bargaining by providing an institutional framework of consultation and information exchange, by conditional agreement to extend private sector agreements, and/or by providing conflict resolution.

Source: ICTWSS database version 4.0. (2013), 2011.

survey has endorsed this estimate.) While density rates have decreased markedly over the past two decades, bargaining structures have hardly changed over time. Nonetheless, the major difference is Slovakia; here sectoral agreements play a more important role than in the two other countries. The minimum annual wage increase in many sectors is set by multi-employer collective agreement. Despite the prevailing decentralisation trend, in Slovakia during the crisis sectoral bargaining remained intact despite employers' attempts to opt out from sectoral bargaining, calling for 'tailor-made anti-crisis measures'. In the Czech Republic and Hungary bargaining has taken place predominantly at company level.

A similar picture can be seen on the EIRO webpage, showing centralisation and coordination together:

- Czech Republic: intermediate (centralisation), low coordination
- Slovakia: intermediate (centralisation), medium level of coordination
- Hungary: decentralised bargaining, low coordination

Country sources have detailed information on the number of agreements concluded at different levels and their coverage, although it is difficult to harmonise the statistics due to methodological problems (see Box/Annex). In the Czech Republic the number of sectoral agreements concluded has not changed much since 2008 but there has been a substantial increase at company level.

Table 9 **Number of collective agreements in the Czech Republic**

	2008	2009	2010	2011	2012	2013
Number of sectoral agreements	18	18	18	18	19	19
Number of company level agreements	3 155	3 082	4 812	4 904	4 680	4 739

Note: The data are for ČMKOS members only. In 2013 there were five other higher level collective agreements concluded by trade unions that are not members of ČMKOS.
Source: ČMKOS (2013): Zpráva o průběhu kolektivního vyjednávání na vyšším stupni a na podnikové úrovni v roce 2013 (Progress report on higher-level and company-level collective bargaining in 2013). Document discussed at the ČMKOS Assembly, Prague, 19 November 2013.

Coverage figures also come from ČMKOS, the country's largest union confederation. In 2012, 34 per cent of the workforce was covered by 4,655 agreements signed by ČMKOS affiliates at company level and 16 per cent by 19 higher level (sectoral) agreements. (There is an uncontrolled overlap between the two groups. ČMKOS figures do not take into account five agreements signed by other confederations.) The Czech Statistical Office also calculated coverage rates for employers with at least 10 employees. According to the survey, 37.7 per cent of all employees were covered by collective bargaining in 2011, although the position of 29.7 per cent was unclear. According to this source, collective bargaining coverage has declined continuously, from 49.2 per cent in 2005 to 41.2 per cent in 2009.

In Slovakia the number of industry-level collective agreements (higher level collective agreements) was 28, while eight agreements were amended in 2012. Previously, the number of registered collective agreements, including their supplements to previously concluded agreements (usually concerning wages), decreased, from 37 agreements in 2008 to 33 agreements in 2010 and 23 in 2012 (figures provided by Ministry of Labour – MPSVR SR – based on compulsory registration of such agreements). According to KOZ SR, the major union confederation, the overall coverage of sectoral collective agreements is falling because employers are leaving employers' associations. Company surveys by Trexima also show that the proportion of organisations covered by higher level agreements fell slightly between 2008 and 2011, from 40.4 per cent to 38.1 per cent.

At company level the surveys also show declining coverage. Between 2008 and 2011 the proportion of organisations with a company-level collective agreement fell from 35.8 per cent to 34.1 per cent. Nonetheless, this is well below the figure for 2004, which was 50.3 per cent. According to Švec (2013), 'a gradual decline of the representativeness of trade unions and employers' associations can be observed. The reason behind the latter is an ongoing degradation of employers' associations. … Gradually, collective bargaining is moving to the enterprise level, where the employers are stronger compared with the sectoral level. The trend of founding so-called "yellow" trade unions by employers is increasing, especially in companies where traditional trade unions already exist and the creation of direct competition with the support of the employer is damaging the overall image of trade unions in the company.' However, according to other researchers, there is enormous variation across sec-

tors with regard to the importance of sectoral bargaining coordination. In important sectors such as the metal industry the two bargaining levels are complementary; it does not make sense to argue for the prevalence of either sectoral or company-level (Kahancová 2013).

In Hungary the official number of registered agreements and their coverage did not change between 2008 and 2013. (The coverage figures of different levels cannot be added in Table 10 because of the overlaps between the agreements.) However, earlier figures on agreements registered with the Centre for Social Dialogue indicate that collective bargaining coverage fell by 14 percentage points between 2001 and 2012 – from 47 per cent to 33 per cent. The majority of agreements were for a single employer. Almost two-thirds of these agreements were for employers in the public sector, although, in terms of the numbers of employees covered, the proportions are reversed. Figures on multi-employer agreements contain both sectoral ones and agreements concluded by a few companies together. There are only 19 genuine industry-level agreements – that is, concluded by employers' organisations – and despite past efforts by previous governments to strengthen industry-level bargaining, there is no indication that the number is likely to increase. The prevailing attitude of employers is a reluctance to join employers' organisations or to authorise them to conclude industry agreements. Similar to the Czech Republic, however, another data source, the Hungarian Central Statistical Office, produced much lower coverage figures. In the 2009 Labour Force Survey respondents were asked whether their wages or employment conditions were affected by a collective agreement and only 22 per cent answered positively (although a quarter of respondents said they did not know).

Table 10 **Number of collective agreements and their coverage in Hungary**

	2008	2009	2010	2011	2012	2013
Number of multi-employer agreements	80	82	81	81	83	80
Coverage of multi-employer agreements, %	19.13	20.43	19.86	19.94	19.34	19.13
Number of single employer agreements	2 737	2 683	2 706	2 707	2 681	2 683
Coverage of single employer agreements, %	20.80	23.20	27.18	23.52	25,05	24.24

Source: Collective agreement registry, Centre for Social Dialogue.

The use of the extension procedure changes bargaining coverage somewhat. This phenomenon is probably most remarkable in Slovakia, due the recent twists and turns in its legal regulations (although no updated statistics are available on the coverage effect of extension). According to the MPSVR SR, in 2009 there were five extensions, but in 2010–2013 none of the multi-employer collective agreements was extended. In 2012 there was no extension either; the Ministry did not receive any joint written proposal from parties to an agreement. In the Czech Republic the number of employers and employees covered by industry-level agreements has shown greater fluctuations, in part because of changes in the legal rules allowing the government to extend them more widely.

Table 11 **Effects of extension in the Czech Republic**

	2008	2009	2010	2011	2012	2013
Number of employers whose agreements were extended	3 975	4 004	4 828	4 577	4 356	3 919
Number of employees at those employers	607 952	544 649	406 609	347 963	400 781	388 618

Note: Data are for ČMKOS members only.
Source: Czech-Moravian Confederation of Trade Unions (Českomoravská konfederace odborových svazů, ČMKOS): Zpráva o průběhu kolektivního vyjednávání na vyšším stupni a na podnikové úrovni v roce 2013 (Progress report on higher-level and company-level collective bargaining in 2013). Document discussed at the ČMKOS Assembly, Prague, 19 November 2013.

In Hungary, extension has affected only four industries (construction, hotels and catering, electricity and baking) since 1992, when this possibility first appeared in the Labour Code. The last decree on new extension was issued in 2006, for the construction industry, and then one of the oldest extensions was rejected by the employers in the baking industry. According to expert estimates the employment effect of extensions has never exceeded 2 per cent of the labour force.

Contrary to the above statistics, according to trade unions and research findings, collective bargaining coverage, especially that of wage agreements, fell during the economic crisis. In the Czech Republic during the crisis, cooperation between the social partners was preferred to save jobs and trade union wage claims were predominantly moderate. In Slovakia, according to the employers, the decline in coverage of agreements can

be attributed to lower interest on the part of employers to sign up to multi-employer agreements, which increase their labour costs but cannot fully guarantee social peace.[18] Furthermore, while termination of existing agreements is not allowed, amendments are possible only by mutual agreement of the parties to the agreement.

A couple of case studies also investigated changes in wage bargaining during the 2008–2010 crisis. Myant (2013) found that in the Czech Republic decentralised collective bargaining, which had developed over the preceding decades, continued through the crisis, albeit with agreements that were less likely to include pay increases due to the strong pressure from managements for wage freezes or cuts. Workforces often accepted zero pay increases as preferable to reduced employment which, managements indicated, was the alternative. During the economic crisis there was a revival of the 'Švarc system' – replacement of regular employment by bogus self-employment – estimates of which range from 2 to 4 per cent of the labour force. According to Kahancová (2013), in Slovakia sectoral bargaining contributed to a balanced recovery from the crisis more than national-level social dialogue. Instead of accelerated decentralisation, bargaining institutions remained stable during the crisis. In the metal industry, social partners shared an interest in adopting sector-specific anti-crisis employment measures and therefore remained committed to bargaining coordination instead of opting out of sectoral deals. With regard to the bargaining outcome, the agreements tend to develop a sort of dual labour market, protecting skills and shifting the burden of falling production onto precarious and less unionised workers. Neumann and Boda (2011) came up with similar findings in Hungary, where company-level bargaining mainly protected the core workforce at the expense of more precarious workers at suppliers and agency workers. The latter lack union protection in the Czech Republic, too (Myant 2013).

It seems to be a common trend that where bargaining is well-established, there is an immediate shift towards protecting jobs of the core labour force at the expense of peripheral employees and pay increases. The shifts in the bargaining agenda were also similar in the Czech

18. This argument is legally valid; according to the Constitution, employees can go on strike at any time if their right to strike is guaranteed. In practice, however, trade unions find it very difficult to organise because strike days are unpaid and employees have to cover their own health insurance contributions, which discourages many from taking part in strikes (especially in high-unemployment and low-income regions).

Republic and Hungary: shortened working time and working time accounts (*flexikonto*) were the key issues.

While the Czech Republic and Hungary are characterised by mixed industry and mostly firm-level bargaining, in Slovakia multi-employer and sectoral bargaining are well established and complement firm-level bargaining. Their systems are uncoordinated, lacking pattern bargaining and government coordination is also relatively weak due to the statutory minimum wage. However, surprisingly little is known about the coordination of wage bargaining. Czech and Slovak sources often mention the favourability principle that strictly regulates the hierarchy of agreements and excludes opt-outs. This is declining in Hungary because labour legislation increasingly allows deviations from the legal minimum, to the detriment of employees. Institutional coordination of wage bargaining has been operating in Hungary through the recommendations issued at national level. In Slovakia coordination of wage bargaining between most relevant sectors was initiated in 2013 via a new cross-industry bipartite social dialogue. It is assumed that informal practices are also used to coordinate wage increases agreed at sectoral level, which takes actual wage levels in the covered companies into account. The agreed wage increases at sectoral level are thus often very low, which relieves the burden on employers, even in the car industry, with a wide wage gap between large multinationals such as VW and smaller supply firms. However, concerning the other side of the bargaining table, sectoral studies reveal that Slovakia has reasonably well established bargaining coordination through decent sectoral employers' organisations (Kahancová 2013).

Interestingly none of the investigated countries witnessed changes due to the EU's new economic governance regime (Euro pact or Euro plus pact.) At least, the responses to the EIRO questionnaire 'Changes to wage-setting mechanisms in the context of the crisis and the EU's new economic governance regime' excluded such developments, even in euro-zone member state Slovakia.

4. Collectively agreed wages

4.1 Conceptual problems of 'collectively agreed wages'

All three countries distinguish between collective agreements and wage agreements. This is most marked in Hungary: collective agreements are

valid for 3–5 years or are concluded for an indefinite period, while wage development is agreed annually and parties sign separate wage agreements, although in theory their legal force is identical to collective agreements. In the Czech Republic, agreements with stipulations on wage development varied between 42 and 74 per cent, which is the highest share among the investigated countries. During the economic crisis employees were not offered wage increases and trade unions' pursued wage moderation with a view to saving jobs. Provisions for a company minimum wage are fairly rare. The number of such agreements decreased substantially between 1993 and 2007, from 33.7 per cent to 27.7 per cent. Interestingly, since 2008 a slight increase has been recorded.

Table 12 **Collective agreements regulating wage developments in the Czech Republic (% of agreements)**

2005	2006	2007	2008	2009	2010	2011	2012	2013
65.5	68.6	66.4	74.0	59.2	42.4	56.1	59.7	59.4

Source: Informačný systém o pracovných podmienkach – ISPP (Information System on Working Conditions) issued by the Slovakian Ministry of Labour, Social Affairs and Family (MPSVR SR) and Trexima 1993–2001, 2012, 2013.

In Slovakia the Trexima survey allows us to estimate the share of wage agreements. Although the overlap between different levels of collective agreement cannot be taken into account, the survey clearly indicates the declining share of organisations with collective agreements during the crisis and the extremely low level (3.7–6.3 per cent) of agreements on wage increases.

Table 13 **Penetration of single and multi-employer collective agreements in Slovakia (% of organisations)**

	2008	2009	2010	2011	2012	2013
Organisations with company-level collective agreements	35.8	34.0	34.6	34.1	–	32.3
Organisations covered by multi-employer collective agreements	40.4	38.1	36.9	38.1	–	–
Agreed average wage increase	36.7	23.5	27.2	13.5	–	–
Agreed average nominal wage increase	6.3	5.4	3.5	3.7	–	–

Source: Eurofound (2011), ISPP Slovakia 2013.

The Hungarian case clearly shows the dramatic decline in the number and coverage of annual wage agreements between 2001 and 2008, especially in company-level bargaining. Unfortunately, there is a break in official statistics at 2009, since when much higher figures are found. In recent years, data processing has been based on collective agreements' 'provisions on wages', which in practice means wage premiums for different working conditions (overtime, shift-work, on-call, work at weekends), and/or multipliers in collective agreement scales, although the latter is very rare in Hungarian collective agreements. Obviously this does not concern the annual wage agreement, which was registered until 2008 and the focus of our scrutiny. Nonetheless, this statistical bias –which nobody appears to have noticed before– indicates that collec-

Table 14 **Wage agreements and their coverage in private sector, Hungary***

	Multi-employer agreements			Single employer agreements	
	Number of agreements	Number of employers covered	% of employees covered	Number of agreements	% of employees covered
2001	19	181	3.6	471	13.7
2002	18	172	4.0	531	14.9
2003	22	243	4.7	545	16.8
2004	19	145	1.3	515	18.1
2005	40	145	1.8	298	8.8
2006	44	162	2.2	302	7.8
2007	40	147	1.7	214	8.9
2008	45	150	2.1	202	5.1
2009	62	2 350	10.5	785	20.7
2010	68	2 460	11.6	905	22.7
2011	68	2 199	9.7	888	22.5
2012	73	1 942	10.5	863	22.9
2013	74	1 096	8.8	874	23.2

Note: * Until 2008, the data relate to the number of 'wage agreements' concerning the next year's average wage increase, in the typical case. In and after 2009, the figures relate to stipulations within collective agreements, which affect the remuneration of workers (including long-term agreements on wage supplements, bonuses, premia, non-wage benefits and rights and responsibilities connected with wage payments).
Source: Collective agreement registry, Centre for Social Dialogue.

tively agreed wages are far from being the focus of economic policy or academic interest in Hungary, despite the hype concerning 'competitiveness'. As mentioned in our methodological annex, the agreed values of wage agreements have not been processed since 2004. Interestingly, in the early 1990s wage agreement statistics were published because at that time governments were worried about wage inflation, following the elimination of central administrative wage control inherited from state-socialist economic governance. As to the other countries, collectively agreed wages are of most interest in the Czech Republic, while Slovakian statistics and economic analyses focus on labour cost development as a component of competitiveness.

It is difficult to discuss collectively agreed wages in these countries. First of all, because annual wage agreements with wide coverage exist only in

Table 15 **Collectively agreed nominal wage increases in selected sectors (%)**

	Czech Republic			Slovakia			Hungary
	All	Metal	Civil service	All	Metal	Local government	All, recommended range by OÉT/VKF
1999	8.2	7.9	11.1	–	–	–	12.0–15.0
2000	5.1	5.1	6.9	–	–	–	8.5–11.0
2001	5.2	5.3	14.6	–	–	–	no agreement
2002	5.2	5.2	9.8	–	–	–	8–10.5
2003	4.1	4.1	8.5	–	–	–	4.5 real wage
2004	3.8	3.8	7.2	7.0	7.0	7.0	7.0–8.0
2005	3.9	3.9	5.5	6.0	7.0	4.0	6.0
2006	3.9	4.0	5.1	5.8	5.8	6.4	4.0–5.0
2007	4.2	4.2	4.9	6.4	6.5	6.5	5.5–8.0
2008	5.4	5.8	4.1	6.3	7.1	4.4	5.0–7.5
2009	4.4	4.0	4.5	5.4	5.0	5.5	3.0–5.0
2010	3.1	2.8	4.2	3.5	3.5	1.7	0.0 real wage
2011	2.9	2.9	–	3.7	3.7	3.4	4.0–6.0
2012	2.8	2.8	–	3.6	3.6	2.8	no agreement
2013	2.8	–	–	3.5	–	–	0.0 real wage

Source: Eurofound EurWork Collective wage bargaining database.

the Czech Republic; their coverage is much narrower in the other countries. Second, the available data sources are not appropriate for the evaluation of agreed wage development, especially in Hungary since 2009. Nonetheless, the Czech and Slovak sources are sufficient for indicating the annual agreed increase for the whole economy and for certain industries. Hungary is the most problematic case, as we know that the coverage of genuine wage bargaining at sectoral and company level is very small; moreover, the statistical data are missing or biased. That is why at most the annual wage increase recommendation can be used (typically a range of nominal or real increases), issued by the national tripartite forum.

Box 1 **Different methodologies for collecting data on collective agreements and collectively agreed wages**

In the *Czech Republic* the Ministry of Labour and Social Affairs (MoLSA) annually publishes statistics on collective agreements (see: http://www.mpsv.cz/en/3390 or http://www.kolektivnismlouvy.cz/indexEN.html). The actual data provider is Trexima s. r. o., Zlín, which runs the Information System on Working Conditions (ISWC; Informacní systém o pracovních podmínkách, ISPP). This system is not a full register; it is claimed to be a regular annual survey of wage and working conditions negotiated in collective agreements for the relevant year. However, the sample lacks any representativeness criteria, thus the database is rather a collection of all available agreements. The input data are basically entered into the system electronically by means of the acquisition programme EKS; in other words, the participating 25–27 trade unions themselves upload the data from their agreements. ISWC has been updated every year continuously since 1993, therefore 'panels' of collective agreements are available. The rest of the data come from direct collection of collective agreements. The data collection embraces both company and sectoral collective agreements. The scope of the data collection is wide, including wages and tariffs, employee remuneration, annual bonuses, working hours and holidays, changes in employment, working conditions, wage supplementary charges and other wage components, cooperation of contracting parties, employment rate, personnel development, fair treatment, health and safety. The database is divided into agreements concluded by private companies and public service and administration organisations (on the latter there is only limited information) Although the size of the database is impressive (in 2013 1 727 company-level collective agreements from 26 different trade unions, and 22 higher level collective agreements), it is difficult to obtain coverage data (in terms of the percentage of the whole working force/all employers) and data on provisions. Trexima publishes the results of data

processing annually; the numerous tables contain the major data of wage agreements and other issues agreed. They include detailed data on collectively agreed annual wage tariffs. However, the published figures mainly show the penetration rate as a percentage of all (collected) agreements, simple (non-weighted) averages of agreed values or the tables arranged by trade unions and by regions. Trexima publications lack averages for industries and for the whole economy, although it is possible to obtain them, as they appear in the publications of MoLSA and on the EIRO webpage.

In *Slovakia* data on collective agreements come from the Information System on Working Conditions (ISPP) Trexima, s.r.o Bratislava (www.trexima.sk); annual results are published on the website of the Ministry of Labour, Social Affairs and Family (MPSVR SR). (In Slovakian only: Informacný systém o pracovných podmienkach v roku 2013; www.trexima.sk/new/download/ISPP_2013.pdf.) Contrary to the Czech case, the Slovakian survey has a pre-defined representative sample of selected companies with and without collective agreements. For instance in 2011 it embraced 5 088 organisations with 809 503 employees, which amounts to 34 per cent of total employment in the economy. Naturally, only a fraction of such organisations have local collective agreements, their number being about 1 600–1 800 (it fluctuates a little in individual years), covering about 250 000–270 000 people. The Trexima survey in certain years also includes other information on company-level industrial relations, for instance, the presence of trade unions and works councils, whether the organisation is covered by company level and/or multi-employer collective agreements, whether a union office is provided by the employer and the trade union chair is paid by the employer, trade union benefits for members, employer's deduction of union dues. However, the survey focuses mainly on labour costs and their various components (wage tariffs, minimal hourly wage, various wage supplements, contribution to different insurance funds, occupational safety and health costs, the cost of company welfare/Social Fund, severance pay). The annual publication includes numerous tables; they include detailed data on collectively agreed annual wage tariffs. However, the figures in the tables show the percentage of each item in the sample, or the simple (non-weighted) average of values; there is no coverage information. No information is available about the share of surveyed collective agreements in all collective wage agreements. Most of the tables show the results by trade unions and by industries. The Ministry of Labour, Social Affairs and Family (MPSVR SR) maintains a register of sectoral agreements, the text of the agreements are downloadable from the webpage (only in Slovakian). In 2012 a total of 18 sectoral (master) collective agreements were filed at MOLSAF, as well as five addenda to the agreements.

In *Hungary* only sectoral and company-level annual wage agreement data were collected and the related statistics were published annually between 1992 and 1996. The

system was changed in 1997, when a government decree required compulsory registration of collective agreements. First the register was run by the Ministry of Labour, now the successor Information System for Labour Relations (Munkaügyi kapcsolatok információs rendszere) is run by the Social Dialogue Centre of the national headquarters of the public labour administration (www.mkir.gov.hu). In theory it should be a full register of all single-employer, multi-employer and sectoral agreements, separately in the private and public sectors, also showing the chronology of events (concluding new agreements, amendments and termination), both for currently valid and terminated agreements. For data input the Ministry issued a very detailed questionnaire on the contents of the agreements. However, in practice the register fails to provide reliable information mainly due to the very low level of compliance. Although a decree requires the reporting of all events, in practice there is no sanction for non-compliance. Another problem stems from the inappropriate treatment of stock and flow data in the register: if a sector/company once registers its agreement it is deemed to be valid until its termination is reported or until expiry in case of contracts for a limited period. As a consequence, the register still contains a large number of agreements last reported more than 10 years ago. Even if these agreements formally exist, their outdated stipulations are hardly useful at the workplace due to the changing legal background or consumer price inflation in case of wage agreements. Even if compliance is better, flow information are missing, for example, the number of agreements containing changes in a certain period.

Until 2004 the Ministry published annual reports (in Hungarian only) on collective agreements and wage agreements, which contained detailed tables on the number and coverage of different agreements, penetration of different provisions and agreed wages (annual increase, company minimum wage, wage tariffs, non-wage elements of remuneration). Since then, only the list of registered collective agreements and on-line tabulation on the number and coverage of different agreements and the penetration of various provisions are available. Unfortunately such predefined tables do not include collectively agreed wages for a couple of years. (The latest available data on wage agreements refer to 2004.) Extended sectoral collective agreements and the related administrative documents are also available on the webpage of the registration system. Texts of other agreements are rarely available, as it depends on the parties whether they consider them public or confidential.

4.2 Labour economics research about the labour market impact of collective bargaining

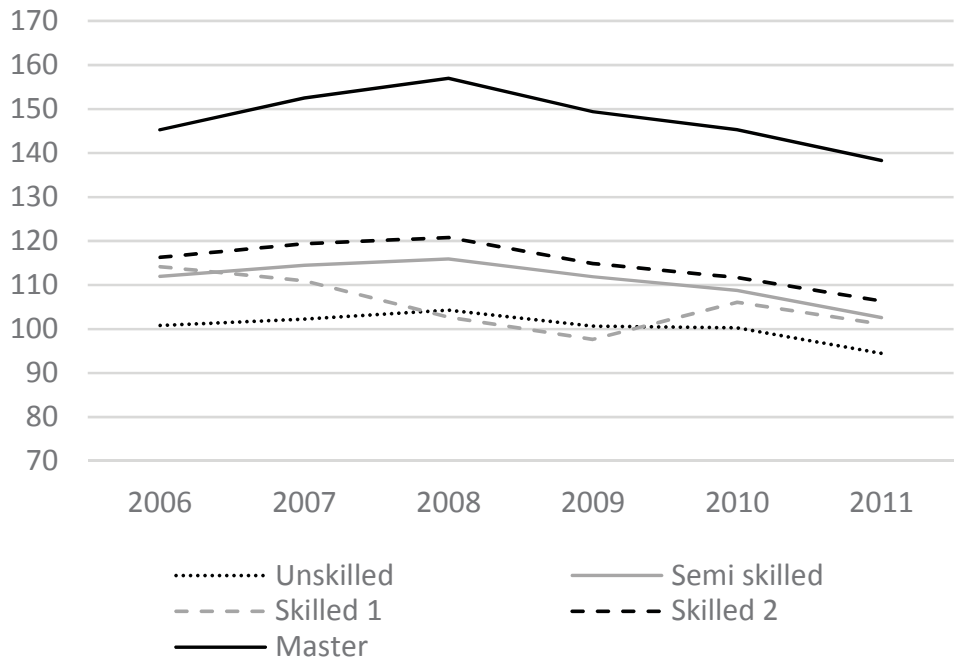
Academic research uses data on collective agreements in many ways. A simple research design compares statutory minimum wages and collectively agreed wages and investigates whether unions are able to use the leverage of the national minimum wage. For instance, such findings on Hungary clearly demonstrate the political influence –the will of the government to intervene– on national minimum wage agreements and extension in the case of the construction industry. Skilled workers and masters' premiums grew when the government pushed the social partners to reach agreement; then, as the crisis unfolded and the government's legitimacy eroded, the premium gradually vanished.

Several sets of statistics use a simple approach to investigate wage drift, namely the gap between agreed wages and actual wage developments. More sophisticated research designs, using large, matched employer–employee datasets, investigate the union wage gap, that is, the individual wage differences between unionised and non-unionised settings, while several individual and company variables are controlled for (Neumann 2002; Rigó 2013). For instance, Magda *et al.* (2012) found in the Czech Republic, Hungary and Poland that sectoral agreements increase wages for low-skilled workers, while company agreements increase medium- and high-skilled wages. However, the union wage premium is unevenly distributed between cohorts, with substantial cross-country variation. Wage premiums are concentrated in the transitional cohorts in the Czech Republic and Poland and, to a lesser extent, in the pre-transitional cohort in Hungary.

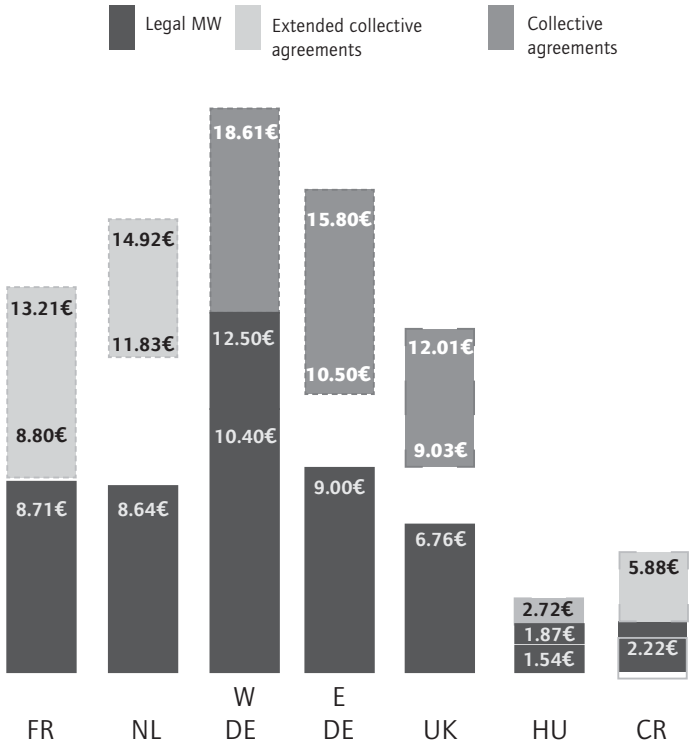
Although not directly, collectively agreed wages were investigated by Gal *et al.* (2013); their results are strongly correlated with the unions' weak bargaining power in Hungary. There, labour market institutions and the level of employee protection allow companies to pursue wage-adjustment strategies. Following the global crisis of 2008, while wage adjustment was most significant in Hungary among the 24 investigated OECD countries, employment adjustment was last but three. (Unfortunately the Czech Republic and Slovakia are missing from the sample).

Figure 15 **Interplay between minimum wage and agreed wages (construction)**

15a Hungary: differences between sectoral wage tariffs and statutory minimum wages (%)



15b International comparison of sectoral agreements (2010)



Source: Bosch *et al*. (2012).

Conclusion

The three countries have similar historical, political and economic backgrounds. Current economic development trends also show a lot of commonalities. They are still low wage countries in comparison with the EU average, and wage and social harmonisation, strongly expected at the time of EU enlargement, has been fading. On the other hand, this does provide them with something of a comparative advantage: low labour costs and relatively well qualified workers. While the relative gap in wage costs between the euro zone and Hungary widened from 2008 to 2013, the gap fell slightly with regard to Slovakia and the Czech Republic.

In all three countries, although in different ways, successive governments have deliberately used income policy tools in relation to which the social partners have little or no influence, such as taxation, minimum wage setting and regulation of social transfers. Though institutionalised tripartite bodies of social dialogue exist in all three countries, with regard to wage determination policies ideological and political standpoints are sometimes stronger than economic necessities; the national-level tripartite dialogue is driven by political forces and interests rather than by economic needs. There are many examples of the ruling political forces being unwilling (or only formally) to negotiate with the social partners.

As far as the social cost of pursuing low wage policies is concerned, income distribution is highly unequal, particularly in Hungary and Slovakia (not least due to the introduction of flat taxation). The Gini coefficient of disposable income (after taxation and transfers) shows significantly increasing inequality particularly in Hungary and stagnation in Slovakia and the Czech Republic between 2008 and 2013. The proportion of people at risk of poverty is much higher in Hungary than in the other two countries. In this respect the Czech Republic is in the best situation, also in comparison with the EU average. (While in 2011/2012 the proportion of severely materially deprived people was around 6 per cent in the Czech Republic and 10 per cent in Slovakia, in Hungary around 25 per cent of the population was affected.)

In these countries both trade unions and employers' organisations are relatively weak; their organisational strength is even decreasing. Not surprisingly the level of industrial action is comparatively low. In the Czech Republic and Hungary bargaining takes place predominantly at company level. Despite the prevailing decentralisation trend, in Slovakia

during the crisis sectoral bargaining remained intact, although employers attempted to opt out from sectoral bargaining as they communicated to adapt 'tailor-made anti-crisis measures'. According to trade union sources and research coverage of collective bargaining, and especially that of wage agreements, decreased during the economic crisis.

Collectively agreed wages are of policy relevance mainly in the Czech Republic, while Slovakian statistics and economic analyses focus on labour cost development as a component of competitiveness. Nonetheless, Czech and Slovak sources are sufficient for indicating the annual agreed increase for the whole economy and for certain industries. In this respect Hungary is the most problematic case, as we know that the coverage of genuine bargaining on annual wage increases is very small at sectoral and company level; moreover, statistical data are missing or biased.

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Annex

Inflation, annual average rate of change (%)

	2008	2009	2010	2011	2012	2013
Hungary	6.0	4.0	4.7	3.9	5.7	1.7
Czech Republic	6.3	0.6	1.2	2.1	3.5	1.4
Slovakia	3.9	0.9	0.7	4.1	3.7	1.5

Source: Eurostat.

Labour productivity per hour worked (% change over previous period)

	2008	2009	2010	2011	2012	2013
Hungary	2.6	–3.6	0.5	0.4	2.9	0.9
Czech Republic	0.4	–1.5	1.7	1.8	–0.9	–0.2
Slovakia	2.3	–2.3	4.4	2.0	2.0	2.8

Source: Eurostat.

Exchange rate (annual averages, national currency/EUR)

	2008	2009	2010	2011	2012	2013	2014 1st quarter
Hungary (HUF)	251.51	280.33	275.48	279.37	289.25	296.87	307.90
Czech Republic (CZK)	24.95	26.44	25.28	24.59	25.98	25.15	27.50
Slovakia (SKK)	31.26						

Source: UNECE 2014.

Average gross monthly nominal wage (national economy, and national currency)

	2008	2009	2010	2011	2012	2013	2014 1st quarter
Hungary (HUF)	177,738	183,804	188,048	197,911	208,677	215,676	229,817
Czech Republic (CZK)	22,592	23,344	23,864	24,455	25,112	25,074	24,806
Slovakia (EUR)	723	744.5	769	786	805	824	821

Source: National statistical offices.

Growth of average gross monthly real wage (national economy, %, other sources)

	2008	2009	2010	2011	2012	2013
Hungary	1.3	–3.5	–3.4	1.3	–0.9	1.7
Czech Republic	0.7	0.2	–0.7	–6.4	–	–
Slovakia	3.5	3	2.7	–1.1	–	–

Source: Hungarian Central Statistical Office; ILO Global Wage database.

Chapter 6
Multi-employer bargaining in the UK – does it have a future?

Lewis Emery

1. Introduction

The 2008–2009 crisis gave the green light to an approach to public policy in the European Union that sees collective bargaining as part of the problem rather than a solution to economic recovery. Alongside its European Semester process and country-specific recommendations the European Commission (2012) highlighted reforms 'likely to increase employment' as including government interventions or tripartite agreements to decrease bargaining coverage or decentralise the bargaining system. The Great Depression of the 1930s may have inspired a dominant system of multi-employer bargaining (MEB) in most Western democracies (Visser 2013) but the first great recession of the twenty-first century looks like having the opposite effect.

In the United Kingdom the form and role of collective bargaining has not been part of the official dialogue about economic recovery. Country-specific recommendations for the United Kingdom (themselves all but invisible in its national political life) have addressed mainly exports, housing, household debt, infrastructure, child care and skill gaps. In the latest Council Recommendation (2014/C247/26) 'lower-than-expected growth due to constrained wages curtailing private consumption' was identified as a risk to budgetary projections, but the United Kingdom's wage-setting system itself warranted no comment.

It may be that the Commission had no interest in exploring the United Kingdom's 'constrained wages' because collective bargaining already plays a much more limited role in private sector pay setting than is typical in many other EU countries; and where it does take place it is generally already decentralised to firm or workplace level. Brown *et al.* (2008), who offer one of the most recent accounts of how UK employers

brought pay determination 'in house', argue that multi-employer bargaining 'shrank at a much faster rate than collective bargaining per se'.

The decline and decentralisation of UK collective bargaining received plenty of comment and academic discourse in the past (for example, Daniel and Millward 1983) but it has recently begun to attract renewed attention in the context of declining real wages and increased inequality following the recession (Ewing and Hendy 2013; Onaran 2014).

For the 2010–2015 Conservative-led coalition government, and for the top-level UK employers' body (the Confederation of British Industry, CBI) multi-employer or sector-level bargaining was not really on the radar. In a comment for the Collectively Agreed Wages in Europe (CAWIE) project, Rob Wall (CBI), Head of Education and Employment Policy said:

> 'While multi-employer bargaining is prevalent in large parts of the public sector it has limited relevance in the private sector. In some industries, where it makes sense, multi-employer bargaining still persists but the presumption is that bargaining usually takes place at company level. Efficient – and that means local, responsive and flexible – labour markets benefit both employers and employees. They help the UK become more productive and provide choice and flexibility for employees.'

But on the union side the decline in bargaining coverage and membership has a sectoral, multi-employer dimension, allied to concerns about the weaknesses of UK law on recognition and negotiating rights (Moore *et al.* 2013). Carl Roper, a national organiser at the TUC made the connection, shortly after the 2010 general election:

> 'It locks us in to workplace by workplace campaigns, which for individual employers makes them potentially uncompetitive in their sector and makes them resist unionisation. Plant-by-plant organising is also very resource intensive so there's a disincentive for the employer to be neutral and a disincentive for the union as it is expensive and there is no guarantee of success.' (LRD 2010a)

From that perspective, the previous Labour government's term in office looks like a 'missed opportunity for the value of sectoral bargaining'.

However, historical accounts of the decline in bargaining and in particular of multi-employer bargaining in the United Kingdom (Milner 1994; Gospel and Druker 1997) reveal it to have been a more dynamic process than is often perceived; an ebb and flow between centralised and decentralised pay-setting. Even the high point for collective bargaining in Britain was characterised by many levels of pay determination (Daniel and Millward 1983).

The long-term direction of travel away from multi-employer bargaining in the United Kingdom up to this point is clear but the impulse to collectivise the relationship between employers and trade unions has not entirely disappeared, even in the private sector.

2. Overview of the development of collective bargaining in the United Kingdom

Any debate about pay setting in the United Kingdom has to start from its shrinking union membership and declining bargaining coverage. Total union membership almost halved from a high of 13.2 million in 1979 to 7.9 million in 1999–2000, before levelling off (see Figure 1). Employee membership (GB) fell from 8.7 million in 1989 to 6.76 million in 1999, remaining at around that level until the recession hit, although rising employment meant that membership density continued to decline (Figure 2). After some further decline membership stood at 6.21 million in 2013 (6.45 million UK employee members).

The correlation between union density and levels of bargaining coverage is generally weak under conditions of sectoral bargaining as low density can go together with high coverage (Visser 2013). However, in the United Kingdom collective bargaining coverage followed union membership on a declining path. Having peaked at 70 per cent in the 1970s and early 1980s (Van Wanrooy *et al.* 2013), by 1996 it had fallen to 36.0 per cent of employees and by 2013 to 29.5 per cent (see Figure 2).

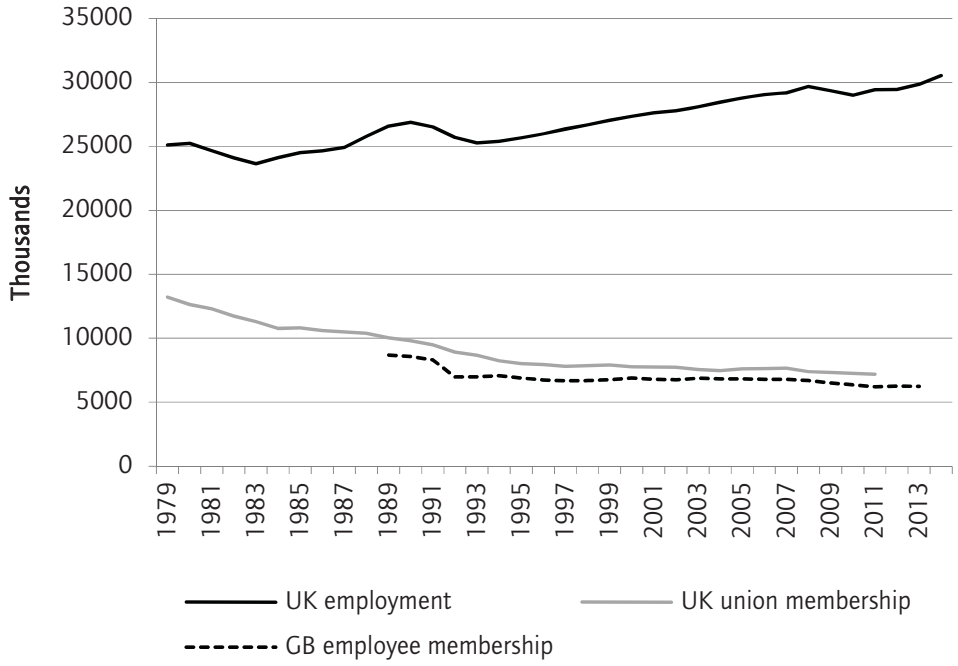
A huge gap has developed between the private sector, with coverage of 16.6 per cent and membership density of 14.4 per cent, and the public sector, with coverage of 63.8 per cent and membership density of 55.4 per cent. UK public sector coverage is more reminiscent of countries with strong MEB bargaining (Keune and Vandaele 2012, citing Visser 2011) and indeed that is largely still the case (although pay setting also

involves a number of Pay Review Bodies that advise the government on a range of public sector pay settlements[1]).

Behind these headline figures, collective bargaining coverage remains higher in workplaces with 50 or more workers. By industry, it is high in the privatised energy and water companies, confirming that collective bargaining can remain dominant without MEB bargaining if membership density is high enough (Kersley *et al.* 2004). There's a similar, if less marked pattern in transport and storage and in finance, neither of which is now subject to MEB bargaining.

Coverage is apparently lower in construction, despite its many large and small MEB agreements; as well as in manufacturing, in which multi-employer bargaining persists in pockets; and in wholesale/retail, in which

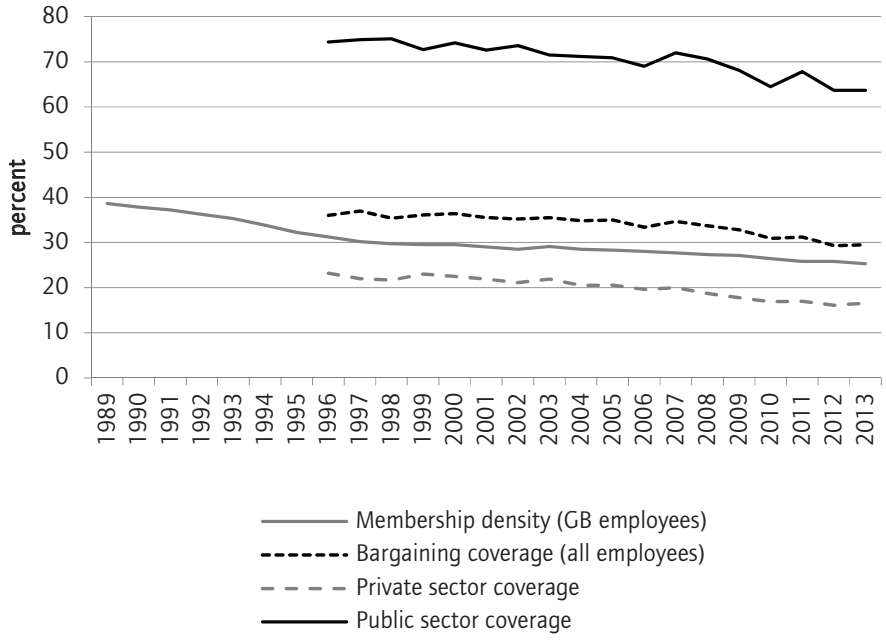
Figure 1 **Employment and trade union membership**



Source: Trade Union Statistics, Department of Business, Innovation and Skills (2014).

1. In 2014 eight Pay Review Bodies (PRBs) were advising the government in its pay setting, taking evidence from stakeholders, which usually include the well-organised public sector unions; collective bargaining on terms and conditions can take place in parallel, or replace PRB recommendations (as in the NHS 2014–2015).

Figure 2 **Union density and bargaining coverage**



Source: Trade Union Statistics, Department of Business, Innovation and Skills (2014).

the big retail chains recognise unions nationally on a company-by-company basis. It is largely absent from some other sectors.

These figures – published by the Department for Business, Innovation and Skills – are drawn from the household-based Labour Force Survey (LFS). There is evidence (from the employer-based Annual Survey of Hours and Earnings, ASHE) that bargaining coverage is higher than the LFS suggests. In 2011 ASHE results indicated that 46.9 per cent of employees had their pay set 'with reference to an agreement affecting more than one employee', 27 per cent in the private sector and 91.9 per cent in the public sector (BIS 2013). There are a variety of possible reasons for these higher figures (including the role of public sector Pay Review Bodies), but one is that they reflect agreements reached at a higher level than the workplace, which householders in the LFS survey were less aware of.

3. Scope and coverage of multi-employer bargaining

The general decline in bargaining coverage in the United Kingdom has been attributed to a variety of factors. Brown *et al.* (2008) highlight a

tendency by employers not to recognise unions in newly-established workplaces and the unions' inability to extend recognition among continuing workplaces. They point to implicit de-recognition (a reduction in the range and intensity of negotiations); and a fall in private sector collective bargaining associated with increases in the proportion of women and non-manual workers employed.

Nevertheless, they say that only around a tenth of the decline in workplace collective bargaining in the private sector could be put down to compositional change (the decline in manufacturing industry and large workplaces). Increased competition is seen as a strong influence.

However, the key to a high bargaining coverage rate seems to be multi-employer bargaining (Visser 2013) and it is that which has disappeared fastest in the United Kingdom, according to the influential Workplace Employment Relations Survey (Brown *et al.* 2008). In the latest survey (Van Wanrooy *et al.* 2013) 43 per cent[2] of public sector workplaces set pay for at least some of their workers through multi-employer bargaining, but in the private sector the figure was just 2 per cent, as it was in 2004. To put that into context, only 7 per cent of private sector workplaces used any kind of collective bargaining to set pay but they accounted for almost a fifth (19 per cent) of employees (the 2011 WERS survey included very small workplaces with as few as five employees, where collective bargaining is known to be less likely).

The WERS surveys have been criticised for fostering an 'extreme' view that collective bargaining has 'almost entirely withered away in the private sector' when in fact it continues in many large and medium-sized private sector organisations (Incomes Data Services 2008). Earlier WERS surveys (based on workplaces with 25 or more employees) indicate that the big fall in the proportion of private sector workplaces covered by MEB bargaining can be traced back to the 1980s when it dropped from 18 per cent in 1984 to 9 per cent in 1990 and then to 3 per cent in 1998 and 2004.

The number of agreements included each year in the Labour Research Department's annual Pay Survey point to a rather more prolonged

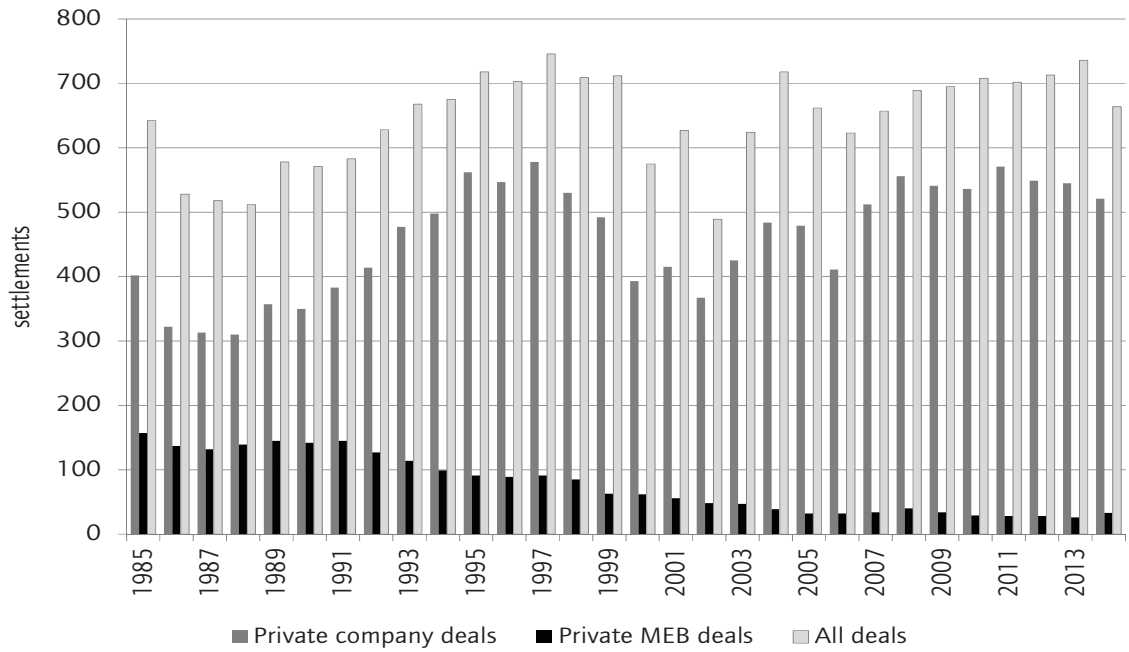
2. The 2011 result was an apparent decline from 58 per cent in 2004 but may have reflected the extension of the Pay Review Body system.

decline (see Figure 3). The surveys represent only a fraction of deals done (especially at company level, as there is no requirement for all employers to be included) and coverage varies from year to year. However, over time they clearly show that the decline took hold from 1991 onwards. By 2010 the total number of MEB private sector agreements dwindled to just over 30, compared with over 150 in the mid-1980s.

MEB decline was accelerated by the abolition of around 30 Wages Councils (included in the above figures) covering 2.5 million workers during the 1993–1994 pay round. These were statutory bodies made up of representatives of employers and unions, together with independent members that set minimum pay rates and other conditions in particular industries. They were aimed at 'sweated' trades that had no union organisation and no parity of bargaining, where 'the good employer is undercut by the bad, and the bad employer is undercut by the worst' (Winston Churchill).

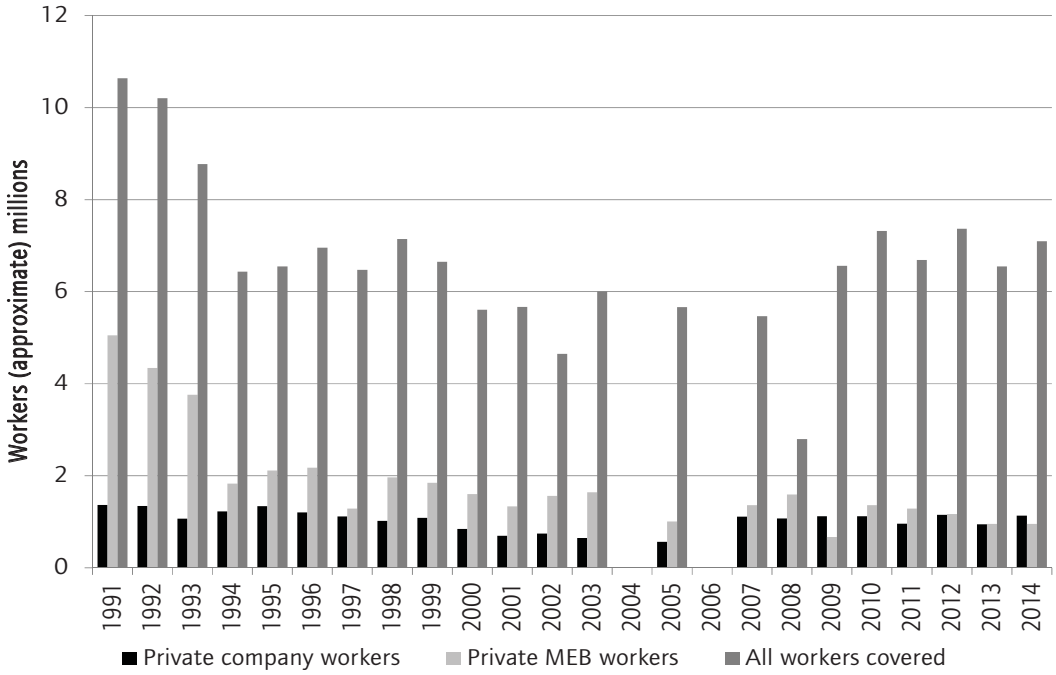
When it comes to the number of workers covered by MEB bargaining (Figure 4) evidence from the LRD survey is also affected by the reliability of estimates of the coverage of individual MEB agreements (see

Figure 3 **Pay deals by bargaining level**



Source: Figures published annually in Bargaining Report, Workplace Report and the LRD Pay Survey.

Figure 4 **Workers covered by bargaining level**



Source: Figures published annually in Bargaining Report, Workplace Report and the LRD Pay Survey (an aggregate estimate of workers covered was not published before 1991, while figures for 2004 and 2006 are unavailable).

below). The biggest deals in construction cover hundreds of thousands of workers but some small specialist multi-employer agreements only affect hundreds.

The estimated aggregate number of workers covered by private sector MEB bargaining stabilised at 1.5–2 million after 1995, following its earlier decline, including Wages Council abolition (Figure 4). A further decline to a little less than 1 million was recorded after the 2008–2009 recession, with the result that the number covered by MEB agreements from that point on roughly matched the number covered by private company deals.

The total number of workers covered by the survey (including in public sector agreements) fell from around 10 million in the early 1990s to somewhere in the region of 6 to 7 million, consistent with the general trends in membership and bargaining coverage. The chart reflects the fact that public sector pay deals within the all-worker column (many of which operate on a multi-employer basis) affect more workers than

private sector deals. In these statistics, higher and further education (each with its own MEB bargaining arrangements) are treated as part of the public sector, but in official statistics they are classified as being in the private sector.

3.1 In which sectors has MEB bargaining survived?

By 2014 private sector MEB bargaining played a much-reduced role. However, it remained dominant in construction where there were at least sixteen different MEB agreements. It also operates in the offshore energy sector, although negotiations are conducted with construction contractors, caterers, diving contractors and drilling contractors rather than with the oil companies themselves. A multi-employer agreement covered a handful of companies in the United Kingdom's small surface coal mining sector.

In manufacturing there were agreements – some of them specialist and narrow in scope, others broader – in baking (Scotland), clothing, knitting, textiles (Lancashire), leather producing, footwear, papermaking, corrugated packaging, printing (Scotland), flat glass, monumental masonry, furniture and organ-building. Some of these were specific to Scotland (in one case, Scotland and Northern Ireland) or England and Wales. Others were regional simply because their industry base is geographically concentrated.

The Agricultural Wages Board for England and Wales (a statutory negotiating forum between the Unite union and the National Farmers Union, with an independent chair) was abolished in 2013 but boards in Scotland and Northern Ireland survived and the devolved Welsh government was in the process of re-establishing a similar body. In that and other ways, public administrations, cultures or traditions in Scotland, Wales and Northern Ireland appear to be more open to sectoral pay setting arrangements; they also have higher levels of union density (probably linked to higher levels of public sector employment[3]).

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3. As of December 2014 the public sector (as defined) accounted for 27 per cent of employment in Northern Ireland, 23 per cent in Wales and 21 per cent in Scotland; in most English regions it was between 15 per cent and 18 per cent but was closer to the Scottish level in the North East of England, Office for National Statistics.

There are isolated but notable examples of MEB bargaining in the private services sector (which plays such a large part in the UK economy). They include film production, theatres, sport (horse racing) and voluntary-sector housing (in Scotland). Large MEB agreements set the framework for pay in higher and further education.

Finally, many public sector agreements operate in a multi-employer fashion, to one degree or another, covering schools; community and youth work; the National Health Service Agenda for Change agreement (which has recently become differentiated between the four countries in the United Kingdom); police staff; and local government (including the United Kingdom's biggest agreement, the local government services NJC for England, Wales and Northern Ireland). A cartel of employers in the South West of England tried but failed to break away from the nationally-agreed terms of the Agenda for Change agreement in 2012.

The local government agreement is national in scope, covering well over a million workers and 350 employers (a parallel agreement operates in Scotland). However, as Bach and Stroleny explain (2014) it 'has not precluded vigorous debate about the most appropriate balance between national and local decision making'. That balance has been severely tested by successive pay freezes and a national dispute over the 2014 settlement, and by local changes to terms and conditions which are set by the national agreement (*LRD Workplace Report* March 2015).

Local variations in school teachers' pay rates and conditions have also been encouraged by government-driven changes to their pay system, while the growing number of Academies and 'Free Schools' were not required to abide by the nationally set School Teachers' Pay and Conditions Document for England and Wales or 'Burgundy Book' conditions of service.

However, there have been MEB 'casualties' since the recession. They include the end of national bargaining between the British Printing Industries Federation (BPIF) and the Unite union (there is still a separate Graphic Enterprise Scotland agreement). That was followed by the end of sectoral bargaining in the building brick industry in 2012 and the end of bargaining between the ceramic workers' union Unity (which subsequently merged into the GMB union) and the British Ceramic Confederation (BCC).

Government action was instrumental in ending the Agricultural Wages Board (AWB) for England and Wales in 2013, following on from the scuppering of the then newly-formed School Support Staff Negotiating Body (SSSNB). The Conservative-led coalition also attempted to impose localised 'market-facing' pay on public sector wage setting. Although supported in some quarters (Wolf 2010) that approach ran into opposition from other actors (such as the Welsh government and trade unions) and was unsuccessful.

In 2010 the government also removed the closest thing that the United Kingdom had to an 'extension' arrangement, the 2005 Code of Practice on Workforce Matters in Public Sector Service Contracts (the two-tier code, still in force in Wales) and a similar arrangement in the NHS. Abolition has led to new starters being appointed on lower rates of pay (Smith Institute 2014).

Finally, recent amendments to the transfer of undertakings regulations (TUPE) deny transferred workers the benefit of any post-transfer improvements negotiated under a sector-wide collective agreement, unless their new employer agrees (codifying the decision of the European Court of Justice in *Alemo-Herron v Parkwood Leisure Limited* [2013] EUECJ C-426/11).

3.2 Coverage

The number of workers that MEB agreements cover is extremely varied and can be difficult to verify – even the relevant employer associations themselves cannot always make an estimate. The largest numbers of workers affected are undoubtedly in the public sector (local government, schools, health care) and parts of the private sector that deliver higher and further education.

The Construction Industry Joint Council (CIJC) Working Rule Agreement (negotiated on behalf of nine employer associations and three trade unions) is said to cover over 500 000 workers. However, the CIJC employers' side sees this as an overestimate, pointing out that 200 000 workers are registered under an industry insurance scheme. Nevertheless, the agreement's basic terms – such as holidays and Christmas close-down – are recognised as an industry norm. Other construction

agreements cover tens of thousands of workers and potentially large numbers of employers.

The Federation of Master Builders, a Building and Allied Trades agreement (BATJIC) signatory, has almost 10 000 members. Smaller agreements may cover far fewer workers but, potentially, many separate employers. In the Steeplejack and Lightning Protection Engineering Industry NJC, the employers' association ATLAS has 45 member companies with a total workforce of just 1 100. The Leather Producing Association represents 12 member companies but its agreement covers only about 500 workers.

There are some comparatively large agreements in manufacturing, such as the paper industry, while the Corrugated Packaging industry agreement covers 50 sites but only three main employers. In 2014 Unite's collective agreement with Employers in Voluntary Housing (EVH) in Scotland covered 97 employers and 3 000 of the industry's 8 000 staff. Half of the Lancashire Textile Manufacturers' Association's 39 member companies (concentrated geographically in Cumbria, Lancashire, Greater Manchester and West Yorkshire) followed its agreement with the Unite, GMB and Community trade unions.

4. Results of multi-employer bargaining

A major factor influencing social partner attitudes to MEB bargaining will be how they perform when it comes to pay, conditions and other issues, and how that is perceived by employees and member companies (adoption of the electrical contracting agreement, for example, is expected to be seen as a way of telling employees that they are valued and that the employer wants to retain them).

The performance of MEB agreements on minimum pay would be impossible to assess without taking into account the existence (since 1999) of a statutory National Minimum Wage in the United Kingdom, worth £6.31 per hour (at the adult rate) up until October 2014 and £6.50 after that.

Also of increasing significance is the voluntary Living Wage (LW, an initiative launched in 2001 by London Citizens[4] and subsequently taken up

4. Living Wage Foundation, http://www.livingwage.org.uk/history. The voluntary Living Wage preceded the lower, statutory, National Living Wage announced in 2015.

by the Greater London Authority). It is worth about 20 per cent more than the NMW (£7.65 until November 2014, £7.85 after that) with a higher rate set separately for London (£8.80 until November 2014, £9.15 after that).

By early 2015 there were over 1 300 'accredited' Living Wage employers, committed to paying future increases announced by the Living Wage Foundation and to extending it to their contractors. Many other employers are beginning to use the LW as a benchmark without necessarily seeking accreditation.

4.1 Wages

An assessment of MEB-negotiated pay rates for 2013–2014 reveals that the surviving agreements perform very differently, whether judged on their minimum pay rates, how their rates compare with earnings levels in their industries and the scope they offer for higher pay.

Minimum rates

On the basis of their negotiated minimum rates (excluding trainees or youth rates) the surviving MEB agreements can be divided into four roughly equal groups: Those whose minimum rate is set at or just above the NMW; those that pay a bit more but less than the LW; those that pay at or just above the LW; and a slightly bigger group that pay a minimum significantly above the LW.

Sectors with the lowest minimums include agriculture (until recently accepted as needing statutory protection); parts of manufacturing, such as textiles, which suffered an 80 per cent fall in jobs between 1979 and 2013 and with the lowest average wage in manufacturing (Office for National Statistics 2014); local government services (hit by a series of pay freezes); and parts of the entertainment industry (theatres outside London).

Being 'caught up' by rises in the minimum wage has been an uncomfortable experience for some negotiators and a number of MEB agreements have managed to stay a little ahead of the NMW. There were cases in the local authority craft sector (labourers in England and Wales), education (sixth-form college staff), health care (NHS Agenda for Change in England), community and youth work, sport (stable staff), and in the construction staff agreement (environmental engineering) where pay

scales start at a basic level but progression towards higher guide rates is expected.

Minimum rates were at or around Living Wage level in some of the bigger construction agreements, higher and further education (where unions campaigned for the Living Wage) and public service–related agreements in Scotland (local authorities and the NHS but also voluntary housing) where it is government policy to pay the Living Wage.

Minimum rates were significantly above LW level in the offshore energy sector and most construction industry agreements. That held true in 2014 because construction unions successfully resisted efforts by some of the sector's main employers' associations to introduce lower pay levels within their agreements.

Minimum earnings

How negotiated minimum rates compare with earnings levels in their immediate sector is arguably a better test of MEB bargaining than the NMW. For the purposes of this chapter, comparisons have been made against a 'lower industrial earnings level' defined as the lowest published quantile of basic hourly earnings (usually the lowest decile) by two-digit Standard Industrial Classification (NACE) in the 2014 ASHE survey.

Once again, MEB agreements can be divided roughly into four groups: those whose minimum pay is below the lower industrial earnings level (95 per cent of it or less); those at or around the lower industrial earnings level; those paying a bit more (105 per cent to 120 per cent); and those paying significantly more.

The first of these categories includes some agreements with minimum pay rates that are close to the NMW, but also some that are at or just above the Living Wage (for example, the Police Staff agreement for England and Wales). This can happen where the range of earnings in a sector is particularly wide. However, where MEB agreements set a minimum rate that is significantly above the Living Wage, it is also likely to be above the industry lower earnings level.

Median earnings

The closeness of negotiated pay rates to actual earnings indicates the extent to which an agreement is applied in practice (Gospel and Druker 1997) and is likely to be an important consideration for the social

partners. But it can also depend on a number of other factors, such as whether the range of earnings in a sector is broad or narrow; the involvement of very different occupational types within a single sector; and the precision (or lack of it) in the two-digit SIC code.

A survey of company wage rates by the employers' side of the furniture sector agreement in 2013, covering 22 different occupations in production and associated areas, recorded an average wage of just over £9.00 (considerably higher than the agreed 2012 rates). Evidence from ASHE 2014 shows that seven out of ten workers in that sector earned between £6.50 (the lowest decile) and £13.02 (the 80th percentile), while the median was £9.40.

Dividing MEB agreements again into four groups, they split roughly equally between those whose minimum rate is worth around half the industry median; those worth more than half but less than two-thirds; those worth around two-thirds but less than three-quarters; and finally a group whose minimum rate is worth three-quarters or more of the industry median.

The latter included construction agreements (plumbing, painting, thermal insulation and engineering construction) and also industries in which the workforce is divided between professionally qualified staff and those without a professional qualification (education and youth work).

Scope for higher pay

The ability of MEB agreements to deliver higher earnings is limited if they operate merely as a 'safety net', with no negotiated basis for higher pay. However, collective bargaining is generally seen as compressing the pay distribution (Metcalf *et al.* 2000; Kersley *et al.* 2004) and even the highest negotiated rates could be expected to fall short of the earnings being achieved by the higher or highest-paid employees in the relevant industry.

A comparison between the highest negotiated rates (including pay scale maximums, where these exist) and upper industry earnings levels (defined for this chapter as the highest published quantile of basic hourly earnings, usually the highest decile) again sees MEB agreements divided loosely into four groupings.

There were those with negotiated rates worth less than half of the upper earnings level; those with rates worth half to three-quarters of that

level; those similar to upper earnings; and also some that exceed it. The positioning of different sectors within these four groups is more varied, however all of the agreements in the last category covered workers who may be professionally qualified.

Harmonising wages

The extent to which UK MEB agreements harmonise wage rates within their sector depends on whether they are prescriptive, or focus solely on setting a wages 'floor'. The offshore caterers' agreement sets out the minimum level of terms and conditions to be applied, while standard terms will be for each COTA member company to determine (but no less than the minimum terms in the agreement).

This is a more familiar approach than the 'no more and no less' wording still found in the electrical contracting JIB agreement, which appears to prescribe higher pay as well as lower pay. However, the NHS Agenda for Change agreement has job evaluation–based national job profiles that indicate which of the nationally agreed salary bands a particular job offered by an individual health care employer should fit into.

Although the issue of banding can be discussed at local level, NHS Trusts arguably have less leeway over pay than local government services, where nationally defined grades and scales no longer exist. Under the agreement local authorities are in fact expected to develop their own pay structures, on an equality basis, using the national pay spine points.

Equity

As a force for equity, whether measured by pay dispersion, gender pay inequality or other considerations, UK MEB agreements vary. Before its abolition in 2013 the Agricultural Wages Board for England and Wales broadly matched the NMW at its lowest rate, but paid 150 per cent of the basic rate to its top grade (management). In practice, pay levels were concentrated around the grade 2 rate (60 pence per hour more than the minimum), which applied to about half of the workforce,[5] with 16 per cent on the craft rate (up to £1.90 more than the lowest rate).

Dividing MEB agreements once again into four groups, the degree of internal pay dispersion provided for in their pay structures ranged from

5. Farm Labour and Wage Statistics 2012.

125 per cent or less (for example, labouring versus craft rates in local government in England and Wales) to 300 per cent or more. The maximum pay level for staff in construction (environmental engineering) was 333 per cent of the lowest rate, taking the agreement's provision for pay progression fully into account.

Gender pay inequality has been a driving force behind the renegotiation of multi-employer pay structures in the public sector. The issue seems to have less prominence among private sector MEB agreements, perhaps because it was seen as the responsibility of individual employers. However, the leather-producing industry's agreement commits the parties to develop positive policies to promote equal opportunity and eradicate any form of discrimination in employment.

Before national pay bargaining between the British Printing Industries Federation and Unite came to an end, national policies were developed on issues such as dignity at work, cancer screening and part-time, temporary and agency workers. Employers in Voluntary Housing (EVH) continued to provide model policies on equality, including diversity, indirect and direct discrimination, harassment and victimisation.

Finally, there are issues of equity in the use of precarious or casual forms of employment. The engineering construction NAECI agreement expresses support for the principle of direct employment (in an industry where contracting out and sub-contracting are common), while the electrical contracting JIB condemns false self-employment.

4.2 Working conditions and other issues

UK multi-employer agreements provide an opportunity to negotiate not just over pay but also on conditions of employment where there might otherwise be no negotiation or consultation. The Community trade union is involved in a number of manufacturing MEB agreements and has had some success, particularly in recent years, in improving sick pay and minimum rates, particularly for younger workers.

Steve McCool, National Secretary, said:

> 'I think those aspects would have been much harder to negotiate on an individual company level. Similarly on guaranteeing rates

of pay in possible production breaks, improving training and dispute resolution. Because in some respects the multi-employer apparatus with a resolute approach from the trade union side can help prevent a "race to the bottom".'

The ability to negotiate minimum standards over a wide range of working conditions is a potentially significant aspect of MEB bargaining. The 2011 Workplace Employment Relations Survey shows that in workplaces with five or more employees (where a union was recognised for collective bargaining purposes and at least one union member was present) the employer negotiated over pay in only 56 per cent of private sector workplaces, and consulted in 70 per cent.

Negotiation and consultation on holidays and hours, pensions, grievance procedures, health and safety and training was progressively less common (see Table 1). Unless pay and these other conditions have been negotiated at some higher level then it means they are not negotiated, even if the union is recognised.

These issues, and other aspects of pay and conditions – such as maternity leave, paternity leave and sick pay entitlement – are likely to have been addressed in a multi-employer bargaining context, so that negotiated entitlement would probably exist irrespective of an individual em-

Table 1 **Negotiation and consultation in workplaces recognising trade unions, 2011 (%)**

	Pay	Hours	Holiday	Pensions	Training	Grievance procedures	Health and safety
Private sector workplaces							
Negotiate	56	37	41	24	6	19	10
Consult	70	61	61	55	42	68	59
Public sector workplaces							
Negotiate	52	45	44	38	17	30	22
Consult	72	72	66	62	54	71	69

Note: Percentage of workplaces with five or more employees with at least one union member present and a union recognised for bargaining purposes.
Source: van Wanrooy *et al.* 2013, p. 81, table 5.4.

ployer's willingness to negotiate or not. But, as with pay, MEB conditions of service vary substantially, from the equivalent of statutory entitlement only, to more generous provision.

Expertise and duplication

Traditional arguments for adopting the multi-employer approach (efficiency, expertise and avoiding duplication) can still be heard in the United Kingdom. Unite has noted that its negotiations with the Offshore Contractors Association (OCA) covering around 70 companies (with a total workforce of more than 20 000) can be completed within two days, allowing officers to spend more time on other aspects of their remits.

The electrical contracting JIB agreement lists a wide range of efficiency benefits: A 'one-stop shop' on terms and conditions and legal obligations on employment matters; a holiday pay scheme to help employers with their cash flow; work opportunities (JIB members are required to sub-contract electrical work to JIB members); funding for training; an industry pension scheme; advice and mediation; discounted goods and services; and an e-newsletter.

Quality and innovation

Training and skills have been identified as an area in which the UK government needs to improve its performance after the recession. As a driver for quality and innovation it can benefit from a multi-employer approach (Gospel and Foreman 2002). Employers and unions can and do cooperate over training in sectors without MEB pay bargaining, for example through the Sector Skills Councils,[6] but a link to industry pay structures and bargaining could help 'anchor' skills and training in the workplace (provided that the agreement has kept abreast of working practices and trends at employer-level).

There is no guarantee of success. In the flat glass industry, in which workers tend to be competent but not qualified, the Glass and Glazing Federation was setting up a training programme for installers in 2014 and hoping to do the same for the processing side (being dissatisfied with the Construction Industry Training Board and the government's approach to this issue).

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6. Employers already cooperate with each other, trade unions and the government through the Sector Skills Councils (SSCs), a network of 18 councils and four other bodies working with over 550 000 employers to define skills needs and skills standards in their industries.

Unions are directly involved in Cogent,[7] the SSC for science-based industries (which also provides research and labour market intelligence), while union officers from Unite and UCATT sit on the Construction Industry Training Board (CITB). In 2014 the GMB, Prospect and Unite unions were taking part in a new Energy & Utility Industrial Partnership encouraging skills and growth in the power, gas, water, renewables and waste management industries.[8] Arrangements of this kind do not necessarily lead to sector-level wage-setting but do at least transcend a single-employer framework.

MEB agreements can also play a role in monitoring training and grading (as in the electrical contracting JIB); obliging employers to facilitate training and employees to take part (as in engineering construction NAECI); requiring employers to commit to a minimum level of training (1 per cent of the total basic hours worked by all employees in the steeplejack and lightning protection sector); and the regulation of quality and workmanship standards (mastic asphalt).

MEB bargaining has the potential to institutionalise skill and training issues by linking these directly to pay (as was possible until recently,[9] in courses and apprenticeships provided by Lantra, the SSC for the land and agriculture sector). However, the widely varied pay premiums on offer for 'skilled' rates suggest that the approach taken both to skills and pay differs between different MEB agreements and sectors.

Social, economic and government policy

The UK does not have a recent history of 'pacts' designed to coordinate collective bargaining with government policy, although public sector pay restraint has been used extensively as a means of applying austerity measures. Social progress on equal pay was certainly advanced through the redesign of MEB agreements during the period of the previous Labour government (for example, in local government and the NHS) and it also helped to promote partnership principles, for example in the print industry.

Employers' associations do, however, interact with government on issues relevant to their industry, including those (among the 90-plus

7. See: www.cogent-ssc.com/TU_Toolkit/LMI.php
8. See: www.tuc.org.uk/industrial-issues/skills-policy/employer-ownership-skills-pilot
9. See: www.lantra.co.uk/News-Media/Case-Studies/Agriculture/Harry-Lobb---Penvarcoe-Farm.aspx

associations listed by the Certification Officer[10] in 2014) that still negotiate collectively with trade unions over pay and conditions. Examples range from energy policy (CoalPro, the employers' side of the Surface Coal Mining agreement) to knitting (where the employers' association represents the industry to government, the EU, other bodies and the media); waste, re-use and recycling (the National Federation of Demolition Contractors has its own code of conduct on this); and consumer advice (the British Footwear Association).

Steve McCool, of Community, argues that multi-employer bargaining offers the possibility of a stronger partnership to lobby to protect the interests of these sectors and their members' jobs:

> 'A one company approach can't work at this level. For example, many of Community's members are in energy intensive industries. We are all for a greener environment, but it has to be won on a level playing field. Otherwise we will just export our members' jobs to areas with weaker or even no environmental protection. So we will work with employers to protect industry and our members' jobs. The multi-employer approach adds substantially to that argument.'

Industrial peace

Ideas of cooperation and peace are still expressed in many MEB agreements. The papermaking agreement talks of its three 'pillars': work together, grow together and stay together. And in footwear, the BFA employers' association and Community 'equally recognise the importance of their respective organisation as being numerically strong and as fully representative as possible of employers and operatives in all centres of the shoe trade', supporting the principle of 100 per cent membership of each other's organisations.

But current UK MEB agreements do not stand or fall on their ability to deliver discipline, stability or industrial peace. MEB industries hit by disputes in 2013–2014 included corrugated packaging, local government, the NHS, further education, engineering construction and the electrical contracting industry (once seen as a 'deviant' case because of the capacity of its bargaining arrangements to survive; Gospel and Druker 1997).

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10. See: http://www.certoffice.org/Nav/Employers-Associations/Active.aspx?

More recently, the RMT and Unite unions were holding consultative ballots over industrial action in response to the withdrawal of the 2015/2016 pay offer as part of the year two deal by the offshore catering contractors' group COTA, following the huge fall in oil prices. The RMT union pointed out that the COTA was one of the oldest industrial relations arrangements ever to be negotiated offshore in the UK continental shelf and was born out of one of the first ever successful strikes in the North Sea (Blowout 2015).

5. Collective bargaining and wage developments

The loss of much of the United Kingdom's multi-employer bargaining framework does not seem to have hindered unions – where they are recognised – in negotiating pay rises for their members. Indeed, while some of Britain's main competitors (Germany and the United States) faced 'stagnant or declining real wages for over a decade', full-time British employees saw real wages grow by almost two-thirds since the mid-1980s (Van Wanrooy *et al.* 2013). The lowest-paid experienced higher than average real wage increases, with the National Minimum Wage (introduced in 1999) acting as a 'countervailing force' to the reduction in bargaining.

Between the mid-1990s and 2008 pay settlements in the United Kingdom followed a higher trend (3 per cent or more) than in the euro area as a whole or in Germany, until the 2008–2009 recession (see Figure 5). Cumulatively (1995–2012), median increases on the lowest basic rate in UK pay settlements amounted to 67 per cent compared with 49 per cent in the euro area and 44 per cent in Germany (see Figure 6). When the annual increases are offset against inflation (the Harmonised Consumer Price Index, see Figure 7) UK pay rises still out-performed the euro area and Germany between 2003 and 2008.

However, since the 2008–2009 recession high inflation combined with exceptionally slow growth in average weekly earnings – due in part to compositional changes and public sector pay restraint – has led to an 'unprecedented' fall in real wages and living standards (Gregg *et al.* 2014). Figures of 8–10 per cent were widely quoted in 2014 and that was on the basis of the Consumer Price Index (CPI) whose use as an inflation yardstick for pay (rather than the generally-higher RPI inflation figure) remained controversial.

Evidence like this propelled the issue of wages to the centre of the political stage and helped open the door to a debate about the role of sector-level bargaining and 'modern wages councils', as proposed by the TUC. Some trade unions began to argue for a £10 minimum hourly rate, above the level at which state benefits or tax credits become payable. But the living standards crisis also provided a platform for arguments in favour of extending collective bargaining, including sector-level bargaining, possibly on a statutory basis (Ewing and Hendy 2013; Onaran 2014).

Grimshaw *et al.* (2014) have shown that the strength of collective bargaining dictates the degree of 'ripple effect' (weak in the United Kingdom) where pay levels further up the distribution are influenced by minimum wage increases: 'Where governments act to improve pay equity by gradually raising the minimum wage over time, in the absence of complementary collective bargaining the positive impact is likely to be limited to the lowest paid.'

This debate is relevant to now well-established concerns that the UK labour market is not delivering opportunities for progress into higher paid work. The Confederation of British Industry (CBI) has warned that a third of workers are stuck in the bottom pay group:

> 'Progression needs to be a focus for business and government to avoid workers getting stuck on low wages. A job should be an opportunity for a worker to progress, either within their firm or — if opportunities are limited — to use their work as support while gaining the skills required for a different role. This will often be the case in some sectors, where there are limited possibilities for pay progression.' (CBI 2014)

As has been made clear, the CBI was not in favour of more MEB or sectoral bargaining, but that connection could be made.

MEB pay deals and the economic cycle

MEB bargaining creates an opportunity to regulate pay levels and conditions for wider sections of the workforce but it is not immune to the business cycle. When the recession hit in early 2009 the level of pay freezes recorded by the LRD Payline database rose to a fifth and then a quarter of settlements. The median in private company deals fell to 2.5 per cent for the 2008–2009 pay round as a whole, whereas the private sector multi-employer median was 3.7 per cent (4.5 per cent in construction

and 2.75 per cent in 'other manufacturing' where it compared with a private company median of 1.55 per cent).

However in the 2009–2010 pay round the multi-employer median settlement level fell to zero (including manufacturing and construction MEB deals), whereas the overall private company median was held to 2.0 per cent. LRD's pay survey concluded that 'more workers have had their pay frozen in 2009–2010 than in 2008–2009 because of the many industry-level multi-employer agreements that were affected (in some cases for a second year running) coupled with the pay freeze in local government' (*LRD Workplace Report* October 2010).

Post-recession freezes hit the huge Construction Industry Joint Council (CIJC) agreement, prompting Phil Davies, GMB National Secretary, to warn that the national agreement was 'in trouble' and that members should 'negotiate where they can'. But with high levels of casualisation, false self-employment and a lack of fixed sites, people move jobs frequently and expect to negotiate a new rate every time they start at a new site (raising the risk of 'anarchy' when the industry eventually picked up).

Similarly, in the print industry activists were encouraged to put in claims for 3.7 per cent (the rate of inflation at the time) and 60–65 per cent of members normally covered by national bargaining (in companies ranging from a thousand workers down to just half a dozen) were reported to have had a pay agreement. Unite officer Steve Sibbald said: 'Deals have ranged from 1 per cent to 3.5 per cent, with many employers settling for far more than they would have done had there been a national agreement, although others are still on freezes'. At that stage the union was working with the employers' organisation (BPIF) to restore national bargaining but admitted there was a chance that it might not happen 'ever again' – as turned out to be the case.

Over the years, successive LRD pay surveys (1995–2014) reveal no clear difference between private sector multi-employer and company-level settlements, when annual medians are averaged out: private sector MEB agreements average a 3.0 per cent increase on their lowest basic rates, private company agreements 3.1 per cent. There are similarities to be seen, too, in the use of long-term deals (a regular feature of pay bargaining in the United Kingdom, often with an in-built inflation link) with MEB examples in coal, offshore energy and construction.

Union premium

As multi-employer bargaining decreased and company-level bargaining increased in the United Kingdom, an increase in the union premium might have been expected. Visser (2013) points out that estimating wage differentials between union and non-union members and firms 'makes sense' in the North American and British context, although it is meaningless in many European countries because, under conditions of sectoral bargaining, the 'co-evolution' of union decline and decreasing bargaining coverage is absent.

There is still a 'sizable and statistically significant' union wage premium in the UK labour market (Bryson 2014), but it has declined over the years and varies from positive to negative between sectors. Raw statistics (unadjusted for worker characteristics) show that it fell from 25.9 per cent in 1995 to a low of 12.4 per cent in 2008. After that it displayed a counter-cyclical trend, rising to a peak of 18.2 per cent in 2011 before dropping back to 15.8 per cent in 2012 and 16.4 per cent in 2013.

6. What future for multi-employer bargaining in the United Kingdom?

At the top level the UK social partners seem to disagree about the relevance of sectoral or multi-employer bargaining, with the employers' side (the CBI) assuming that company-level bargaining benefits both employers and employees, and the Trades Union Congress (TUC) making the case for a more sector-based approach. Comments, interviews and reportage taken into account for this chapter show that views among the social partners at lower levels are very mixed, but that the door to more multi-employer bargaining could be open if it works for both sides, supported possibly by a strong push in that direction from government-level.

Taking wages out of competition

A traditional claim for multi-employer bargaining, still heard in the United Kingdom today, is that it can 'take wages out of competition' or – more usually – prevent a 'race to the bottom'. That style of bargaining implies a considerable ability of 'the higher level to bind the lower level' (Traxler 2003), but it was precisely the historical role of the Ceramic Joint Council (CJC) agreement, which in its heyday covered 90 per cent of the Staffordshire-based industry.

Pay negotiations through the CJC ceased in 2013 after the ceramic workers union Unity, which has since merged into the GMB union, pulled out (see Box 1). Unity general secretary Harry Hockaday explained that it had been reluctant to proceed at the speed of the 'slowest ship'; and that to believe the alternative would be a 'race to the bottom' would be to underestimate its commitment as a trade union.

However, he concluded that multi-employer bargaining may still have a place, if all the companies are in a similar state and amenable. But this is difficult in manufacturing where there are, for example, outsourcing costs and the need to take each set of circumstances into account.

The British Ceramic Confederation (BCC) was party to another MEB agreement that ended in 2012, the Building Brick NJC. It followed the earlier demise of another BCC agreement, the Refractories Wages Board (covering kiln brick businesses whose fortunes were tied to the Sheffield steel industry).

According to the BCC these agreements were wound up not as a result of ideological opposition or a strategic decision, but because of rationalisation in what was a nationally-spread industry of single-site factories competing in their local labour markets, as well as declining local demand for a specialist product. These examples highlight circumstances that may be more or less favourable to multi-employer bargaining but also confirm that UK employers are not necessarily hostile to this form of pay setting.

Tony Burke, Unite Assistant General Secretary, has argued for a return to industry bargaining in the print industry on the grounds that it provided a level playing field where every employer knew exactly the minimum terms and conditions, a safety net with collective bargaining ensuring that the distribution of pay is evenly spread.

Unite was, in 2014–2015, also hoping to end disparities on London's buses where some drivers are paid up to 25 per cent less despite dong the same job for the same employer. Len McCluskey, Unite General Secretary, described this decentralisation as madness, demanding a 'common, decent rate for the job' (September 2014).

Similarly, a positive effort to harmonise pay and conditions for further education lecturers and staff in Scotland was under way in 2014, fuelled

by a National Bargaining Development Group survey in 2013 that found salaries for an unpromoted college lecturer ranging from £31,009 to £37,274.

Fostering social partnership, efficiency and good industrial relations

The idea of social partnership still has some relevance in the United Kingdom. There was an acrimonious dispute in the construction industry in 2011–2012 when a group of employers tried (unsuccessfully) to substitute what the unions saw as an inferior agreement (known as BESNA).

Peter Corby, chair of the electrical contracting Joint Industry Board multi-employer bargaining structure, wrote afterwards (Joint Industry Board 2013): 'Everyone involved in the workings of the JIB sees the importance of a National Framework of employment provisions and procedures which provide for fair and just Social Partnership and engagement and for the JIB to be the provider of this to the entire Electrical Contracting sector'

In a similar vein, Eamonn Connolly, Director of Employers in Voluntary Housing in Scotland, was proud of the continued popularity of its collective agreement with Unite: 'There is little point in 100 similar employers conducting separate negotiations each year, and to do so may be disruptive and divisive within a clearly identifiable industrial sector'.

In terms that may strike a chord in other service-sector industries, he added that having common benefits allows for free movement and development of staff between employers, with continuity of service being honoured. He said: 'We would certainly commend our arrangements to others in the voluntary housing sector across the UK' (LRD 2014).

Protecting low-paid employees and nurturing skills may be best done at sector level. When the UK government abolished the Agricultural Wages Board for England and Wales in 2013 it was welcomed by the employers' side, the National Farmers' Union: abolition presented new opportunities 'as negotiations between individual workers and individual businesses become the norm' (NFU 2013).

However, devolved governments in Scotland, Northern Ireland and Wales took the opposite view. Michelle O'Neill, Northern Ireland Agriculture Minister, said that the AWB 'guarantees fair pay and conditions

for agricultural workers, including migrant workers', adding, 'it is essential that workers in this industry are both protected and have the skills, not only to help the sector flourish but to encourage others to consider a career within it.'

Delivering results for the social partners

MEB arrangements have to deliver results for the social partners. The examples given here confirm that there are still employers in the United Kingdom's private and voluntary sector who can see the benefit of multi-employer bargaining, but on the union side the results also have to be worthwhile: if they are not, it may be the union that walks away (see Box 1).

Steve McCool, National Secretary of the Community trade union, said: 'The multi-employer route has its advantages and disadvantages. Clearly there is some history of compromise, where short-term gains were postponed for the longer-term goals of creating a mechanism for negotiating continuous improvements for the workforce'.

McCool can point to positive results, but 'on the negative side there may be a tendency for multi-employer bargaining to concentrate on 'crying wolf' by always concentrating on the company in the sector with the lowest profits, the biggest problems and the most precarious future'. A multi-employer approach adds expertise, objectivity and collective strength to a sector that an individual company might lack: 'Obviously we must be vigilant that this possible strength is not used against the interests of our members. But then surely that is the point of strong trade unions'.

His conclusion is that the union has to be 'professional' in negotiating with multi-employer bodies and 'separate the wood from the weak trees they might want to put before us'. But multi-employer bargaining also presents great opportunities to organise and recruit new members: 'If trade union density in private industry is about 14 per cent then it is obvious that these bodies represent other companies with more employees (and potential members) that we need to sign up'.

But Martin Smith, national organiser for the GMB union, took a more critical stance while insisting that the union is no less committed to the political and industrial principle of multi-employer bargaining than other unions. Many employers like 'to wear the badge' of membership

of a trade group that bargains with unions, he said, and value them as a point of reference (for example, for industry safety regulations), 'but very few employers honour the national pay settlements in our current experience, for example in Flat Glass and Furniture – with a large number of employers paying higher than the agreed rate. So the role sectoral bargaining can play right now, in reality, in improving living standards is greatly exaggerated'. His comments focussed on the downsides of some multi-employer bargaining in the United Kingdom, 'zombie agreements' with low membership fuelled by disaffection; agreements 'hollowed out', decayed beyond repair that have to be managed and controlled by national officials on both sides, which are of much more value to the employer than the workforce:

> 'Certainly local bargaining is more popular with our members and officials alike and in most cases seems to deliver better results both in terms of pay and membership growth. But local pay claims can legitimately be submitted in parallel within most agreements and this is our plan for regeneration where the patient can be saved. In other areas we are also considering maintaining structures for the purposes of common agreements on safety standards, training and the like – but removing pay bargaining.'

The recession has undoubtedly exacerbated problems in one of the industries mentioned by Smith, flat glass. Nigel Rees, Group Chief Executive and National Secretary of the Glass and Glazing Federation, the employers' side of the Flat Glass Council agreement, highlighted its impact on the window industry where business had virtually halved and the domestic sector had crashed. It suffered from almost 'suicidal' costings, undercutting, its goods not being treated as a premium product – in short, it is in need of a big change.

From the employers' perspective, too, the agreement was seen as struggling and in need of a total overhaul, although Rees hoped it would survive. Its pay rates were poor and nearly every company paid above them, not a great advert for an industry that has a transient workforce (which tends to be competent but not formally qualified). It was out of date with current activities, the old grade names no longer used and not an aid to managing the business. Although other terms and conditions in the agreement were very useful, and there was a good relationship with the unions, there could be pressure to go to company bargaining.

Member involvement

There was a more positive story from the GMB about the engineering construction NAECI agreement. It had been nearly 'dead in the water' five years ago, Smith argued, with pay deals not honoured, membership chronically low and activist membership almost non-existent. The dispute at the Lindsey oil refinery in 2009 (over the application of the agreement in the context of the Posted Workers Directive) seems to have been a turning point and since then the union's membership and activist base has grown and the pay deals have got better.

But the union's more critical assessment of multi-employer bargaining in the United Kingdom has led it to consider different approaches, from ending agreements and rebuilding from scratch, to recapturing long-standing structures; submitting local claims in parallel with national claims; or maintaining agreements on safety standards, training and the like, but removing pay bargaining: 'We don't think the road to continued membership renewal lies in propping up out of date rickety structures or in trying to rebuild and reform them from the top down – for example by appealing to Government for support', Smith concluded.

However, there are other examples of member involvement in the push towards raising standards on a multi-employer basis, such as Unite's campaign of industrial action on London buses; or the 2010–2012 campaign by its tanker drivers to secure industry-wide minimum standards. Although that did not lead to sector pay bargaining, talks with the major oil distribution companies (through the Advisory, Conciliation and Arbitration Service) resulted in agreement on an industry-wide accreditation or 'passport' covering health and safety and training (with working groups on that, on pay benchmarking and on pensions, to be overseen by a Governance Group involving union officials and company representatives).

Government action

As these accounts show, views among the social partners on both sides are extremely varied and that leads on to differing expectations as regards the government's role. The Confederation of British Industry (CBI) accepted that concerns about a squeeze in living standards were valid, but warned that 'a more rigid labour market' is not the answer. And, with an eye to the debate about increasing the National Minimum Wage, it warned that political interference in that process would undoubtedly have a negative outcome for some workers.

But while the CBI feared 'political interference' the TUC has been campaigning for government action to promote a more sectoral approach. Something of the kind featured in the Labour Party's 2015 workplace manifesto (*A Better Plan for Britain's Workplaces*) alongside plans for a higher National Minimum Wage and 'carrot and stick' promotion of the Living Wage.

Labour's plan to 'tackle the underlying causes of low pay and insecurity in different sectors' involved empowering the Low Pay Commission (already tasked with making recommendations on the level of the National Minimum Wage) to identify sectors that can afford to pay more, and lower productivity sectors with high levels of low pay. The proposed mechanism for raising productivity and pay, 'industry-led taskforces', made no reference to unions or collective bargaining, but the sectors to be prioritised were ones the unions have been very concerned about: 'There is a case for the first sector taskforces to focus on social care and agriculture, in the latter case to address the damage done by the abolition of the Agricultural Wages Board and ensure agricultural workers are properly protected at the sector level'. Labour said it would also 'support and not undermine' national conditions and pay review bodies in the public sector.

This was all much less ambitious than the calls for a state-led move towards sector-level collective bargaining proposed by Ewing and Hendy (2013) or Onaran (2014), but how would the social partners respond? International experience suggests that 'institutional destruction' is often irreversible (Visser 2013), so putting wider MEB collective bargaining back on the agenda for the United Kingdom's private sector will certainly be a challenge.

Overcoming doubts

Historically, the UK social partners have plenty of experience with multi-employer bargaining and state intervention to foster it, in the form of Wages Councils and Boards. Much more recently, the success of the Living Wage – which, for employers that seek accreditation, implies a commitment to apply minimum-rate pay increases determined by an external agency – could also be seen as significant. And despite the many challenges faced by the big public sector bargaining groups they remain a significant reservoir of multi-employer bargaining in the United Kingdom.

But overcoming doubts among the social partners of the kind identified in this chapter would mean finding the 'middle ground' (as Nigel

Rees of the glass employers' federation put it), a deal that both sides can buy into. It would need to deliver not only on minimum pay but also on broader pay structures, pay progression, training, more equitable pay and employment relationships, conditions of service that improve on statutory minima; expertise and back up; and a framework with space for quality and innovation.

Experience also suggests that future multi-employer bargaining will work best where it fosters active participation by workers and employers at all levels, transparency and a sense of mutual ownership. It would not be a dispute-free environment, as disputes are a consequence of involvement and engagement, and it could not be a failure-free environment either, as some of the examples in this chapter show. But the impulse to collectivise industrial relations in the UK private sector has not entirely disappeared and might be re-kindled under the right circumstances.

Box 1 **The ceramic industry – a case of role reversal?**

Multi-employer bargaining in the ceramic industry ended in 2013, not because of a lack of support from the employers' side (although the industry had fragmented), but essentially because the union felt it could do better with single-employer bargaining.

The Ceramic Joint Council (CJC) used to operate as a disciplined, highly formalised and locally concentrated industry agreement, although there was some variation between individual employers over issues such as bonus payments and piecework rates. However, from the 1980s onwards, individual employers began to break away.

The first company to go found it hard to alter its wage structure, but more followed, leading the employers' federation to relax its rules so that they no longer compelled adherence to the agreement. Flexibilities (in this case an 'enabling agreement') were negotiated to provide more latitude for local changes, but problems accelerated after the National Minimum Wage was introduced from 1999.

Diversity within the ceramic industry (some parts of it depended on the success of the construction industry, some did not) created further fragmentary pressures, making it difficult to conclude annual agreements and bringing the risk of a 'lowest common denominator' approach. As the employers' side (the British Ceramic Confederation, BCC) saw it, things could have stabilised around the remaining dozen gift and tableware manufacturers, had the union been willing to continue.

Francis Morrall, BCC Deputy Chief Executive and Employment Director, said that the remaining companies still supported the CJC not just because it delivered for them in terms of pay but because they had a forum to talk to the union about other issues and useful procedures on issues such as grievances, discipline and sick pay.

He also stressed that there had always been 'some award' even during recessions, when many companies were freezing wages. The employers' side regarded that as at least some compensation for low basic pay rates. However, for pottery workers in Stoke-on-Trent, the concentration and domination of the industry in the area seems to have been a force for keeping wages low.

The union's case for stopping industry pay bargaining was, in part, specific to its circumstances (declining employer adherence, diversity in the sector) but it also reflected a view that employers with differing abilities to pay should be expected to pay differently, even where that means accepting smaller rises or a pay freeze where the alternative would be job losses.

Those that found the CJC agreement restrictive and decided to pull out included some big companies, but some of those left in were significant employers, too. Some were doing well and could afford a decent pay rise, others were struggling – for example on short-time working – and the union had on occasion been told there would be redundancies if a particular deal was agreed.

Unity general secretary Harry Hockaday confirmed that there was 'always something' in CJC deals, but settlements were 'subsidised' by members in bigger companies that could afford to do better. Bigger companies were 'hiding behind' the multi-employer agreement and might, for example, agree to pay the minimum pay rise but then pay big bonuses that were not negotiated (and claim the credit for it).

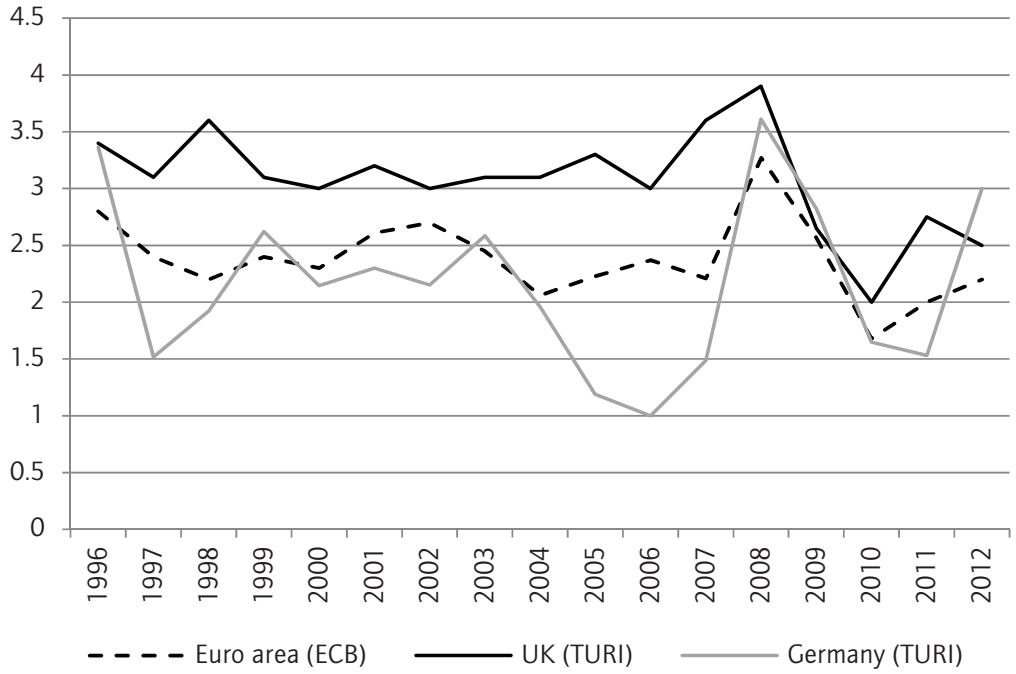
Moving to single-employer bargaining meant more work for the union as each employer had to be spoken to individually and some had never had to negotiate, letting the employers' confederation do it for them. Although they were outside their 'comfort zone', the union did not fail to reach an agreement.

Most non-federated companies (those that left the agreement) had better terms and conditions (although not necessarily better rates of pay), things which the union felt it could not get in the Federation, such as better overtime rates. The union said it still had a good relationship with the employers' side and hoped to continue to meet to discuss non-pay issues (such as the energy intensive industries initiative). It was also very positive about the industry's work on health and safety. However, for pay bargaining, the focus switched to company level.

7. Conclusion

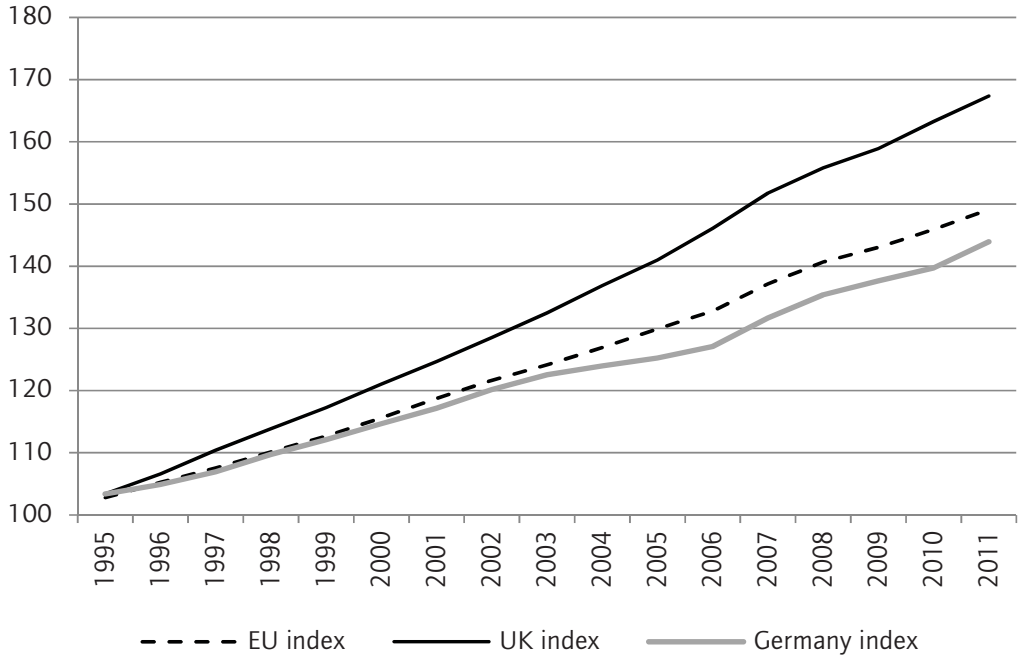
Multi-employer or sectoral bargaining has become something of a rarity in the private sector of the UK labour market, where union membership density and collective bargaining coverage have fallen to a low level. But it has not completely disappeared, remains dominant in the public sector and has become a focus for renewed consideration in view of the decline in real wages since the recession. However, experience with the surviving multi-employer bargaining (MEB) agreements varies and the system has its supporters and detractors on both sides (employer and trade union). Opinions differ on the extent to which government action in support of multi-employer bargaining would be beneficial and desirable but if it is to play a bigger role in future it would need to deliver clear benefits and foster active participation by workers and employers. This chapter focused mainly on the private sector, while recognising that the public sector is a major component in UK MEB bargaining.

Figure 5 **Whole economy collectively agreed wage increases (%)**



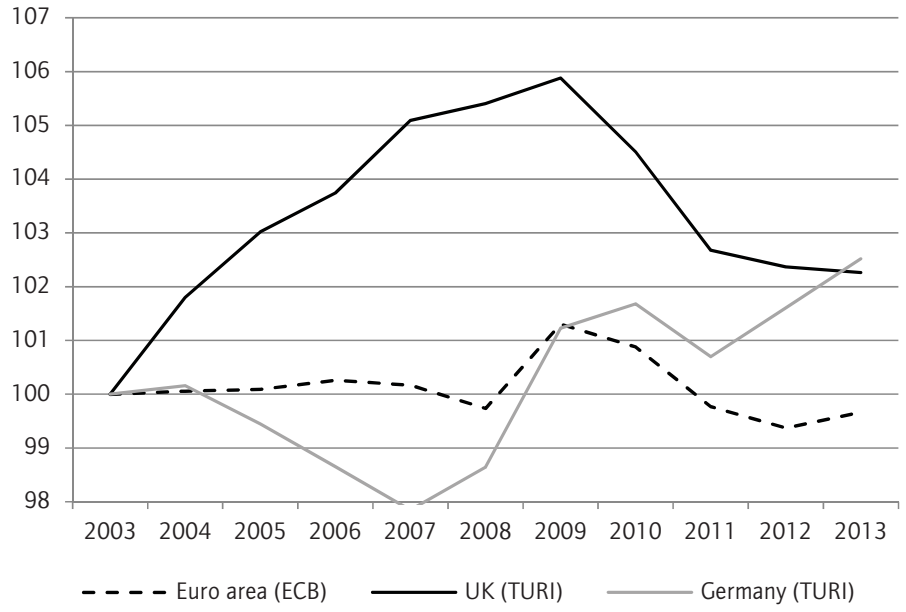
Source: European Central Bank and TURI database (WSI).

Figure 6 **Whole economy index of collectively agreed wage increases**



Source: TURI database (WSI).

Figure 7 **Whole economy index of collectively agreed wage increases minus HICP inflation**



Source: TURI database (WSI).

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Chapter 7
Wages and economic performance in Europe

Torsten Müller, Thorsten Schulten and Sepp Zuckerstätter

1. Introduction

> '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)

Mark Blyth's definition of austerity concisely describes the overarching idea that guided the crisis management pursued by policymakers at European and national level. In particular, it highlights the fact that a narrow conception of competitiveness as *cost* competitiveness has become the dominant frame of reference for current approaches to European economic policy based on austerity and internal devaluation.

The first approach follows the logic of 'expansionary austerity' (Giavazzi and Pagano 1990), which implies essentially that major reductions in government spending will help to expand private consumption and thereby lead to overall economic growth. The underlying rationale of this logic is what Paul Krugman (2013) calls 'the belief in the confidence fairy': in other words, the idea that credible attempts at fiscal consolidation by seriously cutting public spending will increase market actors' 'confidence' and thus induce them to invest and consume more, thereby creating growth and employment. Since public sector wages on average account for more than 20 per cent of total public spending in the EU, cuts and freezes in public sector wages play an important role in this approach.

The key focus of this chapter is, however, on the second approach, namely 'internal devaluation', which is essentially based on the view that the current crisis of (cost) competitiveness is due mainly to divergent wage

developments within the euro zone. Since in the economic and monetary union (EMU) currency devaluations are ruled out in principle as a means of adjusting cross-country differences in competitiveness, reducing labour costs in deficit countries through wage cuts and freezes is seen as the only way to overcome the growing macroeconomic imbalances and to restore growth within the euro zone. Thus, following the 'ideological mantra of competitiveness' (Misik 2013), one key objective of EU reform policies is to achieve moderate wage developments across the euro zone by ensuring that nominal wages stay in line with productivity without any further compensation for price increases.

The measures taken in order to achieve this objective include, besides direct interventions in national wage policies via the new European system of economic governance (see the introduction of this volume), repeated political initiatives to put the internal devaluation approach on a stronger institutional footing. The latter involve repeated (unsuccessful) attempts by the German Chancellor Angela Merkel to initiate the conclusion of competitiveness pacts between the EU and member states and, more recently, in June 2015 the 'five presidents'' initiative to set up so-called 'competitiveness authorities' at national level with the explicit objective of 'assessing whether wages are evolving in line with productivity' (Juncker *et al.* 2015: 8).

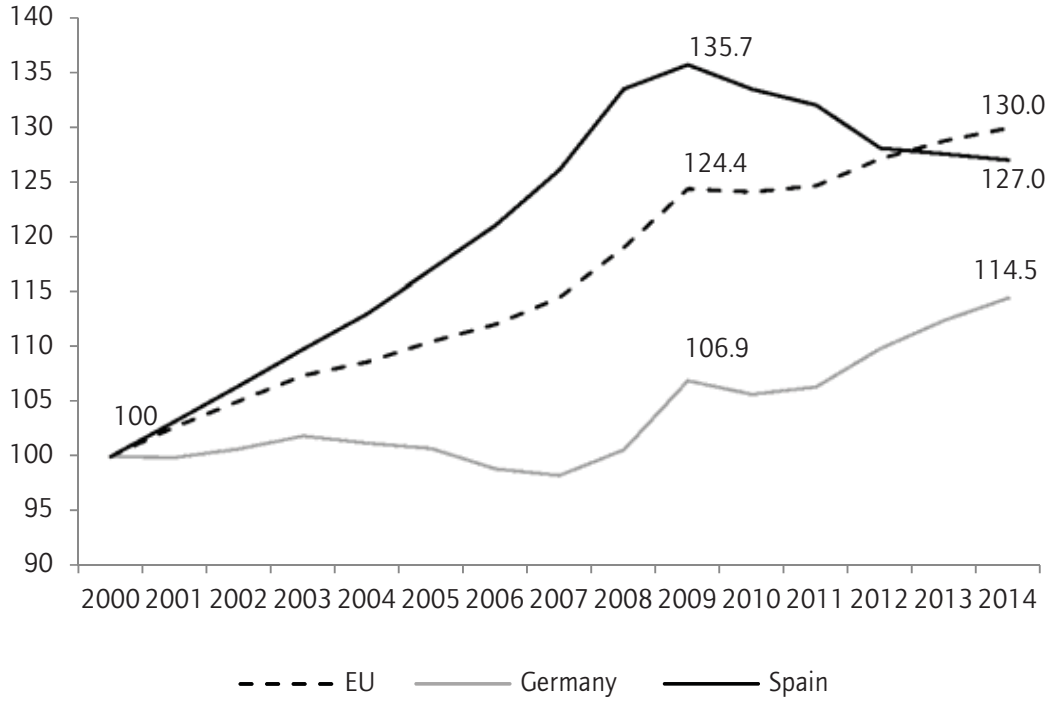
Because the powers-that-be claim that 'there is no alternative' (TINA) to an approach based on improving competitiveness through internal devaluation our objective in this chapter is to critically discuss the underlying assumptions and the argument of what we shall call the 'standard view' of the current crisis and appropriate crisis management. This will be done in three steps. In a first step, the standard view will be outlined in more detail, focusing in particular on the alleged causal link between divergent developments of wages and unit labour costs and macroeconomic imbalances. In a second step the standard argument will be taken apart into its main components in order to investigate whether the assumed causal links stand up. The key objective here is to illustrate how, at different junctures of the argument, the proponents of the standard view have neglected other important explanatory factors, which thus led them to the wrong policy conclusions. Against this background, the third step is to present an alternative and more sustainable growth model, which is based on a more expansive wage policy.

2. Wages and economic imbalances: the standard view

As Höpner and Lutter (2014: 3) succinctly illustrate, the standard interpretation of the current crisis is based on the following causal link: divergent developments in unit labour costs lead to different price developments, which in turn lead to divergent trends in competitiveness, which then cause divergences in current account balances between surplus and deficit countries. Considering, for example, nominal unit labour cost developments in Spain and Germany during the 2000s, the former was very much above the EU average, while the latter was very much below (Figure 1). Thus, the standard view sees the Spanish unit labour cost developments as the major cause of increasing account deficits, while the large account surplus in Germany is seen as a result of its high degree of competitiveness rooted in very moderate unit labour cost developments.

As divergences in nominal wage developments are claimed to be at the root of the current macroeconomic imbalances, the key problem, supposedly, is that, in contrast to the so-called 'surplus countries', nominal

Figure 1 **Nominal unit labour costs in Germany, Spain and the European Union**



Source: AMECO Database, authors' calculations.

wages in the so-called 'deficit countries' have outpaced productivity developments. Since nominal unit labour costs are defined as nominal wages divided by productivity (usually measured in GDP) the different developments of nominal wages led to divergences in the development of unit labour costs, which have increased continuously since the establishment of EMU. Due to the close link between unit labour costs and inflation, divergences in the former lead to an ever increasing gap in prices for goods and services produced. The divergent developments of inflation meant that the real exchange rates of surplus countries depreciated so that comparable goods and services could be offered abroad more cheaply. The result was an ever widening (cost/price) competitiveness gap between the two groups of countries, which in turn had far-reaching implications for international trade flows. Due to the competitive cost and price advantage, exports in surplus countries far exceeded imports, while in deficit countries the dynamic was the other way around, leading to the observed macroeconomic imbalances.

This, in a nutshell, is the logic on which the standard view of the current crisis as a cost competitiveness crisis is based. However, with regard to the measures needed to address this crisis two different strands can be distinguished. For the first strand of the standard view the key problem is the 'excessive' development of wages and unit labour costs in the deficit countries alone. The proponents of this view therefore suggest that the deficit countries should follow the example of the surplus countries – and in particular Germany – in ensuring moderate nominal wage developments in line with productivity. The policy measures proposed by the proponents of this perspective to solve the deficit countries' competitiveness problem have two basic elements: first, to pursue a strategy of 'internal devaluation', which is a euphemism for wage cuts and freezes; and second, to implement 'structural reforms' aimed at increasing the downward flexibility of wages.

This is the dominant perspective among European policymakers, in particular the European Commission's DG ECFIN, the European Central Bank (ECB) and the European Council. They have used the new system of European economic governance, which was set up in order to cope with the current crisis, for unprecedented political intervention in national wage setting and collective bargaining in order to ensure implementation of the strategy of internal devaluation and neoliberal structural reforms (Schulten and Müller 2015). This finds its clearest expression in the Memorandums of Understanding (MoU) signed by the

so-called 'Troika' and the countries in need of financial assistance, and the country-specific recommendations (CSR) proposed by the European Commission and adopted by the European Council in the context of the European Semester (the EU's annual cycle of economic policy guidance and surveillance). Both, the MoUs and the CSRs repeatedly call for moderate wage developments (involving cuts and freezes of public-sector and minimum wages) and for measures leading to the decentralisation of collective bargaining, in particular the introduction of more restrictive criteria for extending collective agreements (Schulten and Müller 2015: 338).

The second strand of the standard view of wages and economic imbalances shares with the first strand the notion that divergent wage and unit labour cost developments are a central factor causing the macroeconomic imbalances. However, while the first strand puts the whole burden of rebalancing on the deficit countries, for the proponents of the second strand surplus countries could play an equally important role in dealing with macroeconomic imbalances by promoting stronger domestic wage growth (for example, Grauwe 2012; Malliaropulos and Zarkos 2013; Flassbeck and Lapavitsas 2013). From this perspective, the fact that German nominal unit labour costs persistently undershot the commonly agreed inflation target of 2 per cent in the run up to the crisis contributed as much to that crisis as the overshooting of nominal unit labour costs in many southern European countries. Thus, what is needed to deal with the macroeconomic imbalances is a process of asymmetric adjustment in which wage moderation in the deficit countries is complemented by substantial wage increases in the surplus countries.

This should also be reflected in the crisis management pursued by European policymakers. One major criticism levelled by the proponents of the second strand against the current crisis management concerns its one-sided focus on deficit countries. The institutional bias towards the deficit countries is reflected in the fact that the macroeconomic 'scoreboard' used to monitor current account imbalances foresees different thresholds for deficit and surplus countries. While current account imbalances for deficit countries are considered problematic in excess of –4 per cent, for surplus countries the corresponding threshold is 6 per cent measured in terms of three-year averages (Leschke *et al.* 2015: 311).

However, regardless of the concrete policy conclusions drawn by the proponents of the two perspectives they both share the key focus on

wages as the main adjustment variable for the macroeconomic imbalances within EMU. In Section 3 we subject this close link between wages, competitiveness and economic performance, which is inherent in both variants of the standard view, to a critical review.

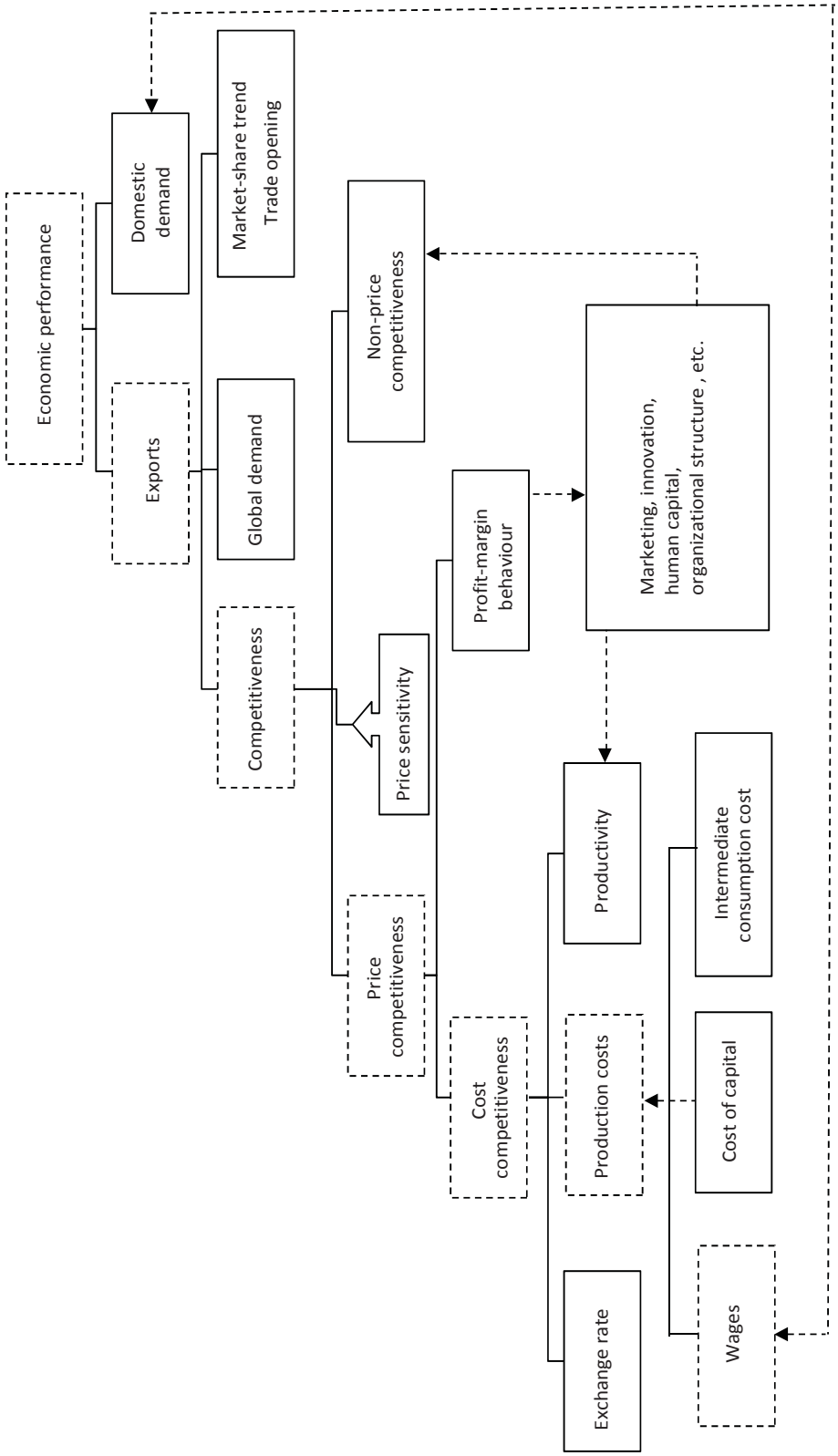
3. Critique of the standard view

The objective of the following critique is to debunk the standard argument by breaking up the causal chain leading from divergent wage and unit labour cost developments to differences in economic performance into its three main components and basic assumptions. These are: (i) there is a direct causal link between unit labour cost developments and a country's price competitiveness; (ii) there is a direct causal link between the development of price competitiveness and export performance; and (iii) growth and economic performance are driven mainly by a country's export performance.

Figure 2, which provides a stylised overview of the determinants of economic performance, illustrates that each of these assumptions is characterised by an overly narrow focus on certain explanatory factors (see dashed boxes) at the expense of others that have not been taken into consideration sufficiently. In the following each of these assumptions will be reviewed critically in light of recent studies that demonstrate that there are alternatives to the interpretation put forward by proponents of the standard view.

The three key assumptions of the standard view are derived essentially from the belief that there is an analogy between corporations and countries. According to this view, countries – just like corporations – are in direct competition with each other and can outperform each other in an attempt to gain international market shares (Krugman 1994: 30). This analogising is problematic in a number of respects. Leaving aside the fact that it is not countries as such but companies and their products that compete, another problem is that it considers international trade to be a zero sum game in which the gain of one country comes at the expense of another. However, in an internationally integrated economy, countries are not only home to companies that compete in the domestic market, but are also one another's export markets and suppliers of useful imports (Krugman 1994: 34). Thus, better economic performance in one country can often benefit other countries as well.

Figure 2 **Determinants of economic performance**



Source: Adaptation of Sautard *et al.* 2014: 3.

Another problem with this thinking in analogies is that it implies a specific measure of competitiveness. It makes a country's trade balance – more specifically, its trade surplus – the main yardstick for assessing competitiveness. This chimes with a definition put forward by the European Commission according to which international competitiveness can be viewed as 'the ability to export goods and services in order to afford imports, and hence it will be summarised by world market shares' (European Commission 2010a: 23). However, as Krugman succinctly puts it, this means that competitiveness is commonly measured in terms of 'the ability of a country to sell more abroad than it buys' (Krugman 1994: 31), which in turn generates the erroneous view that exports are the key determinant of a country's economic performance. This aspect of the standard view's argument will be dealt with at a later stage. In Section 3.1 we discuss the relationship between unit labour costs and price competitiveness in more detail.

3.1 The relationship between unit labour costs and price competitiveness

One of the key assumptions on which the strategy of internal devaluation is based is that unit labour costs are the main factor that determine a country's price competitiveness. This one-sided focus on unit labour costs has been criticised from different angles. One of the first fundamental criticisms was developed by Cambridge economist, Hungarian-born Nicholas Kaldor. He found that between 1963 and 1975 countries with the highest increase in unit labour costs also had the best export performance measured in market share, which in the literature is referred to as 'Kaldor's paradox' (Kaldor 1978: 105). His analysis also yielded that for the majority of the 12 OECD countries he investigated the development of relative unit labour costs did not go hand in hand with the development of relative export prices. Against this background he concluded that 'the customary measures of "competitiveness", whether they be unit labour costs or export prices, are arbitrary and not an adequate indicator of a country's true competitive position' (Kaldor 1978: 106).

More recent criticism boils down to two main arguments: first, the one-sided focus on unit labour costs ignores the fact that not only wages and unit labour costs but also the cost of capital determine a company's production costs; and second, the one-sided focus on unit labour costs does not sufficiently take into account that price competitiveness is not only

determined by a company's cost competitiveness, but also by its profit margin behaviour; that is, it assumes a direct relationship between cost and price developments.

The first argument – that it is mainly unit labour costs that determine the cost of production and price competitiveness – has been challenged by Felipe and Kumar (2011a). By analogy with unit labour costs as an indicator of competitiveness from the workers' side they calculated the unit *capital* costs, defined as the ratio of nominal profit rate to capital productivity as a measure of competitiveness from the capital side (Felipe and Kumar 2011a: 14). Looking at developments in 12 different countries for the period 1995–2007, they found that, with the exception of Greece, unit capital costs grew faster than unit labour costs in all countries. This in turn illustrates that the 'loss of competitiveness' is a question not so much of nominal wages increasing faster than labour productivity as of containing the development of capital costs.

The relationship between the development of unit labour costs and price developments has been addressed by various studies from different angles. Feigl and Zuckerstätter (2012), for instance, looked at the extent to which unit labour costs and profit development contributed to inflation developments in different European countries. Their results show that for the euro zone as a whole between 2000 and 2007 income from profits contributed more to inflation than unit labour costs development. The most striking example is Spain. The contribution of nominal wages to inflation exceeded the margin that would have been compatible with the ECB inflation target by 7.3 per cent. However, the contribution of income from profits exceeded the margin defined by the ECB inflation target by almost 10 per cent, which in turn illustrates that the main problem for Spanish price competitiveness was not so much excessive wage developments but the profit margin behaviour of companies.

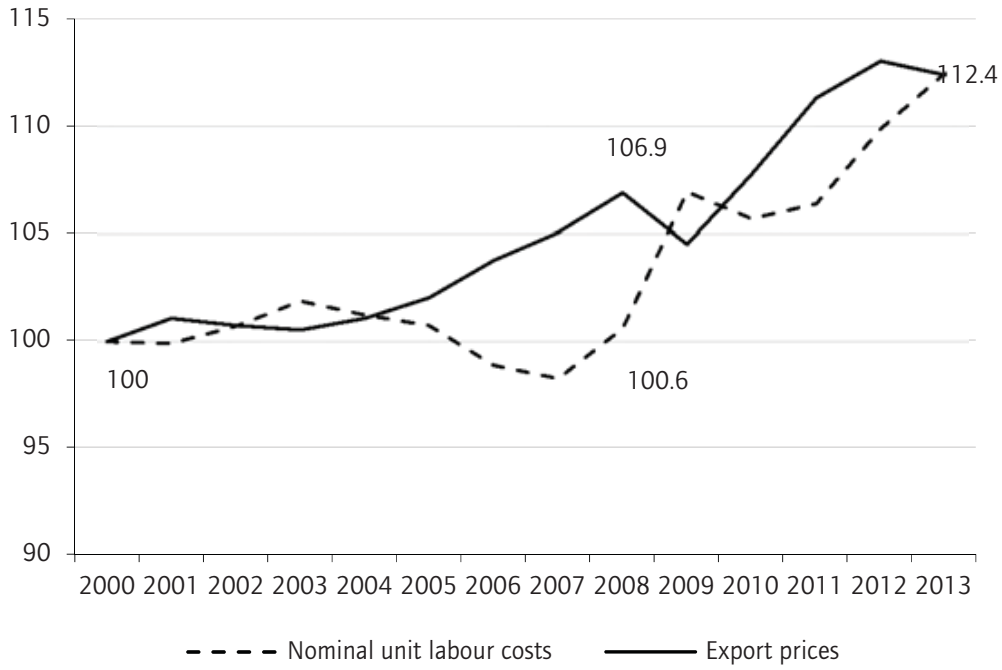
The limited impact of unit labour costs on international competitiveness is confirmed by Storm and Naastepad (2014b), who found that in the southern European countries Greece, Italy, Portugal and Spain unit labour costs make up only about 16 per cent of manufacturing gross output price, which in turn leads them to conclude that unit labour costs 'do not matter much for competition' (Storm and Naastepad 2014b: 9).

Developments in Spain and Germany are prominent examples that illustrate the criticism outlined above. Spain is particularly interesting

because the country is often portrayed as a model student in implementing the internal devaluation approach. In fact, by 2013 Spain – like two other southern European programme countries Portugal and Greece – managed to offset all the differences in unit labour costs growth compared with the rest of the euro zone which had been accumulated since 1999 (Uxó *et al.* 2014: 13; see also Figure 1). However, despite this substantial drop in unit labour costs the country still lags behind in terms of relative price developments. The key factor that explains this phenomenon is that the decrease in unit labour costs has only partially been passed on to prices and has instead been used to increase profit margins (Le Bayon *et al.* 2014). Because inflation is not only determined by wages/unit labour costs but also by profit margins and indirect taxes the substantial increase in profit margins more than offset the positive contribution of falling unit labour costs to inflation developments measured as the GDP deflator (Uxó *et al.* 2014: 9). The increasing profit margins also meant that unit *capital* costs in contrast to unit labour costs continued to grow during the crisis. Thus, whereas in the pre-crisis period the inflation differential between Spain and the euro-zone average was explained by higher growth in both unit labour costs and unit capital costs, the differences in price competitiveness since then have been due to the increase in profit margins and unit capital costs (Uxó *et al.* 2014: 10).

Germany is an interesting case because it is often presented as the role model of internal devaluation that deficit countries should follow. However, with regard to developments in Germany, even the European Commission's DG ECFIN acknowledges that the strong growth of German exports in the 2000s was not driven primarily by unit labour cost developments, but mainly the result of strong economic growth in Germany's main export markets (European Commission 2012a, 2014; Schulten 2015). As a matter of fact, Germany's dynamics were quite similar to those in Spain because falling unit labour costs did not translate directly into falling prices (and therefore export performance which was determined mainly by Germany's strong non-price competitiveness). Figure 3 illustrates that during the first half of the 2000s unit labour costs and export prices developed almost in parallel. In the second half of the 2000s, however, unit labour costs went down, while export prices showed a strong increase. Since the second half of the 2000s was also the period of Germany's fastest export growth, many German companies obviously saw no need to transfer the gains in price competitiveness from wage restraint into lower export prices (Herzog-Stein *et al.* 2013). On the contrary, the companies used wage moderation to realise extra profits.

Figure 3 **Nominal unit labour costs and export prices, Germany, 2000–2013 (2000=100)**



Source: Schulten (2015).

Developments in Spain and Germany highlight the deficiencies of the standard view's assumptions: first, wages and unit labour costs alone are not an appropriate measure of cost competitiveness because the cost of capital – that is, unit capital costs – also plays an important role. Second, there is no direct link between cost and price developments because price competitiveness is determined not only by cost competitiveness but also by profit margin behaviour.

3.2 The relationship between competitiveness and export performance

Figure 2 illustrates that export performance is determined mainly by foreign demand and competitiveness, which can be divided into price and non-price competitiveness. Of the three factors, price competitiveness plays by far the most important role in the narrative put forward by proponents of internal devaluation. Accordingly, the key factors often mentioned as contributing to the German success story are moderate wage developments and changes to the legal framework aimed at deregulating

labour markets and the social security system, promoted in particular by the notorious 'Hartz Laws' (Knuth 2014). To some observers following the standard neoclassical interpretation these policies are the main reason why Germany escaped the crisis largely unscathed and was able to transform itself from the 'sick man of Europe' at the beginning of the 2000s to an 'economic superstar' at the end of the decade (for example, Dustmann *et al.* 2014). The second strand of the standard view, on the other hand, heavily criticises these very same policies as 'wage dumping', according to which Germany has followed a beggar-thy-neighbour approach and has achieved its economic success mainly at the expense of other countries (for example, Flassbeck and Lapavitsas 2013). As diverse as these interpretations are, they both share the same assumption of a direct link between the increase in price competitiveness and the success of Germany's export industries.

The key question with regard to the whole argument made by the proponents of the standard view is whether there really is a direct causal link between the development of price competitiveness and the development of exports. Empirical evidence suggests that the relationship is not as straightforward as the standard view would have us believe. A comparative study by the European Commission investigating the relationship between the development of real effective exchange rates (as an indicator of price competitiveness) and market shares (as an indicator of export performance) shows that price competitiveness in fact accounts for less than 40 per cent of the changes observed in the euro-area countries' export performance in the period 1998–2008 (European Commission 2010b: 24).

Particularly illustrative in this respect is a comparison between France and Germany. While both countries show an almost identical development of price competitiveness – both pre-crisis (2000–2008) and during the crisis (2008–2012) – the export performance of the two countries diverged substantially. While in the pre-crisis period price competitiveness in both countries deteriorated at roughly the same rate, Germany's exports grew, on average, by approximately 1 per cent a year, while in France the annual average change of exports was almost –3.5 per cent. By the same token, price competitiveness during the crisis period grew in both countries at roughly the same rate. However, the annual average change of export performance in France remained slightly negative, while in Germany the annual average change was almost 2 per cent (Sautard *et al.* 2014: 2).

According to Sautard *et al.*, these divergent developments in export performance despite almost identical developments in cost competitiveness can be explained by the fact that 'the contribution of non-price competitiveness exceeds the combined contribution of global demand and the real effective exchange rate' (2014: 4). This is confirmed by another study published by DG ECFIN (European Commission 2012b), which investigated the contribution of foreign demand, price and non-price competitiveness to export growth in manufactured goods. The DG ECFIN study yields three crucial results: first, foreign demand is one of the key drivers of export performance but to the same extent in France and Germany, which means that this cannot explain the difference in export performance; second, the role of price competitiveness in explaining the differences in export growth is marginal; and third, the factor that really makes the difference is the development of non-price competitiveness (measured as a residual, that is, that part of export performance not explained by prices and foreign demand) (European Commission 2012b: 23).

The importance of non-price competitiveness for export performance is confirmed by a number of other studies (for example, European Commission 2010b; Felipe and Kumar 2011a, 2011b; Storm and Naastepad 2014a, 2014b). Even though non-price competitiveness is very difficult to measure, the various studies show that the structure of the export basket in terms of its sectoral composition and in terms of the complexity and quality of the exported products is one of the key factors. Felipe and Kumar (2011a, b), for instance, show that between 2000 and 2007 the German share of total world exports of the top 100 most complex products was more than 18 per cent, compared with 3.6 per cent in the case of France or less than 1 per cent in the case of the southern European countries Greece, Portugal and Spain (Felipe and Kumar 2011a: 29). Thus, one important factor that explains Germany's better export performance compared with other European countries is sectoral specialisation, with a high concentration of its exports in the most complex product segments, such as automobiles, chemicals and machine-building. These are all knowledge- and technology-intensive industries with less price-sensitive products in which labour costs play only a minor role (Sautard *et al.* 2014: 6). Returning to the comparison between France and Germany, it is the more complex export basket and the lower price sensitivity of the exported products that mainly explain why the similar losses of price competitiveness in both countries had entirely different impacts on export performance.

Non-price competitiveness also is one of the key factors explaining what is sometimes referred to as the 'Spanish paradox' (Cardoso *et al.* 2012). The Spanish paradox refers to the comparatively good export performance of Spanish industry before the crisis despite above average unit labour cost developments and significant losses in price competitiveness (measured in terms of real exchange rate appreciation). Several explanations have been offered in the literature, but one crucial factor seems to have been that the positive effects of non-price determinants more than offset the negative effects of rising export prices (Correa-López and Doménech 2012: 25). This is not self-evident, however, given the overall low complexity of the Spanish export basket. Here it is important to look at disaggregated firm-level figures because Spanish exports are highly concentrated on large firms that have stronger non-price positioning in terms of market access, product complexity and R&D investment (Braunberger 2012). This does not show up in aggregated figures, however.

But non-price competitiveness comprises not only such factors as product differentiation, technological content or product quality and innovation. It also includes a broad range of features that are not directly measurable but which consumers use in making their choices, such as design, brand image, distribution networks and customer support services (Sautard *et al.* 2014: 3). From a broader perspective non-price competitiveness even includes basic societal framework conditions such as technological and logistical infrastructure, systems of skill formation and R&D or culture of labour relations.

All this has important policy implications in the context of crisis management. Even if one follows the assumption of the standard view that exports are the key factor determining growth, the focus should not be, in particular in the southern European countries, on cutting costs to improve cost competitiveness, even though in the short run this variable is the easiest to influence. The focus should rather be on boosting non-price competitiveness by investing in the (re)construction and upgrading of economic structures and the goods and services produced (Monokroussos 2015). If anything at all, this would be the real lesson to be learned from the German recovery (Storm and Naastepad 2014a: 21).

3.3 Significance of exports for overall growth

Because the standard view measures competitiveness primarily in terms of world market shares it systematically overestimates the significance of exports for a country's economic performance and growth. There are different ways to measure the significance of exports for economic growth in terms of domestic value added. One option, for instance, is to use the share of net exports in GDP, which is the procedure used by standard national accounting formulas. The implicit assumption here is that all imports are re-exported and that only the difference is used or produced domestically. This approach may be best suited to describe the situation of a pure trading port; however, even Hong Kong or Singapore would not fully fit into this model. This procedure is suited mainly to calculate domestic production in terms of the expenditure approach, but even then it would probably underestimate the importance of foreign trade in the national economy.

Another option is to compare total sales within a country to total exports. This calculation is based on the implicit assumption that exported goods and services have the same content of imported and other intermediate inputs as all other expenditure categories. This method could, however, run into trouble if, for example, export goods and services are produced in highly fragmented value-added chains, while goods for domestic use are provided by a single enterprise.

A more reliable measure based on readily available data seems to be the exports-to-final-use ratio. Final use comprises domestic demand and export and – by virtue of national accounting identities – has to equal GDP plus imports. Using this measure is equivalent to the assumption of uniform import contents across exports and domestic uses of goods. This assumption seems fairly sensible, at least for highly integrated industrial nations. As public services are usually not traded across borders, the share of exports in demand for national production might still be slightly overestimated. Calculations from IO data usually show a somewhat higher share of imported inputs in export goods than in domestic use.

Nevertheless, exports-to-final-use ratios are much closer to IO measures of actual value-added exports. Data on value-added exports to GDP, which is the correct measure to judge the importance of foreign demand for domestic production, are now available from the WIOD project

(OECD-WTO). Johnson (2014) gives an overview of their findings and consequences for trade analysis.

Calculating the significance of exports for overall demand on this basis reveals that, even in Germany, which takes a lot of pride in being 'export world champion', exports in fact account for only one-third of overall demand for goods and services (2012; see also table 1). For the euro zone as whole, exports accounted, roughly, for only one-fifth of overall demand in 2012 (for a more detailed account, see Feigl and Zuckerstätter 2012). If one includes the rest of the EU and the European Economic Area the number is even smaller, so that aggregate demand and, with this, the economic performance of the EU depends on domestic demand to the extent of more than 85 per cent. This has important implications for economic policy because if the economies of Europe depend largely on domestic demand the contribution of exports to economic growth is too small to compensate for a decline in domestic demand as a consequence of a declining wage share.

Table 1 presents an overview of overall demand for the EU member states and confirms that the economic performance of EU countries depends overwhelmingly on domestic demand.

Against this background it should be clear that a Europe-wide export-led growth model based on a strategy of wage moderation across the EU is not sustainable in the long run. Advocates of such a model overlook the fact that, in a highly integrated economic area such as the euro zone, in accordance with the 'paradox of thrift', not all 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 2013). Thus, if all countries try to improve their competitive position by cutting wages at the same time in order to improve their export performance, overall domestic demand will collapse, as will, together with it, the flow of imports and exports between the euro-zone countries.

Table 1 **Total demand: domestic, EMU, EU, rest of the world (2013 in %)**

	Domestic demand	EMU	Non-EMU members of EU	Third countries	Exports, destination unknown
Germany	68	12	7	14	
France	78	10	3	9	
United Kingdom	76	9	1	13	
Italy	77	9	3	11	
Spain	75				25
Netherlands	55	24	7	14	
Sweden	84			16	
Poland	89			11	
Belgium	54				46
Austria	65	19	6	11	
Denmark	66	11	8	16	
Finland	71	8	8	13	
Greece	77	8	4	11	
Portugal	71	16	4	9	
Ireland*	53	17	10	19	
Czech Republic	87			13	
Romania	70	16	5	9	
Hungary	53	26	10	11	
Slovakia	51	21	18	8	2
Luxembourg	43				57
Croatia	70				30
Bulgaria	78			22	
Slovenia	58	23	6	13	
Lithuania	73			27	
Latvia	62	11	13	13	
Estonia	53	15	18	14	
Cyprus	67	8	6	15	3
Malta	38	12	8	14	27

Source: Eurostat.

4. Conclusion: wage-led growth as alternative to internal devaluation

The foregoing discussion of the three basic assumptions of the standard argument has shown that none of them are as straightforward as the proponents of the standard view claim. The discussion has illustrated that there is no direct causal link between the development of unit labour costs, price competitiveness and economic performance. The discussion has also shown that at each critical juncture the standard argument neglects alternative explanatory factors. However, this is not to say that wages and unit labour costs play no role at all in a country's economic performance and growth potential.

On the contrary, as the example of Germany again demonstrates. While restrictive wage developments were not the main drivers of Germany's flourishing export industries, they nevertheless have contributed strongly to the *downside* of the German export-led growth model, which is its largely underdeveloped domestic sector.

In the 2000s, German wage developments were – for various reasons, such as high unemployment, a partial erosion and fragmentation of collective bargaining and the deregulation of labour markets – characterised by two main trends (Schulten and Bispinck 2014). First, wage increases remained largely below productivity growth and were often even below inflation, which led to a further decline of the wage share and an ongoing redistribution from labour to capital income. Secondly, Germany saw a significant increase in income inequality boosted by growing wage dispersion and rapid expansion of the low wage sector.

Both wage development trends had a strong negative effect on the overall development of domestic demand as they significantly dampened private consumption (Sturn and van Treeck 2013). Between 2000 and 2008 average private final consumption expenditure in the EU grew by 16 per cent, which was four times that of Germany, where it was only 4 per cent (Figure 4). Only since the crisis in 2009 has somewhat higher wage growth in Germany contributed to higher growth of private consumption, while wage cuts and wage freezes in many other European countries have led to a stagnation of private demand (Schulten 2014).

Although Germany has obviously gained from its flourishing export industries, the weak development of domestic demand has strongly

Figure 4 **Private final consumption expenditure in Germany and the EU, 2000–2013 (2000=100)**

Source: Schulten (2015).

undermined the economy's ability to realise its growth potential (Herzog-Stein *et al.* 2013; European Commission 2014). Moreover, the underperformance of the domestic sector has also been – at least partially – responsible for the fact that import growth rates were no longer in balance with export growth (Detzer and Hein 2014). Thus, restrictive wage development in Germany has indeed contributed to the country's rising account surplus and increasing macroeconomic imbalances. However, this was due primarily to the dampening of domestic demand, not the strategy of 'wage moderation'.

In light of the importance of domestic demand for a country's economic performance, rather than focusing on exports a more promising approach would be to pursue a wage-led growth model based on reversing the current trends of falling wage shares and a redistribution from labour to capital income (Lavoie and Stockhammer 2013). Recent research by Onaran and Obst (2015) confirms that domestic demand in the majority of EU countries is wage-led and that therefore a fall in the wage share as a result of the policy of internal devaluation leads to lower growth. This means that the negative effect of a falling wage share on

domestic demand cannot be offset by potentially positive effects in terms of international (cost) competitiveness. This is, of course, completely at odds with the assumptions of the standard view. However, the study by Onaran and Obst (2015) furthermore illustrates that the positive effects for growth of an increasing wage share are even reinforced when introduced in a coordinated manner across Europe.

Implementation of a wage-led growth model would require various measures to strengthen domestic demand. With regard to wages and collective bargaining this would include the following measures in support of an expansive wage policy: the establishment of a decent minimum wage that is not below the low-wage threshold of two-thirds of the national median wage, improved legislative provisions to strengthen the bargaining power of trade unions and measures to increase collective bargaining coverage (Hein und Mundt 2013).

However, it is important not to repeat the mistake of the standard view by putting too much emphasis on wage policy as an adjustment variable. The pursuit of an expansive wage policy can be only one building block in the alternative growth model and needs to be complemented by a whole range of measures in other policy fields. They include increased public investment in social and physical infrastructure and targeted investments to improve non-price competitiveness by enabling countries to upgrade their export basket. In this way the pursuit of a wage-led growth model would acknowledge the multiple functions of wages, as a cost factor, on one hand, and as a driving force of domestic demand and social cohesion, on the other. In doing so, it would avoid the one-sided and narrow interpretations of the standard view.

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Chapter 8
Less governance capacity and more inequality: the effects of the assault on collective bargaining in the EU

Maarten Keune

1. Introduction

For many years, the EU was a major promoter of a strong role for employers' organisations and trade unions in the EU member states. It incessantly underlined the importance of social dialogue and autonomous collective bargaining as a core element of the European Social Model, stressing their contribution to democracy, good governance, economic efficiency, innovation and social cohesion (for example, European Commission 2002, 2004). It did so, among other things, to lessen the dominance of economic integration and to strengthen the social face of the EU. The commitment of the EU to social dialogue and collective bargaining was demonstrated by the development and financing of social dialogue structures –both inter-sectoral and sectoral– at the EU level, by the creation of European Works Councils as workers' participation bodies in European multinationals and by the frequent consultation of EU level trade unions and employers' organisations in the making of EU economic and social policy over the past 20 years. Also, the right of workers and employers, or their respective organisations, to negotiate and conclude collective agreements is included in the Charter of Fundamental Rights of the European Union.[1] Indeed, the freedom to bargain collectively, at the levels chosen by the bargaining actors themselves, was considered a basic right within the EU. Strengthening social dialogue and collective bargaining was also a key demand from the Commission towards the Central and Eastern European countries in the process of preparation for their accession to the EU. The then candidate countries were urged to develop this core element of the social *acquis* (European Commission

1. See: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:083:0389:0403:EN:PDF

2002) and specific attention was paid to bargaining at levels higher than the enterprise. For example, Hungary was criticised by the Commission for the weakness of sector-level social dialogue and collective bargaining and received financial and professional assistance from the EU to strengthen sector-level industrial relations (Hajdú 2011: 77–78). Through all these measures, the Commission played a leading role in establishing a system of multi-level industrial relations in Europe (Keune and Marginson 2013) in which unions and employers have influential voices and bargain autonomously on wages and working conditions.

Since the start of the crisis, however, the position of the EU has changed dramatically. Its traditional discourse is increasingly being trumped by a counter-discourse originating largely in DG Economic and Financial Affairs, as well as in the European Central Bank (ECB). It pictures collective labour relations, and in particular trade unions, as obstacles to market coordination and hence to economic and employment growth. As argued in, for example, DG Economic and Financial Affair's 2012 Labour Market Developments Report (European Commission 2012: 104), the coverage of collective agreements should be decreased, collective bargaining should be decentralised, minimum wages should be reduced and the wage-setting power of trade unions should be diminished.

Far from being only a discursive shift, this view has also found its way into the policy-making process. For example, the 2011 Euro Plus Pact, signed by the heads of state of the euro countries and six other EU member states, proposes a series of measures to strengthen competitiveness, increase employment and foster financial stability. These include, among other things, abandoning wage indexation mechanisms, decentralisation of collective bargaining, and wage moderation in the public sector, all areas in which the EU did not meddle previously and in which it has no formal competencies under the EU Treaty. What is more, the EU countries that are in deep financial trouble and requesting assistance from the so-called Troika (the EU, the ECB and the International Monetary Fund) are confronted with stringent demands in the area of industrial relations. In exchange for financial support, countries such as Greece, Portugal, Ireland and Spain have had to introduce harsh reforms. These include drastic reductions of the minimum wage, public sector wages and pensions, and legislative changes aimed at decentralisation and lower coverage of collective bargaining. They allow company-level agreements to deviate downwards from multi-employer (often sectoral) agreements and have already resulted in a dramatic de-

cline in the number of workers falling under collective agreements in these countries.

Clearly, through its shift in vision and in policy the EU is further strengthening the role of the 'market' and putting economic goals before social ones. It is also undermining the position of employers' organisations and trade unions and fostering a move towards labour markets in which collective labour relations play only a minor role, contradicting the traditional EU position on their key importance. In this chapter we will look in more detail at the issue of collective bargaining and in particular the role of multi-employer bargaining. By calling for limits to and decentralisation of collective bargaining, the EU is actively undermining collective bargaining in general and multi-employer bargaining in particular. We will argue that by doing so it fosters increasing inequality and the destruction of governance mechanisms that have proven their worth both before and during the crisis. Below we will outline the developments in collective bargaining systems in recent years (Section 2). In Section 3 we will discuss the implications of these changes in terms of inequality and governance capacity. Section 4 concludes.

2. Collective bargaining developments during the crisis

The crisis period has resulted in numerous changes in the EU's collective bargaining landscape and wage-setting mechanisms. Here we will briefly review three main changes: (i) the various ways in which decentralisation of collective bargaining has occurred; (ii) the declining coverage of bargaining systems; and (iii) the one-sided imposition of wages in the public sector (Glassner and Keune 2012; Marginson *et al.* 2014; Marginson and Weltz 2014).

Where decentralisation is concerned, in particular in the private sector, many countries with collective bargaining systems in which national or multi-employer bargaining are traditionally the dominant forms of collective bargaining, have experienced decentralisation. Marginson and Weltz (2014: 4–5) show that such decentralisation has taken place in at least 10 EU countries: Austria, Bulgaria, Cyprus, France, Greece, Ireland, Italy, Romania, Slovenia and Spain (with recentralisation in Belgium and Finland). Germany could also be added to this list. Here we will not discuss the specifics of different national cases (see elsewhere in this volume for more detailed country analyses) but in-

stead focus on the various shapes decentralisation has taken and give some examples.

A first, longer-term trend in western Europe has been organised decentralisation, in which increasing space has been opened up for company-level negotiations within the framework of higher-level agreements that define the scope of such decentralised bargaining (Marginson and Sisson 2004; Traxler 1995). Through such organised decentralisation companies can shape collective agreements more to their specific needs while they are still embedded in a wider framework that provides procedural certainty to both parties and sets out what can and cannot be agreed upon at company level. A specific form of such decentralisation, which has been strengthened in a number of countries but has become commonplace especially in Germany, are 'opening' or hardship clauses which allow companies to undercut sectorally agreed standards to safeguard jobs. While such clauses were initially meant for companies in dire economic circumstances, they have become part and parcel of most sectoral agreements in Germany and have resulted in the widespread use of company-level employment pacts in which temporary job security is traded off against, among other things, the postponement of sectorally agreed wage increases, the reduction of special company payments above the collectively agreed rate, the reduction of collectively agreed bonus payments or the reduction of collectively agreed basic pay (Bispinck and Schulten 2011; Hassel 2014).

A second form of decentralisation is unorganised decentralisation, in which national or multi-employer agreements lose their role as a framework for decentralised bargaining. In Germany this happens as companies terminate their membership of employers' organisations to avoid coverage by sectoral agreements, possibly, but not necessarily followed by company bargaining. In Bulgaria, Greece and Cyprus, in a large number of sectors no agreements are made anymore and are in some cases – but not all– replaced by company bargaining (Marginson and Weltz 2014). In Ireland, in 2009, the practice of national, cross-sectoral agreements was abandoned as a result of the crisis, also to be replaced by company-level bargaining. Disorganised decentralisation has been further strengthened by the reduction of legal possibilities for extending sectoral agreements to companies not falling under the original agreement, or the reduced use in practice of such possibilities. As Marginson and Weltz (2014) show, there have been such changes in eight countries: Greece, Ireland, Portugal, Romania, Slovakia, Bulgaria, Germany and Italy.

A third form of decentralisation has been the legal inversion of the favourability principle, which traditionally holds that agreements concluded at lower levels may only improve on the standards established by higher level agreements. Such inversion has taken place since 2008 in Greece, Spain and Portugal, largely as a result of pressure exerted by the EU, the ECB and the IMF (Marginson and Weltz 2014). France had already introduced a similar inversion before the crisis, but in the French case wages are largely excluded from this measure. The inversion of the favourability principle undermines the role of sectoral agreements and puts the emphasis on company agreements.

Closely linked to decentralisation, a major change in the collective bargaining landscape has been the declining coverage of collective bargaining; that is, the fall in the number of companies and workers covered by collective agreements. Following the declining use of sectoral agreements, the reduced possibilities for or use of extension procedures, the inversion of the favourability principle, and, more generally, the reduced power of workers and their organisations to get employers to the bargaining table, the coverage of collective agreements has declined substantially in a number of EU countries. Two particularly dramatic and abrupt cases have been Spain and Portugal. In Portugal, the number of workers covered by any type of collective agreement fell from 1 894 788 to 327 662 in the period 2008–2012 (da Paz Campos Lima and Naumann 2014), hence by over 80 per cent. In Spain, it declined from a coverage rate of around 85 per cent of workers before the crisis to 57.8 percent in 2011.[2] In both cases, the decline is likely to have continued in recent years. In other countries a more gradual longer term decline has been observed. For example, in Germany, coverage has declined gradually from some 75 per cent in the late 1990s to 58 per cent in 2013 (Ellegut and Kohaut 2014).

A further major change has occurred in the public sector. In most EU countries governments have responded to the crisis by embarking on severe austerity programmes in order to restore their public budgets. These programmes have primarily targeted the public sector, in the form of unilaterally decided cuts or freezes of the wages of public-sector employees (Glassner and Keune 2012). Governments broke the tradition of wage bargaining with the public-sector unions that had previously been

2. See: https://eurofound.europa.eu/sites/default/files/ef_files/eiro/country/spain.pdf

followed in the vast majority of EU member states and minimised the unions' role in public sector governance (Glassner and Keune 2012). This trend has been strengthened by the budgetary 'discipline' demanded by the European economic governance framework, which has depoliticised budgetary decisions and limits the scope for public-sector unions and public authorities to negotiate agreements on wages and employment. It therefore also limits their options to develop responses to the crisis.

3. Implications for governance capacity and inequality

The above-discussed changes in collective bargaining – that is, the decentralisation of collective bargaining that increases the weight of company agreements over higher level agreements, the decline in the coverage of collective agreements and the turn to unilateral decision-making in the public sector– have in some member states come as an internal response to changing conditions, while in others they have been triggered by European-level policies (such as annual country-specific recommendations under the EU's new economic governance regime) or as part of the reform programmes required by the Troika of European and international institutions – the European Commission, European Central Bank (ECB) and International Monetary Fund (IMF)– as a condition of financial assistance packages provided to some countries. It is among this last group of countries – which includes Cyprus, Greece, Ireland, Portugal and Spain– that wage-setting regimes have undergone the most extensive changes. These changes have had a number of profound implications. Here we want to highlight their negative effects on equality and governance capacity. Collective bargaining, and in particular multi-employer collective bargaining, offer a number of unique governance options that allow the effective pursuit of social and economic objectives, as well as the reduction of inequality, as we will discuss below.

Governance capacity

Collective bargaining can be defined as the joint and collective regulation of substantive and procedural elements of the employment relationship by trade unions and employers. It sets the terms and conditions of employment, determines the rights and obligations of employees and employers and outlines joint policies and initiatives in the areas of train-

ing, social security, employment and others. It is a form of social self-determination by collective societal forces that possess unique knowledge of the needs of workers, enterprises, sectors and the economy and society in general, knowledge that is not necessarily available to public policymakers. Collective bargaining as a form of governance constitutes an alternative to market governance with a number of advantages, particularly where encompassing multi-employer bargaining is concerned.

One quality of multi-employer bargaining is that, by setting common (minimum) standards for a particular sector or region, it takes elements of wages and working conditions out of competition. By limiting competition on wages and working conditions, multi-employer bargaining avoids the risks associated with a downward spiral of competition in labour standards: unsafe working conditions, volatile and low earnings, excessive working hours and job insecurity, particularly for vulnerable groups of workers. In this sense, multi-employer bargaining also acts as a 'beneficial constraint' (Streeck 1997), fostering investment in human resources and a focus on quality and innovation-based economic activities, with potential positive effects on competitiveness and growth at both the micro and macro levels. Second, multi-employer bargaining helps to promote industrial peace and to avoid multiple efforts and conflicts at company level related to the setting of wages and working conditions. It allows management and workers at company level to focus on producing goods and services and raising productivity in an environment of social peace and stability.

Third, multi-employer bargaining has the capacity to address negative externalities generated by the market (Marginson *et al.* 2014). Externalities are effects generated by market processes but which are not incorporated within the resulting market transactions, such as environmental damage (Crouch 2014). In the labour market externalities include insecurity in the lives of workers and their families arising from actual or prospective job loss and/or income reduction (Marginson *et al.* 2014). A core example is incorporating the unemployment effects of wage developments and the creation of labour market outsiders in collective bargaining. Where bargaining arrangements are extensive in their coverage and well-coordinated at national level, union negotiators are likely to take account of the effects of wage settlements on employment because unemployment will weaken union bargaining power (Crouch 2012; Traxler *et al.* 2001).

Also, in the initial years of the crisis, collective bargaining demonstrated its capacity to deal with similar externalities particularly in manufacturing, through agreements concluded at both the sectoral and company levels aimed at maintaining employment through a combination of measures, including short-time working, freezes in basic pay, suspension of pay premia and alternatives to redundancy, such as redeployment (Glassner *et al.* 2011). These agreements

> 'served to mitigate the negative effects of a rapid deterioration in market conditions for workers, by sustaining employment, and also employers, by facilitating retention of skills and experience in anticipation of subsequent recovery. Moreover, by generating negotiated responses to the impact of the crisis, collective bargaining also helped maintain cooperative relations and therefore trust between employers and their workforces, thereby avoiding further negative externalities on workforce morale and commitment associated with unilateral management decisions.' (Marginson *et al.* 2014: 38)

The mitigating effects of collective bargaining were much stronger in countries with multi-employer bargaining systems than in those in which company bargaining dominates, in particular because of the much higher coverage rates of multi-employer bargaining systems.

Finally, multi-employer bargaining is also of interest from a public policy perspective. It allows for coordination between social and economic policy, on one hand, and collective bargaining on the other and can hence be instrumental in achieving national policy objectives concerning income, employment and social security. The government and the two sides of industry can agree on certain income, social security and labour market policies, and multi-employer agreements can be used to implement part of these policies. For example, multi-employer agreements have been key for the implementation of social pacts across the EU by incorporating centrally-agreed wage increases and other measures defined in such pacts (Pochet *et al.* 2010; Avdagic *et al.* 2011). They can play a key role in labour market management and in the coordination of economic and social policy.

Hence, collective bargaining – and in particular multi-employer collective bargaining– offer a series of governance alternatives that are not available in labour markets where the 'market' is the sole governance

mechanism. The earlier-discussed decentralisation of collective bargaining, its declining coverage and its suspension in the public sector threaten to eliminate these governance alternatives and therefore has reduced the capacity of EU countries to respond to the crisis in an effective and organised way.

Inequality

Collective bargaining also has a major effect on developments in inequality (Berg 2015; Keune and Vandaele 2013). Inequality has been increasing in most EU countries in recent years (Berg 2015; Salverda *et al.* 2014). This is problematic because rising inequality is more and more being identified as one of the key factors weakening countries' social and economic performance (Wilkinson and Pickett 2009; Ostry *et al.* 2014). Collective bargaining can first have an equality effect in terms of the power relations between workers and employers. It can, to some extent, balance the power relations between individual workers and their employers by collectivising the power of workers. Second, it can foster greater equality between workers across companies and sectors. In this way, collective bargaining can be an instrument for social justice and ensure that the rights and needs of both sides are respected and the fruits of progress are shared in a socially just way. This also means that the equality effect of collective bargaining is greater where the coverage of collective agreements is higher, which is in the countries where multi-employer bargaining dominates. Multi-employer collective agreements, possibly supported by extension mechanisms, can foster inclusion and equality by extending bargaining coverage to the weaker groups in the labour market that have little bargaining power. They can also, possibly in the context of social pacts, moderate wages in favour of employment growth, again with the objective of including weaker groups affected by unemployment.

Multi-employer bargaining systems also offer a conducive institutional context for an equality-oriented, solidaristic wage policy, which has two main aims (Schulten 2002: 174): (i) equal pay for work of equal value, implying that wages should not depend on individual company circumstances alone but should be standardised in multi-employer collective agreements, while pay rises should be in line with growth of the overall economy, enabling its benefits to be shared between capital and labour in a manner ensuring that all workers participate equally in economic

progress; and (ii) a more egalitarian wage structure, reducing pay differences between higher and lower wage groups and counteracting market forces that result in increased wage differentiation. They often do so by compressing the overall wage distribution by propping up wages at the bottom of the wage pyramid (Berg 2015). Through the common standards they set, multi-employer bargaining systems can be expected to produce much lower wage inequality than systems in which company bargaining dominates or where bargaining plays no important role at all (Keune and Vandaele 2013). This does not necessarily mean that multi-employer bargaining produces high wage growth. In fact, across Europe, the wage share has decreased in recent decades, marking a gap between productivity improvements and wage growth and a shift in income from labour to capital (Keune and Vandaele 2013). This common trend has occurred, however, as a result of different mechanisms. Within the multi-employer bargaining systems it can be attributed, to a large extent, to wage moderation based on collective agreements and social pacts, which set additional goals in terms of equality, employment or social policy. In the single-employer bargaining systems, with low bargaining coverage, wage moderation stems rather from market mechanisms and the unilateral imposition of wage levels. Another difference is that the organised nature of the multi-employer bargaining systems, in the longer term, are better at limiting the shift of income from labour to capital, which is indeed stronger in single-employer bargaining countries.

Until the crisis, some decentralisation had taken place in most of the EU countries with multi-employer bargaining systems but to a large extent they maintained their high levels of bargaining coverage and a high wage coordination capacity. During the crisis, as discussed earlier, in several countries –and in particular in the countries receiving financial aid from the EU, ECB and IMF– these systems have come under strong pressure and have indeed been overhauled radically in countries such as Spain, Portugal, Greece and Ireland. In others, mainly Germany, the system is being weakened more gradually. This means that in a number of EU countries the institutional architecture for equality-oriented, solidaristic wage policy and policies aimed at the inclusion of weaker groups has disappeared or is disappearing, fostering the growth of inequality and undermining social and economic improvements.

4. Conclusion

In the course of the crisis, the EU has abandoned its traditionally favourable position towards collective bargaining in general and multi-employer bargaining in particular. It has been arguing in the opposite direction and this change has not remained a discursive one but is also being translated into recommendations and the imposed destruction of multi-employer bargaining systems in the countries receiving financial support. Also, the EU criteria for public budgets and debt foster austerity policies and leave little space for governments and public sector unions to bargain on public-sector wages and employment. Within this context, we can observe three main trends in collective bargaining in the EU: an ongoing decentralisation of collective bargaining through organised and disorganised decentralisation and the inversion of the favourability principle; the declining coverage of collective agreements; and the one-sided imposition of wages and working conditions in the public sector, effectively cancelling out public sector bargaining. The first two trends result in a bigger role for the 'market' in the definition of wages and working conditions, while the third increases the weight of the state. All three reduce the role of organised workers and employers. These trends affect the various EU countries in different ways, but few of them are exempt or moving in the opposite direction.

These trends have two major negative consequences. One is that they impoverish the available range of governance mechanisms available in EU countries by reducing the possibilities of governance through collective bargaining and in particular multi-employer bargaining, which has proven itself an effective alternative to market governance. By taking elements of wages and working conditions out of competition it sets a floor in the (sectoral) labour market and promotes a focus on productivity, quality and innovation. It also promotes industrial peace, has the ability to address negative externalities and can play a key role in the implementation of consensus-based public policy. The other major negative consequence is that they undermine the equality-promoting, solidaristic and inclusive capacities of multi-employer collective bargaining and hence foster inequality and undermine social and economic progress.

The new European economic governance, as it has been emerging before and especially since the start of the crisis, is detrimental to social and economic justice and to high quality social and economic development.

There is an increasing awareness that European economic governance is in dire need of a new vision and a new institutional design. Widespread collective bargaining in general and multi-employer bargaining in particular should be part and parcel of this new design as it can play a major role in delivering social and economic justice, as well as higher quality economic and social development.

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Chapter 9
Looking for an 'optimal wage regime' for the euro zone

Odile Chagny and Michel Husson

Introduction

Is an 'optimum wage rule' for the euro area a realistic prospect? By 'optimum wage rule', we mean a wage regime that would be able to offer a way out of the crisis as an alternative to so-called 'internal devaluation', with its recessionary impact and stimulation of new divergences between countries.

In order to answer this question, we start by analysing the wage regimes organising the relationship between wages and labour productivity in the euro-zone countries. The analysis is carried out along three axes:

(i) between the tradable and non-tradable sectors;
(ii) between 'northern' (Austria, Belgium, Germany, Finland and the Netherlands) and 'southern' euro-zone countries (Greece, Ireland, Italy, Portugal, Spain), with France occupying an intermediate position most of the time;
(iii) between the pre- and post-crisis periods.

We start with a comparison between France and Germany, which enables us to identify the main parameters governing country-specific wage regimes. In a second step, we extend the comparison to the other euro-area economies.

Given that productivity provides the material basis for wage increases, two areas of divergence among euro-zone countries emerge: (i) the convergence of productivity performance expected as an outcome of the creation of a single currency area has not happened; (ii) divergence of productivity performance has been accompanied by increased disparity in inflation rates. This double no-convergence has been a major barrier

to the emergence of an 'optimum wage rule' that would have made the dynamics specific to each country consistent with their integration in a single currency zone.

Today, the risk is high that the way chosen to exit this non-optimal configuration may lead to the abandonment of the rule that prevailed in most countries before the crisis (with the notable exception of Germany), which allowed wages to increase at a very homogeneous pace across sectors, exposed or sheltered.

We argue that any progress toward an optimum wage rule in the euro zone requires:

– clear recognition that the European construction is incomplete;
– economic policies aimed both at enforcing balanced wage regimes and ensuring convergence of productive performance.

1. Comparison of France and Germany

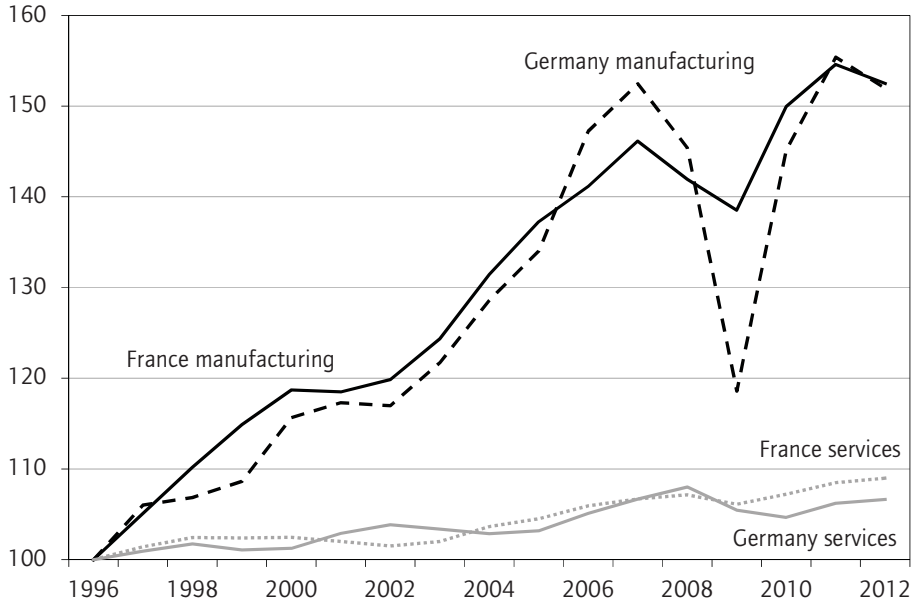
We start by comparing the two largest countries in the euro area, France and Germany. This will provide us with a general framework of analysis that, in a second step, we shall extend to the other euro-zone countries.

Our first finding concerns productivity. In both countries, the same pattern for productivity can be observed: labour productivity is increasing much faster in manufacturing sectors than in service sectors. This phenomenon is well-established in the literature (for example, Clark 1940; Fourastié 1949; Baumol 1967).

By contrast, real wage development –measured by deflating average nominal wage per capita with consumer prices– reveals substantial divergences (see Figure 1). In France, during the pre-crisis decade, real wages were increasing at a similar rate in industry and services, to some extent disconnected from the labour productivity developments specific to each sector, as if an egalitarian principle was guiding wage dynamics in France, resulting in fairly homogeneous wage development (at least until the crisis) in the two main sectors of the economy.

The situation is very different in Germany. In manufacturing, real wages rose at almost the same rate as in France, while in the service sector

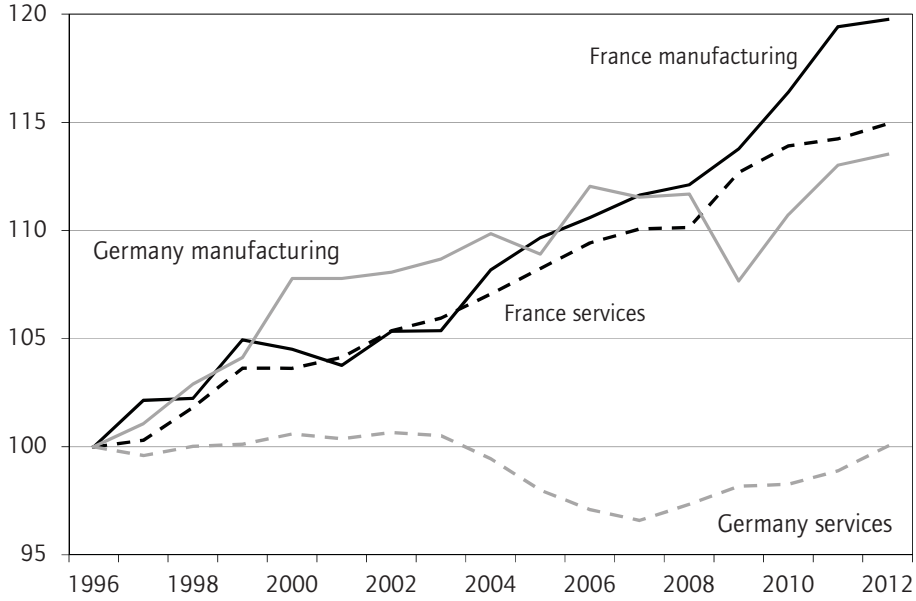
Figure 1 **Productivity developments in France and Germany**



Note: 1996=100. Source: Ameco.

they stagnated. In contrast to the French case, German wages appear to be more significantly correlated with the labour productivity specific to each sector (see Figure 2).

Figure 2 **Real wage developments in France and Germany**



Note: 1996=100.
Source: Ameco.

Relative prices between the two sectors constitute an essential intermediate variable linking the purchasing power of workers –related to consumer prices– to real labour costs (related to the specific output price in each sector). Suppose that in a given sector the value added price decreases relative to the consumer price: if wages in this sector are more or less indexed to consumer prices, the change in relative prices, all things being equal, will lead to a rise in wage share (Box 1).

Box 1

Let p be the price of value added, pc the consumer price index, w the wage per employee, N employment, Q the volume of products and $prod = \frac{Q}{N}$ labour productivity.
The wage share can be written :

$$share = \frac{Nw}{pQ} \text{ or } = \frac{\frac{w}{p}}{prod}$$

But wage w can also be written: $w = s.pc$, where s is the purchasing power of wages. The wage share therefore be broken down as follows:

$$share = \frac{\frac{s}{prod}}{\frac{p}{pc}}$$

The first term compares the purchasing power of the employee with their contribution to production: the employee produces a unitary product (prod) and receives a quantum (s) of this product.

But the wage share also depends on the relative price $\frac{pc}{p}$. If the relative price increases and if nominal wages are indexed to consumer prices, then the wage share will increase even if $\frac{s}{prod}$ remains constant.

The relative change in the wage share (and hence in the profit share) between the two main sectors will thus depend not only on productivity and wages, but also on the relative prices of the two sectors. We obtain:

$$\frac{share_1}{share_2} = \frac{\frac{s_1}{prod_1} / \frac{p_1}{pc}}{\frac{s_2}{prod_2} \quad \frac{p_2}{pc}} = \frac{\frac{s_1}{s_2}}{\frac{prod_1}{prod_2} \cdot \frac{p_1}{p_2}}$$

This relationship shows that wage shares follow the same trend if the purchasing power of the wage increases at the same rate in both sectors ($\frac{s_1}{s_2}$ is constant) and if the relative prices ($\frac{p_1}{p_2}$) compensate for the relative productivities ($\frac{prod_1}{prod_2}$)

Because consumer prices are the same for employees of both sectors, the relative evolution of purchasing power is strictly equivalent to the relative evolution of wages: $\frac{S_1}{S_2} = \frac{W_1}{W_2}$.

In other words, the relationship also shows that the wage share has the same evolution in both sectors, if the differences between sectors in unit labour costs are reflected in the changes in relative prices.

Relative output prices tend to be negatively correlated with the level of productivity across sectors. This relationship can be understood as a mechanism of the redistribution of productivity gains across sectors, equivalent to a process of equalisation in profit shares. This mechanism is essential for understanding the relationship between wages, prices and productivity at sectoral level.

Again, a comparison of Germany and France reveals a contrast. Between 1996 and 2012, the wage share in manufacturing increased by 12.3 per cent in France, whereas it decreased by 13.4 per cent in Germany. This divergence cannot be explained by productivity, which increased by 52 per cent in both countries during the same period, nor by the purchasing power of wages, which increased only slightly more in France than in Germany: +19.8 per cent against +13.5 per cent. Indeed, most of the difference is explained by relative prices. In France, value added prices decreased by 30 per cent compared with consumer prices over the period 1996–2012. In Germany, they decreased by only 14 per cent. Concretely, German manufacturing industry was able to keep a larger share of productivity gains (which may also have be 'imported' via inputs).

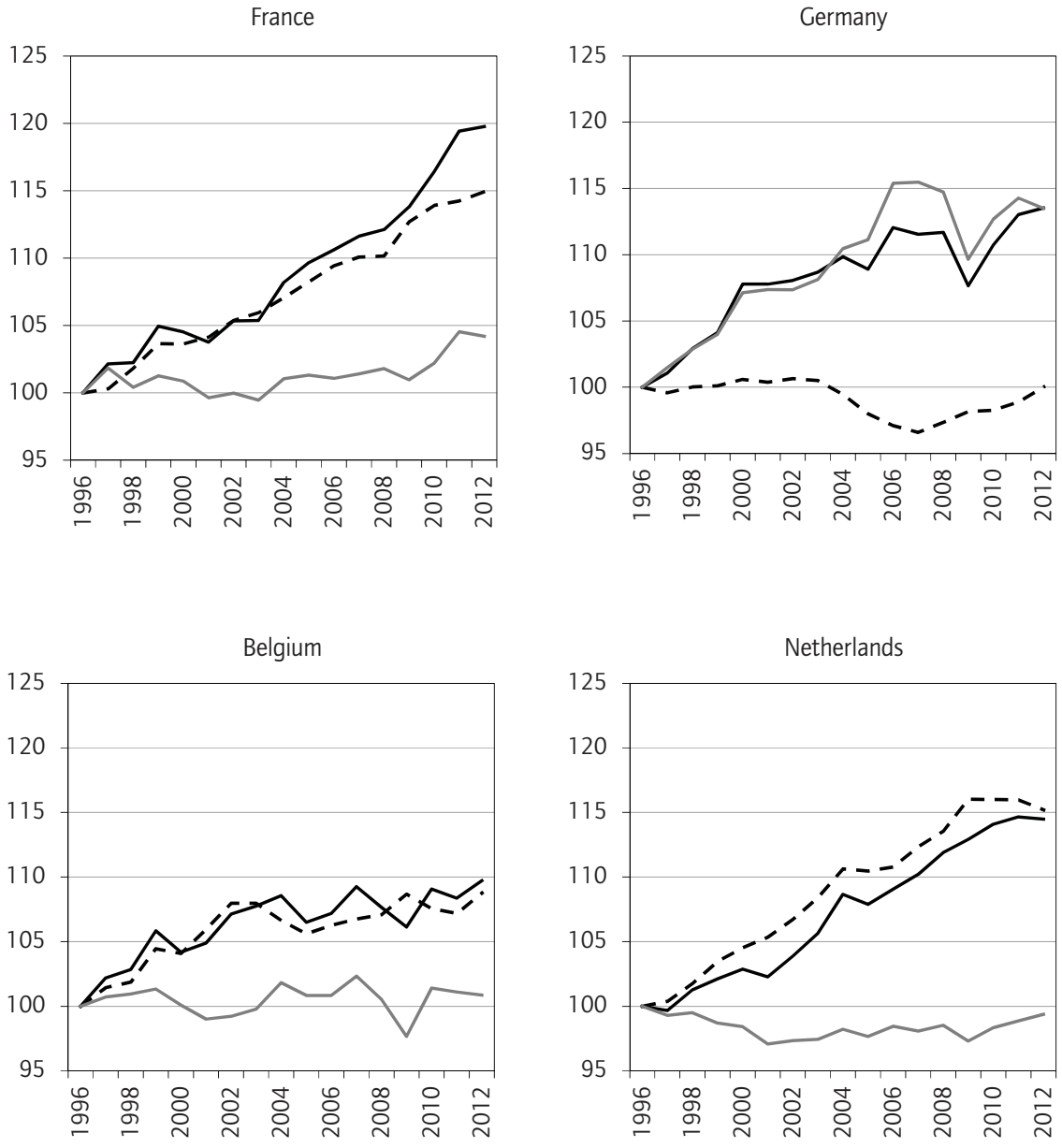
2. Wage regimes in Europe

In this section, we attempt to establish a typology of wage regimes covering the main countries of the euro zone, using the same indicators.

We start by examining relative productivity developments in the two main sectors. The first finding is that the structure observed in France and Germany also applies to most other countries: in the service sector, labour productivity increases much less rapidly than in manufacturing. Relative productivity between the two main sectors follows an upward

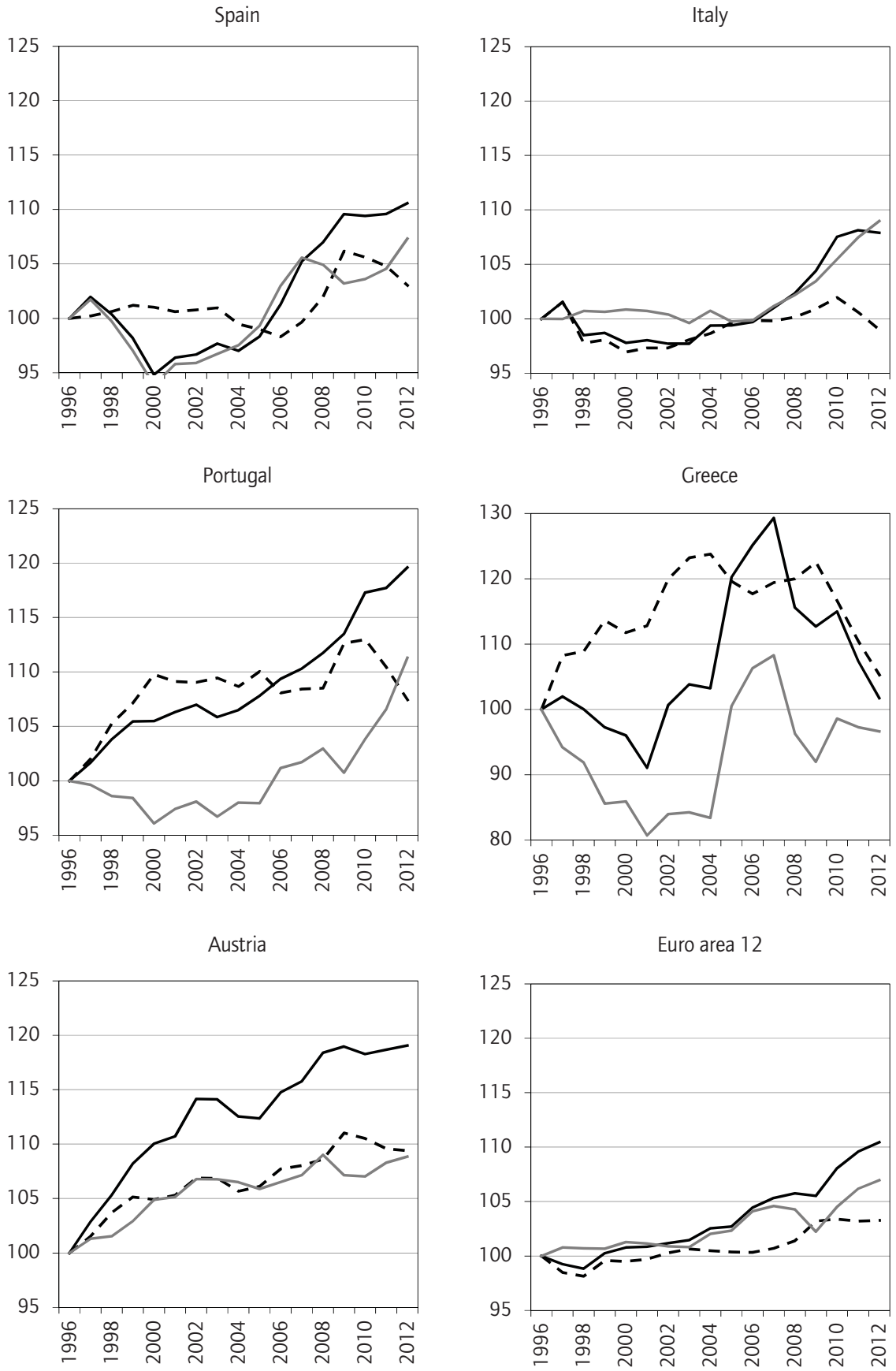
movement, of similar magnitude in the major countries, except Italy. This provides us with our first broad generalisation: in most countries, there is a productivity gap between the two main sectors.

Figure 3 **Real wage developments in manufacturing and services**



Note: 1996=100. Manufacturing (solid line), services (dashed line) and relative wage (grey line).
Source: Ameco.

Figure 3 **(cont.)**



Second, we examine real wage developments in manufacturing and services, defined wage purchasing power adjusted for CPI. We thus obtain a second broad generalisation: in most countries, wages increased at roughly the same rate in the two main sectors, at least in the period that immediately preceded the crisis; the only exception is Germany (see Figure 3). Real wage growth depends on productivity, although in recent decades real wage growth has tended to lag behind that of productivity. But the question is, which productivity measure should be taken as reference for wages, because wages may be linked either to average productivity in the economy or sector-specific productivity. In the first case, wages will increase more or less uniformly across sectors. In the second case, the wage gap across a sector will reflect that of productivity and wages will grow faster in manufacturing. But we must also look at relative prices, which will ultimately determine the effect on the relative wage share.

For a better understanding of these mechanisms, Table 1 summarises the developments of these variables for the whole euro zone during the pre-crisis period (1996–2007).

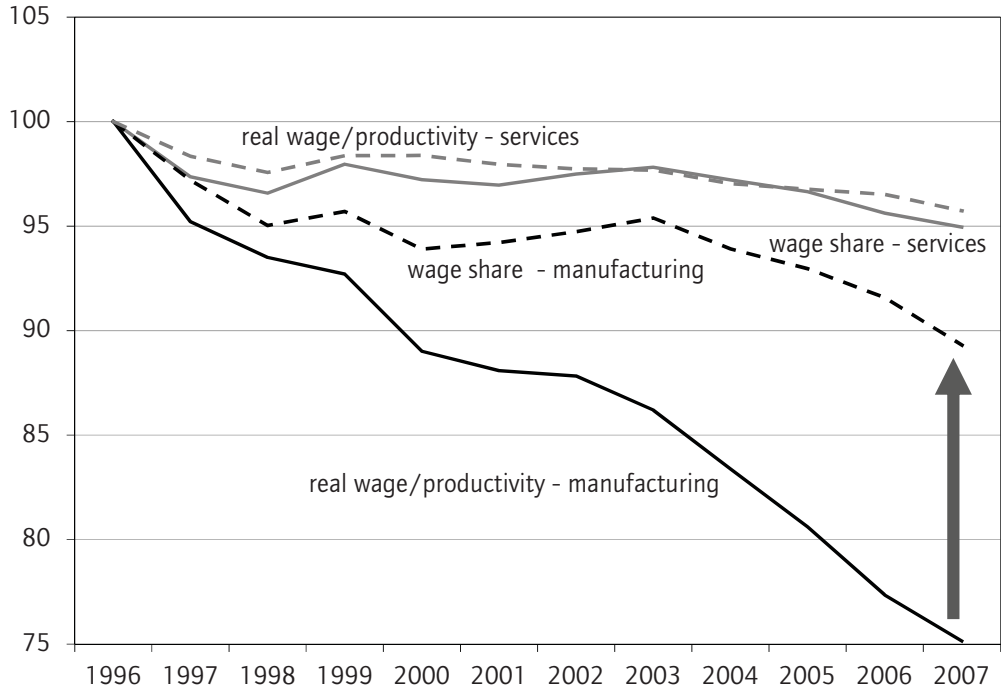
Table 1 **Wages, prices and productivity in the euro zone (1996–2007)**

	Manufacturing	Services	Manufacturing/ services
(1) Labour productivity (prod)	40.2	6.1	32.1
(2) Real wages (s)	5.3	0.7	4.6
(3) Real wages/labour productivity (2)/(1)	–24.9	–5.1	–20.9
(4) Relative prices (pi/pc)	–15.9	–0.8	–15.2
(5) Wage share [s/prod]/[pi/pc]=(3)/(4)	–10.7	–4.3	–6.7

Source: Ameco.

Over the whole period 1996–2007, labour productivity (prod) grew at a much faster pace in manufacturing (+40.2 per cent) than in services (+6.1 per cent). The gaps in purchasing power (s) are substantially smaller (+5.3 per cent in industry, +0.7 per cent in services). The ratio between purchasing power and productivity (s/prod) declined in manufacturing (–24.9 per cent), whereas it remained almost flat in the service sector (–5.1 per cent). Furthermore, relative prices in the manufactur-

Figure 4 **Wages, prices and wage shares in the euro area**



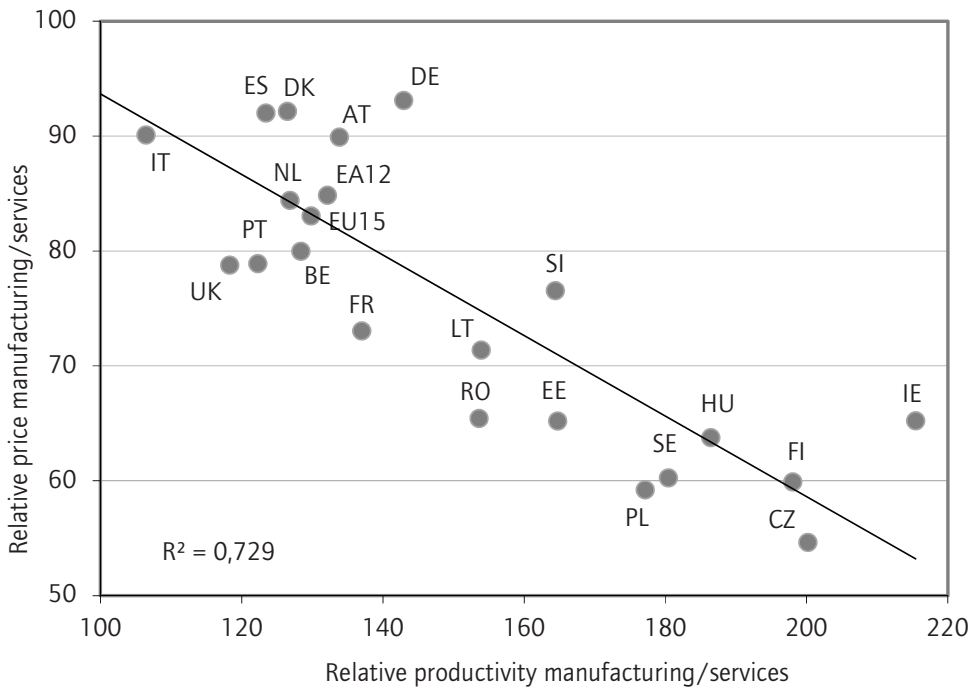
Source: Ameco. 1996=100.

ing sector declined (–15.9 per cent), while in services they remained flat (–0.8 per cent).

Relative price changes therefore narrowed the gap in relative wage shares measured on the basis of consumer prices (strictly equivalent to relative unit labour costs): it amounts to 6.7 per cent, but would have been 20.9 per cent on the sole basis of unit labour costs; in other words, without the relative prices effect. This state of affairs is illustrated in Figure 4, which illustrates how the wage share in the manufacturing sector is 'pulled upward' by the relative prices mechanism.

The same mechanism holds for all countries: changes in relative prices compensate for the productivity gap between the two sectors, transferring part of the productivity gains in industry to other sectors (see Figure 5). It is important to understand that the main vector of this redistribution in productivity gains is the homogenous growth in wages across sectors.

Figure 5 **Relative prices and productivity**



Note: Euro area = 100.
Source: Ameco. Evolutions 1996–2007. Ameco.

3. What should an 'optimum wage regime' look like?

With reference to the concept of an 'optimum currency area', we attempt to define an optimum wage regime consistent with a single currency area.

Assuming that promoting convergence and social cohesion are important principles to be pursued within a currency area, the objectives of such a regime would be as follows:

– *Objective no. 1*: an optimum wage regime should be consistent with relatively homogeneous wage growth within each country (across sectors), in line with average labour productivity. In other words, an optimum wage regime should allow for a redistribution of higher productivity gains from the most efficient sectors, in order that employees in the less productive sectors benefit evenly from this general advance. In the same time, it should ensure a balanced distribution between wages and profits in the economy as a whole.

- *Objective No. 2*: an optimum wage regime should be consistent with an upward convergence of real wages among countries, based on productivity catch-up. This second objective means that real wages should grow faster in countries starting from a lower initial level of productivity.
- *Constraint*: an optimum wage regime should also respect the constraint imposed by a single currency area: in that sense, an optimum wage regime cannot lead to systematic distortion of cost competitiveness because it is impossible to correct these distortions by nominal devaluations within a single currency area. In other words, an optimum wage regime should not lead to systematic distortion of wage shares in the tradable sectors (because it would mean, for example, that profit margins would inevitably be cut in countries facing less favourable development of cost competitiveness).

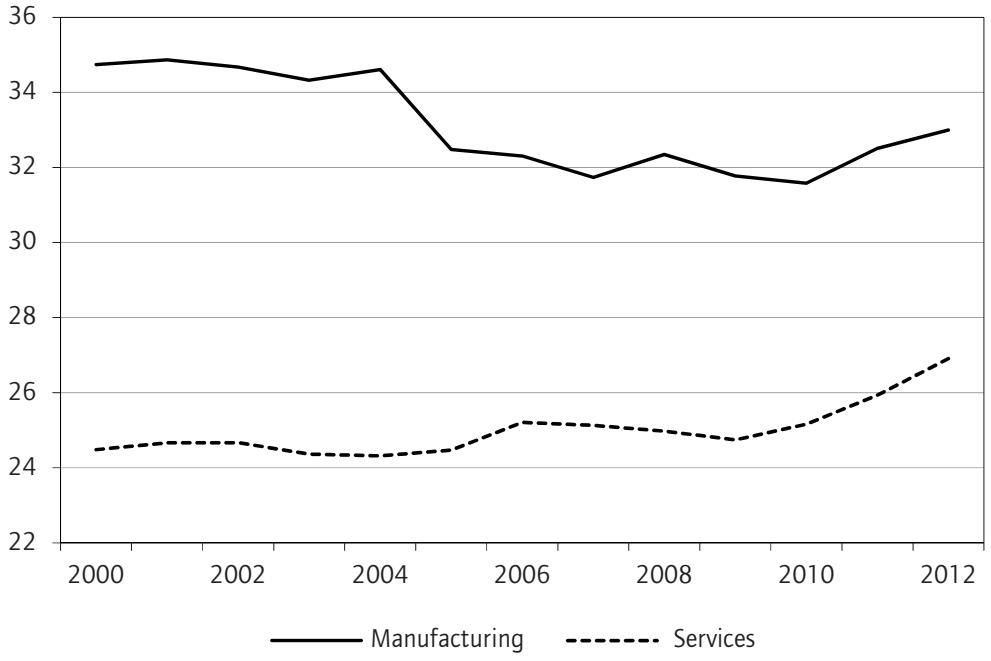
These optimum criteria are far from having been realised in the first period of the euro zone:

- The first objective was only partially achieved, since the wage share declined in most euro-zone countries in the pre-crisis period. However, the euro zone allowed –at least before the crisis– for relatively uniform wage growth across sectors in most countries. The only –albeit notable– exception is Germany.
- The second objective was not achieved. Real-wage dispersion (across countries) slightly declined in manufacturing, but not in services. Moreover, it is important to stress that wage dispersion has been increasing since the crisis, in both sectors (see Figure 6).
- The constraint in terms of cost- and price-competitiveness was not respected either. The wage share in the tradable sector, which moved within a relatively narrow range before the establishment of the euro area, started to diverge from the early 2000s (see Figure 7). There has been no interruption of that movement with the crisis.

It is always useful in this regard to recall that divergences in export performance cannot be explained by differences in cost competitiveness (Box 2). However, a single currency area cannot sustainably afford divergences in unit labour costs across its various members.

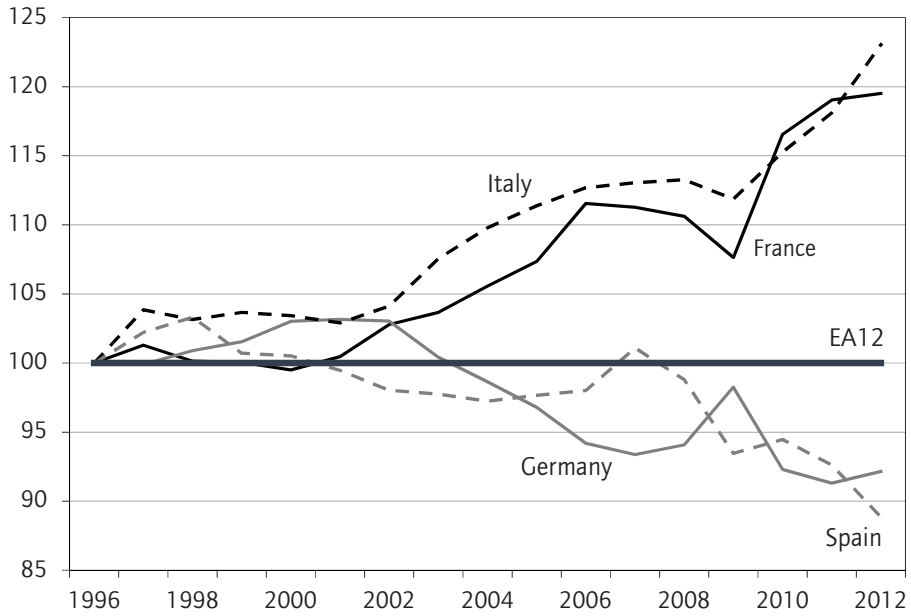
The euro zone differs from an 'optimum wage regime' on two points in particular: the absence of real wage convergence and diverging inflation

Figure 6 **Wage dispersion**



Note: Wage dispersion is defined for each sector as the ratio of the standard deviation of real wages (constant 1 996 euros) to the average wage in the euro area (11 countries).
Source: Ameco.

Figure 7 **Wage share in manufacturing**



Note: Euro area = 100.
Source: Ameco.

Box 2 **Unit labour costs and export performance**

There is now a large literature showing that unit labour cost divergences cannot account for export performance (Chagny *et al.* 2013). The prevailing view can be summarised as follows: 'Thirdly, and perhaps surprisingly, the large dispersion in current account balances across euro area countries seems to display a small correlation with 'narrow' measures of competitiveness, as represented by relative price levels and unit labour costs. Instead, they seem to bear a stronger relation with broader, non-price competitiveness factors. It follows that internal devaluation policies may have limited success at reducing external imbalances unless accompanied by structural reforms that boost some of those non-price factors' (Estrada Garcia *et al.* 2012).

In order to complete our analysis, it is necessary to introduce a distinction between tradable and non-tradable sectors. In a recent IMF working paper (Shik Kang and Shambaugh 2013), the authors note that 'the growing current account deficits seem driven by import increases and non-trade factors' and establish a link between capital inflows and higher wages in the tradable sector: 'Some [countries] –most notably the Baltics, but to some extent Spain, Greece and Ireland– appear to have experienced large capital inflows and optimism-driven booms. This raised unit labour costs in the non-tradable sector and increased imports.'

rates. However, in the optimistic version of the currency area theory, convergence was to be achieved via the following virtuous circle: productivity gains are a priori more dynamic in the least advanced countries; this can be accompanied by higher inflation, which can result in trade deficits. But these deficits are made up by capital inflows, which in turn increase investment and reinforce productivity gains, so that in the end inflation will slow down and trade deficits will be reduced (see especially Blanchard and Giavazzi 2002).

What has happened clearly differs from this account and we have to be able to explain it.

4. Divergence in production performance

An optimum wage regime, as we have defined it, should be able to allow for real-wage convergence across countries, based on productivity convergence. We have already noticed that, in most countries, there was a similar pattern for relative productivity gains: a faster rate of productivity growth in manufacturing relative to services.

This obviously raises the question of productivity catch-up, particularly in the tradable sector. This issue was addressed by a recent paper by the European Commission (2013a). The author of the study, Narcissa Balta, emphasises an important phenomenon: 'There is strong evidence that the pattern of convergence changed considerably in the euro area prior to the crisis.'

Initially (1995–2001), things happened according to 'the neoclassical paradigm [that] predicts higher capital flows to lower-income economies because the marginal product of capital is higher than elsewhere in these countries'.

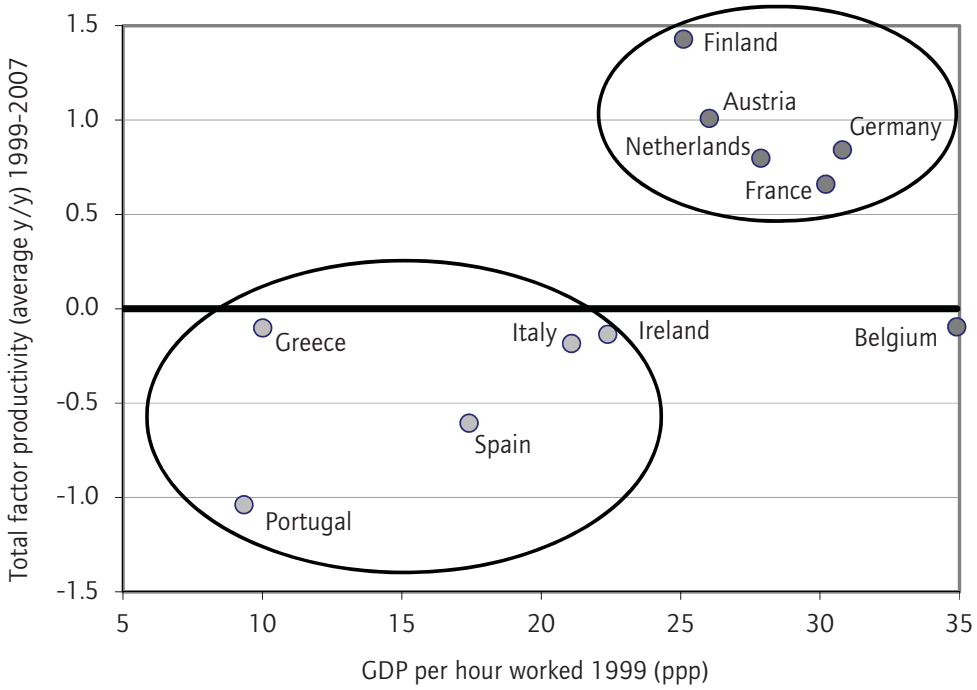
During that period 'investment increased in all converging economies more than in the rest of the euro-area (notably in IE, but also in PT and EL) and capital initially flew towards the catching-up economies in search of more productive uses, supported by strong financial integration among the euro area countries'.

There was therefore a virtuous circle consistent with the 'prediction of economic growth theory': economic and financial integration 'should lead to higher income levels across countries, while less advanced economies should grow faster than more advanced ones, either because of more rapid capital accumulation (the neoclassical growth model) or because of technology diffusion and innovation (endogenous growth models)' (European Commission 2013a).

But this catching-up process went into reverse between 2001 and 2007; that is to say, from the launch of the euro: 'capital continued to flow towards most of the catching-up economies (...) driven not so much by marginal productivity of capital as by higher profit mark-ups in some of the services sectors and network industries' (European Commission 2013a).

This shift means that capital flows have favoured the low productivity non-tradable sector, which 'could be suggestive of an accumulation process driven more by rent seeking than by efficiency considerations' (European Commission 2013a). In another paper, the European Commission (2013c) confirms this analysis by noting that 'some vulnerable Member States witnessed a shift in profitability in the non-tradable sector above that of tradables', this shift being, according to the European Commission, the 'result of the rapid credit-fuelled expansion of internal demand in the pre-crisis years'.

Figure 8 **No convergence of production efficiency**



Source: European Commission 2013a.

The outcome of this 'capital misallocation' is that convergence did not occur. This can be checked with the help of total factor productivity, that is, the efficiency with which inputs are being used in the production process. Figure 8 shows how this synthetic indicator evolved between 1999 and 2007, compared with the productivity level of each country in 1999.

There are two clearly distinct groups of countries: 'northern' countries –which started with a higher level of labour productivity– all improved their total factor productivity between 1999 and 2007. 'Southern' countries, by contrast, started with a lower level of productivity and were characterised by a decline in total factor productivity. In other words, real convergence, in terms of production efficiency, did not take place and the introduction of the euro was, on the contrary, accompanied by real divergence.

Relative productive performance correlates well with the changes in the contribution of manufacturing production to GDP and with external debt developments (Bertola 2013). 'Southern' countries have benefited from massive foreign investment, but these capital flows were not oriented

towards the manufacturing sector, so that the productive efficiency of the 'southern' countries decreased.

The analysis can be further clarified by noting that the profit rate is the main determinant of investment (rather than the 'profit mark-ups' cited by the European Commission), and that profit depends on total factor productivity (see Box 3).

Box 3 **Profit rate and total factor productivity**

The profit rate is calculated as the difference between value added and total remuneration, relative to fixed assets/capital: R=(pQ-wN)/pK. Dividing both terms by pQ, and rearranging, we obtain:

$$R = \frac{\frac{w/p}{Q/N}}{\frac{K/N}{Q/N}}$$

Notations:
R: profit rate, p: price, w: nominal wage
K: capital, Q: product, N: employment
s: real wage (s= w/p), e: wage share (e=s/prod), K/N: capital per capita
prod: labour productivity (prod=Q/N), k: capital efficiency (k=Q/K)

Profit rate therefore depends on three factors: real wage, labour productivity and capital per capita. This yields:

$$\dot{R} = \frac{1}{1-e}\,[\dot{\Pi}_{glo} - e\dot{s}]$$

In the above formula (a dot above a variable indicates a growth rate) Πglo accounts for total factor productivity. The profit rate dynamics depends on the relative growth of total factor productivity and real wage. Profit rate increases when:

$$\dot{\Pi}_{glo} > e\dot{s}$$

We can finally calculate the maximum rate of growth of wage smax ensuring a stable profit rate:

$$\dot{s}_{max} = \frac{\dot{\pi}_{glo}}{e}$$

The breakdown of the profit rate in the 'southern' countries shows that capital efficiency (productivity) declined almost from the onset of the single currency (see Figure 9). Capital per capita began to grow faster, but failed to 'pull' labour productivity. These trends are typical of what economists describe as extensive growth patterns. This loss in efficiency in turn negatively affected the profit rate, which was not compensated by the increase in profit share (see Figure 10).

In summary, the absence of convergence in productivity and, in the end, of real wages can be explained mainly by capital's orientation towards less productive sectors.

Figure 9 **Capital efficiency in the 'southern' countries***

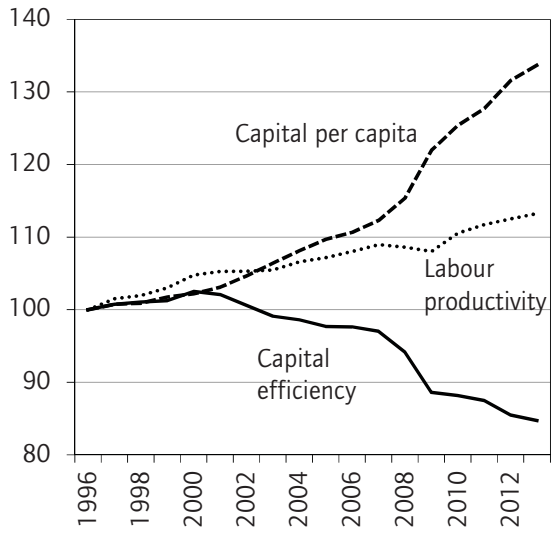
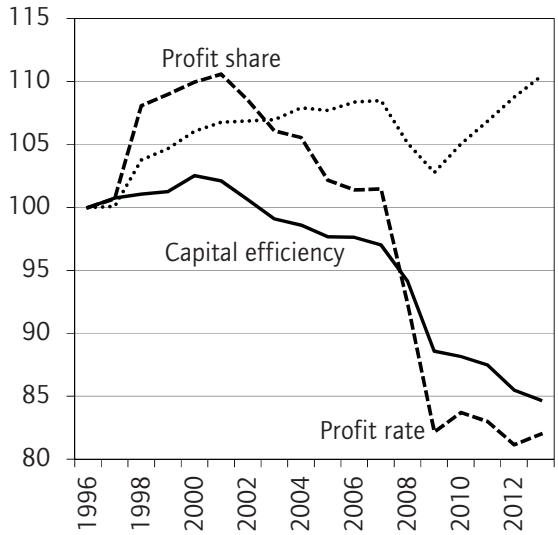


Figure 10 **Profit rate in the 'southern' countries**



Note: Capital efficiency is defined here as capital productivity. Q/K=Q/L*L/K
Source: Ameco. 1996=100.

5. Explaining non-convergence

As noted above, an optimum wage regime should also allow inflation rates to converge. In this section we attempt to identify the structural determinants of inflation across countries.

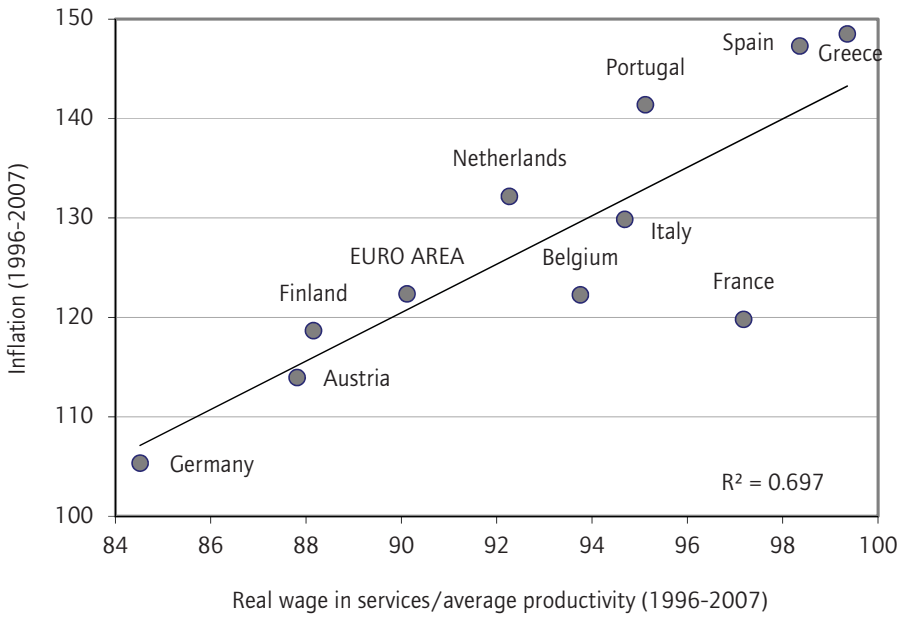
– Our first assumption is that the transfer of productivity gains from manufacturing to services implies an increase in the general level of

prices. We measure the extent of this transfer by the ratio between real wages in the service sector and the average productivity of the whole economy. We observe that this indicator correlates well with inflation (see Figure 11).

– The second hypothesis is that the inflation rate also depends on the intensity of distributional conflicts, which we approach via the S90/S10 inter-decile ratio, which compares the average income of the richest 10 per cent with that of the poorest 10 per cent in 2000. We see also that this indicator correlated well with inflation (see Figure 12).
– Bertola (2013) emphasises a third trade-off between reducing inequality and economic efficiency: 'The slow factor productivity growth and declining inequality observed in countries that accumulated negative imbalances may in part have resulted from a tendency to trade production efficiency for social protection: a tendency that would have been justified if productivity growth had materialised.'

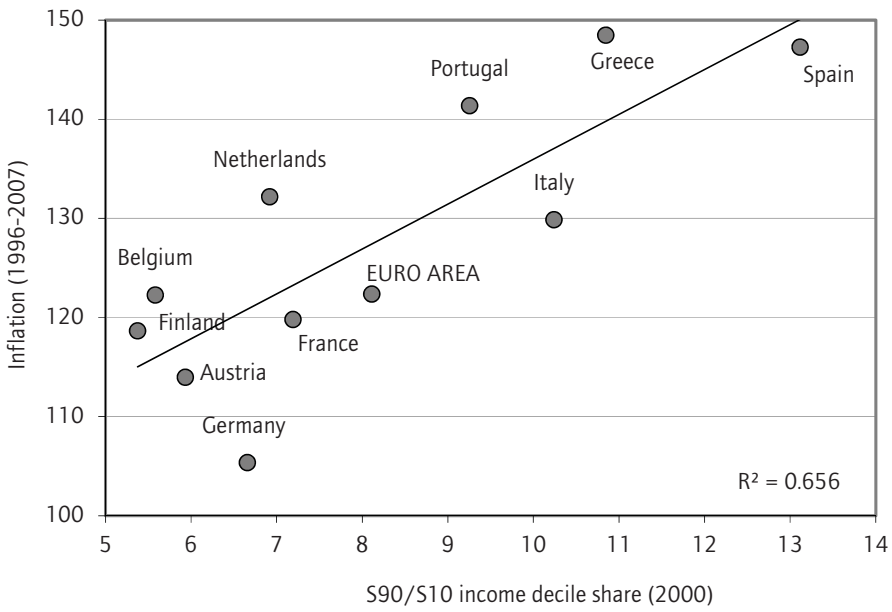
Here again we find a distinction between the two groups of countries: 'northern' countries performed better, but at the cost of an increase in inequality. In 'southern' countries (and also in France), total factor productivity declined or stagnated and inequality decreased (or slightly increased in the case of Italy) (see Figure 13).

Figure 11 **Inflation and wage in the service sector**



Source: Ameco.

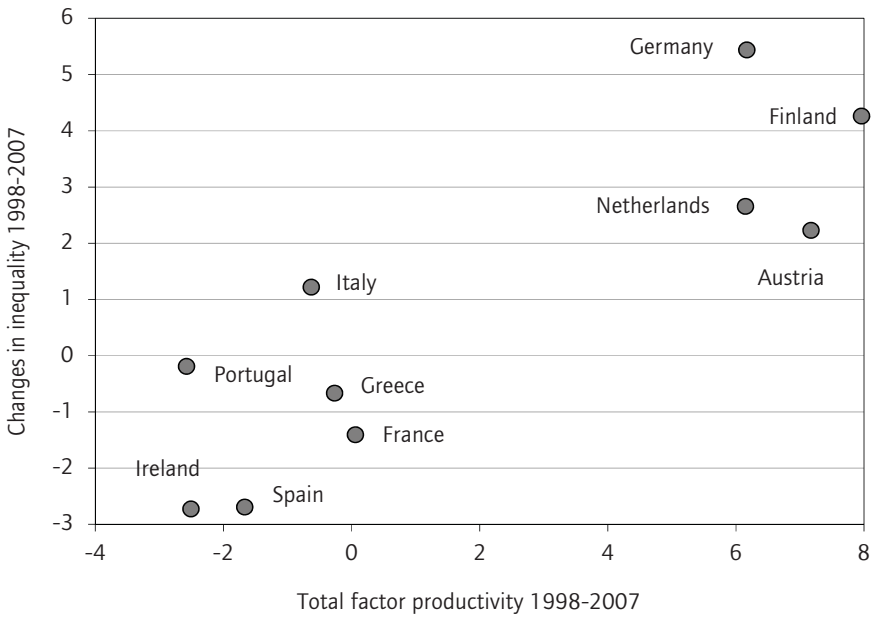
Figure 12 **Inflation and inequality**



Source: Ameco, Eurostat.

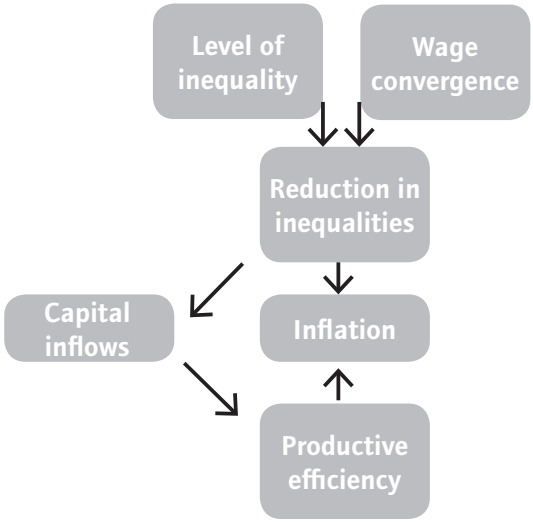
It can be shown from the same set of data that a wage regime ensuring uniform wage growth leads to a reduction in or slower growth of inequality but also to higher inflation.

Figure 13 **Inequalities and productive efficiency**



Source: Ameco, Eurostat.

Figure 14 **The mechanisms of non-convergence**



We summarise the above findings in Figure 14.

6. Towards a devaluation of the 'internal exchange rate'?

Our analysis above showed that the European wage regime was far from optimal in the pre-crisis period after the introduction of the euro. We have so far described the formation of wages during the pre-crisis period (1996–2007). In what follows, we try to understand the extent to which the crisis, and the reforms undertaken since then, have –or have not– introduced structural changes.

Since 2009, numerous reforms aimed at moderating wages and 'flexibilising' labour markets have been implemented, with greatly varying intensity across countries. We focus here mainly on relative wage development between manufacturing and services.

A key observation is that in most countries since the crisis wages have increased less (or declined more) in services than in manufacturing (see Table 2). In other words, wage moderation tends to threaten the wage regime that prevailed in most countries before the crisis, which ensured relatively homogeneous wage growth across sectors. The consequence is that implementing these policies contributes to moving us away from an optimum wage regime.

Table 2 **Differences in wage growth rate between services and manufacturing sector, 2009–2013**

Portugal	–9.5	Spain	–3.8	Netherlands	–2.1
Italy	–5.1	Germany	–3.4	Ireland	–1.9
Greece	–4.8	Belgium	–3.2	Austria	–1.6
Euro area	–4.4	France	–3.1	Finland	–0.5

Source: Ameco.

We are experiencing a (historical) shift in wage policy recommendations: after 'internal devaluation' we now find that the concept of 'internal exchange rate' is increasingly being emphasised.

A recent paper from France Stratégie (Sy 2014) focuses on the distinction between tradable and non-tradable sectors and shows that the latter also contributes to determining competitiveness on world markets. 'In the non-tradable sectors, the sharp rise in unit labour costs and the lack of competition result in dynamic changes in prices and therefore in the costs of inputs for the tradable sectors' (Sy 2014). These findings lead the authors to the following recommendations: 'The competitiveness of export sectors would be improved if wages were better linked to the level of productivity in non-tradable sectors like real estate, business services, legal and accounting services' (Sy 2014).

The solution proposed by the authors is straightforward: wages in non-tradable sectors must adjust to specific sectoral productivity rather than to average productivity, as was in practice the dominant rule in the euro area. The objective is, explicitly, to change the wage regime. It is even quantified: 'a drop in the relative price of non-tradable between 4.9 per cent and 9.7 per cent' [is needed] in order to 'stabilise the net external position' (Sy 2014). Of course, this could be achieved only by an equivalent decrease in wages in the sectors concerned, or by hypothetical productivity gains.

Patrick Artus (2014) goes even further in an analysis of the specific challenges faced by France and Italy. It would, according to him, be inefficient to increase or slow down wages uniformly across sectors 'because of the asymmetry between the two parts of the economy'. What is needed is a 'decorrelation of wages between the manufacturing sector and the rest of the economy, to be achieved by establishing in wage negotiations a

strong link, at plant-firm level, between wage increases and profitability, competitiveness of each of the firms' and '[livelier] competition outside the manufacturing sector in order to bring prices down' (Artus 2014).

In the same vein, Stefan Collignon (2013a) proposes to use the profit rate (rate of return on capital) as a reference for wage adjustments. He redefines competitiveness as the ability of the profit rate to attract new investment. Following these conditions, unit labour costs are to be considered as 'overvalued when the return of capital in one country is below that of the euro area average or undervalued if it is above this average'. In other words, wages must not exceed the maximum wage, defined as the wage that does not lower the profit rate, which itself depends on total factor productivity (see Box 3).

Collignon goes further in a note for the Committee on Employment and Social Affairs of the European Parliament (Collignon 2013b). In this note, he proposes a new 'golden rule' that 'must take into consideration not only labour productivity, but also capital productivity'. The new and better collective wage standard wage bargaining rule would be:

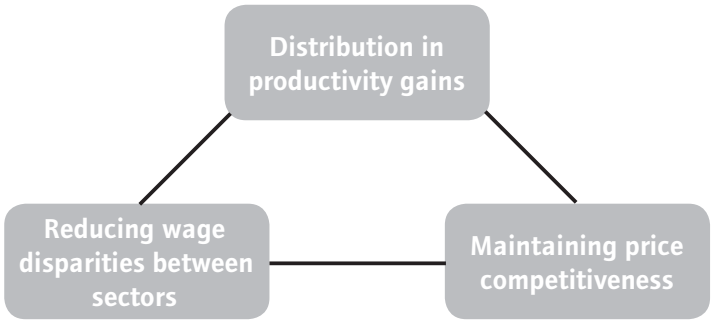
> Wage increases = labour productivity increases + inflation target + increases in the average efficiency of capital.

These analyses rightly take account of the essential role of cross-sector wage prices and productivity dynamics. But they result in recommendations that, if they were implemented, would foster a disconnection between wages in the non-tradable sector and average labour productivity across the economy. In other words, these proposals aim to generalise the German wage regime to other countries, with a growing wage gap between tradable and non-tradable sectors.

The distance between such policy recommendations and an optimum wage regime –here considered at national level– can be illustrated by what we call an 'incompatibility triangle' between three core objectives (see Figure 15):

- *Objective 1*: a balanced distribution of the productivity gains at the level of the whole economy, via a stable wage share at that level;
- *Objective 2*: homogeneous wage growth across sectors, in order to allow for the redistribution to all employees of the productivity gains obtained in the best performing sectors;

Figure 15 **The 'wage incompatibility triangle'**



– *Objective 3*: no deterioration in price competitiveness; in other words, to avoid a continuous divergence in unit labour costs and/or inflation rates.

The above analysis shows that a major structural weakness of the euro area is that it failed to make these three objectives compatible.

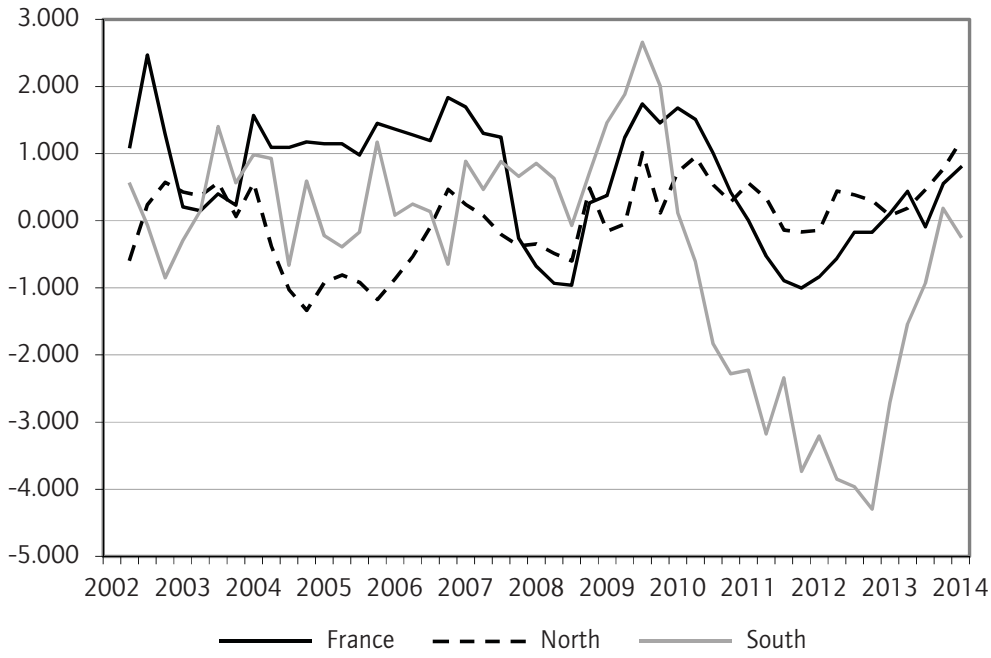
The first objective was partially achieved before the crisis because the wage share declined in almost all countries. The second objective has been achieved because wages grew at roughly the same pace in manufacturing and services, with the (notable) exception of Germany. But the consequence of these partial achievements was a divergence in inflation rates that severely impaired the cost and price competitiveness of the 'vulnerable' countries.

Since the crisis, public policies have been based on the fundamental postulate that the main cause of macroeconomic imbalances was excessive wage growth in the countries in difficulty. We consider this assumption to be misleading. Nevertheless, it forms the basis for many European policy guidelines today. What we can do is to analyse these guidelines from the perspective of the three dimensions of our 'incompatibility triangle'.

The result is clear-cut: since the crisis, wage regimes have been moving away from the first two objectives of an optimum wage rule.

The recovery in profit share from its sharp fall during the recession has been accompanied by an increasing wage development divergence be-

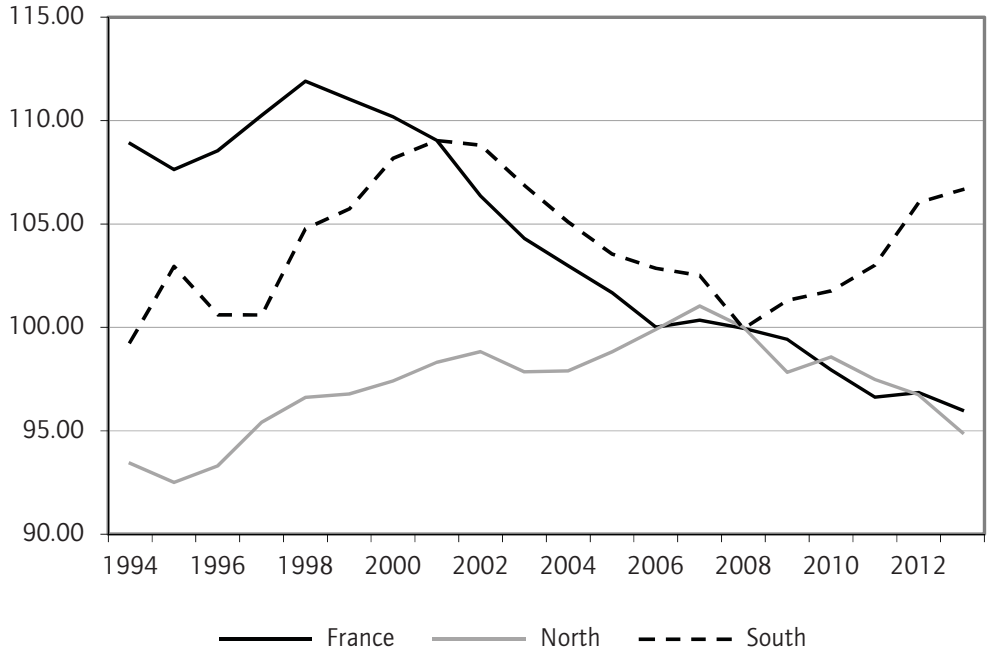
Figure 16 **Real wages**



Source: Chagny (2013), national statistical offices.

tween the tradable and non-tradable sectors. The third objective (reducing inflation differentials and, supposedly, trade deficits) has been partially met but for the wrong reasons. First, because trade balances recovered at the cost of recession or very weak growth, which reduced imports; second, because wage moderation is not used primarily to improve price competitiveness, but to restore profit share (see Figures 16 and 17): 'profit margins (gross operating surplus over value-added) increased –particularly in tradable industries– thus absorbing part of the reduction in unit labour costs' (European Commission, 2013b).

Figure 17 **Indicator of relative export mark-up (2008=100)**



Source: Chagny (2013), European Commission.

7. Is there a way out of the 'incompatibility triangle'?

An important finding of our analysis is that European integration is incomplete. The euro zone's institutional design failed to trigger structural convergence. This lack of convergence concerns, first, productivity performance measured, for example, by total factor productivity. Weak catch-up in terms of productive efficiency reduced the scope for wage increases and worsened capital profitability.

As a consequence, the scope for trade-offs between wages and profitability was narrowed significantly. In southern countries in particular the decline in wage share was not sufficient to offset that of capital efficiency. This general observation was complicated further by the contradictions generated by the impossibility, within the single currency area, of nominal exchange rate adjustments and a growing disparity in real interest rates that reflected inflation differentials. All these mechanisms affected the tradable and non-tradable sectors differently and wage regimes came increasingly under pressure. Distributional conflicts and the weak productivity gains in turn fuelled inflation rate divergence.

The dominant analysis, especially originating from the European institutions, postulates that excessive wage growth was the main cause of the crisis in the euro area. Consistently, wage moderation and structural – mainly labour market, but not only there– reforms are presented as the key levers for rebalancing the euro area.

These recommendations are directed toward more decentralisation in collective bargaining and a disconnection of wages from labour productivity. This perspective amounts to abandoning the idea of a general optimum wage rule. In other words, such proposals do not aim at implementing real convergence within the euro area. Instead of seeking how to consolidate an optimum wage regime, their goal seems to move away from it.

We defend the idea that the 'golden rule' that indexes wages on inflation and average productivity is the fairest rule for distributing productivity gains and that systematic capture by firms – primarily to benefit shareholders – in the name of competitiveness is not economically or socially sustainable. Every wage earner should benefit from the overall growth of the economy, irrespective of the sector he is employed in.

Implementation of this golden rule has been hampered by two factors in particular. The first is the general drift in wage share during the crisis period. The second, on which we need to insist in this conclusion, is the imbalance caused by Germany, which significantly –and early on– moved away from this wage rule. The introduction of a minimum wage in Germany is good news because it should contribute to preventing or at least reducing the wage drift between sectors.

At European level, the aim of avoiding an increasing wage gap across sectors and to prevent deflationary risks would benefit from the introduction of a minimum wage system. Proposals in this regard have multiplied in recent years (Schulten 2014; Brischoux *et al.* 2014; see also Chapter 10). Even the new President of the European Commission, Jean-Claude Juncker, stated in 2013 that 'we need a basis of social rights for workers, minimum social rights for workers, including of course one essential thing, a minimum wage – a legally compulsory minimum wage in the euro-zone member states' (Stearns 2013).

A European minimum wage would offer an immediate answer and an essential tool to prevent wage slippage in the so-called sheltered sector.

Two other conditions should also be met to move towards the optimum wage regime. Both involve profound changes at both country and European level.

If our analysis is correct, the indexation of real wages to average productivity gains is associated with different inflation rates, depending on the structural characteristics of a given country. Inflation is an indicator of a dual conflict: between employees and employers for the distribution of productivity gains, and between sectors for transfers of productivity gains between sectors. Reducing these tensions imply greater institutionalisation of wage indexation rules and homogenisation in collective bargaining procedures.

More fundamentally, within a single currency area, an optimum wage regime requires efforts towards convergence in productivity. As we have seen, this convergence has not occurred. European integration to date has instead led to an industrial specialisation that accentuates polarisation between countries and regions, while capital has not invested in the sectors with the highest potential productivity.

Only transfers and investments directed towards sectors in which productivity can be raised significantly in the catch-up countries would trigger convergence of productivity gains, which in turn constitutes the material basis underlying the homogenisation of wage earners' living standards. This is the perspective proposed by the European Trade Union Confederation with its plan 'for investment, sustainable growth and quality employment' (ETUC 2013) and its proposals for wages and collective bargaining (ETUC 2014).

Such changes within the European economy may look very remote or even out of reach. But if they are not implemented, the polarisation of Europe is likely to worsen, between the surplus countries and the others, condemned to slower growth and perpetual wage 'moderation', or, in other words to a 'low cost' suboptimal development model.

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Annex: sources and methodology

Our main source is the European Commission's Ameco database which provides sectoral statistics and allows us to distinguish between the two main sectors of the economy, manufacturing and services. This partition approximately reflects the distinction between tradable and non-tradable sectors.

This assimilation of the tradable sector to manufacturing industry and of the non-tradable sector to services is an imperfect proxy, but it may be justified in two ways. The first is practical: it makes possible the use of the Ameco database, which provides a set of consistent data. The second is an empirical one: this partition suffices for identifying the major trends and characteristics of each country.

(Labour) productivity is defined as the ratio between value added at constant prices and total employment. The definition of real wages introduces a distinction. From the point of view of employees, it is the purchasing power of wages that matters, in other words, the nominal wage deflated by consumer prices. On the employers' side, their margin depends on the nominal wage compared with the value added per person employed (in euros) and the real wage must in this case be defined in relation to added value.

Chapter 10
Prospects and obstacles of a European minimum wage policy

Thorsten Schulten, Torsten Müller and Line Eldring

1. Introduction

In the context of his 'core messages' for the 2014 European election campaign the then leading candidate of the European People's Party (EPP) and now the President of the European Commission Jean-Claude Juncker (2014a), announced that 'as Commission president, I will advocate that all member states introduce a minimum wage adjusted to national collective bargaining traditions and economic conditions'. This should guarantee that all employees in Europe 'have an income from work sufficient to ensure that they don't have to go to the social security office' (Juncker 2014b). By developing a European minimum wage policy Juncker aims to reinforce the social dimension in Europe and contribute to a 'rehabilitation of the social market economy' (Juncker 2014c).

The notion of a minimum wage policy coordinated across Europe has long been under discussion within the EU (Schulten 2008, 2012). It is no coincidence that this idea was originally developed in France in particular, which has long had a strong national minimum wage system. Thus, it was the French Socialists who, in 2004, in their European election programme, first called for the introduction of a '*salaire minimum Européen*' (Parti Socialiste 2004). Since then the demand for a European minimum wage policy has been debated in France. The supporters of this idea include former president of the European Commission (Jacques Delors 2006), who called on the European trade unions and employers' organisations to negotiate on the issue within the framework of the European social dialogue.

More recently, new impetus to the debate concerning the introduction of a European minimum wage has been generated by, in particular, the French Socialist government. In order to promote the European-level

debate about a European minimum wage, the French ministry of economic affairs published a conceptual paper outlining some ideas for a 'European minimum wage standard' (Brischoux *et al.* 2014). The debate has also been fostered by some important national developments, such as the introduction of a statutory minimum wage in Germany and corresponding proposals in Italy. Within the framework of the European elections of 2014 it became clear that the idea of a European minimum wage policy is now under discussion in all major political camps (Sanial 2014). The same holds true for the European trade unions which have discussed the issue for years and have recently intensified the debate in order to clarify their position (ETUC 2014a, 2014b)

The questions of what exactly is meant by a European minimum wage policy and how it is supposed to be implemented politically and institutionally within the EU have to date been addressed mainly in vague terms. The implementation of such a political project faces at least three fundamental problems: first, there are substantial variations in the levels of the national minimum wage in individual EU states; second, the national minimum wage regimes –in other words, the procedures, institutions and actors who determine the national minimum wage– also exhibit major differences; and third, there is the problem that according to the Treaty on the Functioning of the European Union (TFEU, Article 153.5), the EU has no legal competence in the area of wage policy, although, in practice, this has not prevented the EU from intervening heavily in national wage policies (Schulten and Müller 2015).

The aim of this chapter is to systematically sketch the contours of a European minimum wage policy by way of a detailed analysis of its potential prospects and obstacles. Because any European minimum wage policy has to take into account the different national institutional framework conditions, Sections 2 and 3 will outline the diversity of national minimum wage regimes and levels in Europe. Section 4 will discuss the normative foundations and the social and economic goals of a European minimum wage policy. Section 5 will review the debate within the European trade union movement with a particular focus on the debate within the European Trade Union Federation (ETUC) and the Nordic trade unions. Finally, Section 6 contains a discussion not only of the specific proposals on how to implement a European minimum wage policy but also of its potential impact in terms of providing effective protection for low-wage workers. In the closing Section 7 the contours of a possible European minimum wage policy are summarised.

2. Minimum wage regimes in Europe

2.1 Universal and sectoral minimum wage regimes

In all European countries, minimum wages constitute an established instrument of labour market regulation (Schulten 2014a).[1] The procedures and institutions used to determine the minimum wage and the scope of minimum wage regulations constitute a key distinguishing feature of national minimum wage regimes. A fundamental distinction can be drawn between *universal* and *sectoral* minimum wage regimes. Universal regimes are characterised by the establishment of a general wage floor, usually at the national level, and applying –apart from possible exceptions– to all employees. By contrast, sectoral regimes do not have a general wage floor, but set minimum wages for certain branches or occupational groups.

Within the EU, 22 of the 28 states have a universal minimum wage regime with a nationwide minimum wage rate (Table 1). In six member states, however, there are only sectoral minimum wage regimes, including the Nordic countries Denmark, Finland and Sweden, as well as Cyprus, Italy and Austria. Outside the EU most European countries also have a national minimum wage, with the exception of Norway and Switzerland. In 2015, Germany switched to a universal minimum wage regime by introducing a national statutory minimum wage.

Minimum wage regimes are also distinguished by the dominant regulatory instrument used to determine the respective minimum wage. Basically, minimum wages can be set on a statutory basis or in collective agreements or within the framework of tripartite bargaining involving employers, trade unions and the state. In most countries with a universal minimum wage system the main regulatory instrument is the law. This applies, for example, to France, the Netherlands, Luxembourg, the United Kingdom and Ireland, as well as to most southern and Central and Eastern European countries with a statutory minimum wage set by the government.

In some Central and Eastern European countries the minimum wage is negotiated, first and foremost, within the framework of a tripartite body

1. A detailed presentation of national minimum wage regimes in Europe, with detailed national case studies (Schulten *et al.* 2006; Vaughan-Whitehead 2010).

at national level. If a tripartite agreement is reached the resulting minimum wage assumes a statutory character. If the negotiations fail the minimum wage is set unilaterally by the government.

There is a distinctive model in Belgium, where the minimum wage is agreed within the framework of a national collective agreement for the private sector as a whole.[2] In Germany, the initial amount of the minimum wage was set by a law that came into force on 1 January 2015. From now on, however, a 'social partners' committee' will determine the level of the minimum wage, which will be implemented by government decree. Thus, a system of quasi-negotiations on the national minimum wage has been introduced in Germany. The decisive benchmark will be the development of average wages laid down in collective agreements.

Table 1 **Universal and sectoral minimum wage regimes in Europe**

	Law	Collective or tripartite agreement
Universal regimes (Uniform national minimum wage defining a general wage floor)	**Western Europe**: France, Luxembourg, Netherlands, Ireland, United Kingdom **Southern Europe**: Greece (from 2012), Malta, Portugal, Spain **Eastern Europe**: Croatia (from 2008), Lithuania, Latvia, Romania (from 2011), Slovenia, Czech Republic, Hungary (from 2011)	**Western Europe**: Belgium Germany (from 2015) **Southern Europe**: Greece (until 2012) **Eastern Europe**: Bulgaria*, Estonia*, Poland*, Slovakia*, Croatia (until 2008), Romania (until 2011), Hungary (until 2011
Sectoral regimes (No general wage floor, but minimum wages for certain branches or occupational groups)	Cyprus	**Northern Europe**: Denmark, Finland, Norway, Sweden **Western Europe**: Germany (until 2015), Austria, Switzerland **Southern Europe**: Italy

Note: * If a tripartite agreement is not concluded, the decision is taken by the legislator.
Source: Schulten 2014a.

2. A similar system of national minimum wage agreements existed in Romania and Greece up to 2011 and 2012, respectively. Under pressure from the Troika (European Commission, European Central Bank and the IMF), however, this was abolished in favour of a unilateral statutory minimum wage system (Schulten and Müller 2015).

In countries with sectoral minimum wage regimes by contrast –with the exception of the special case of Cyprus, where there are statutory minimum wages for certain occupational groups– minimum wages are laid down solely in collective agreements. The scope of sectoral minimum wages thus depends on the robustness of the collective bargaining system and collective bargaining coverage in the relevant country. In some countries the scope of collectively agreed minimum wages is further supported by legal extension procedures.[3]

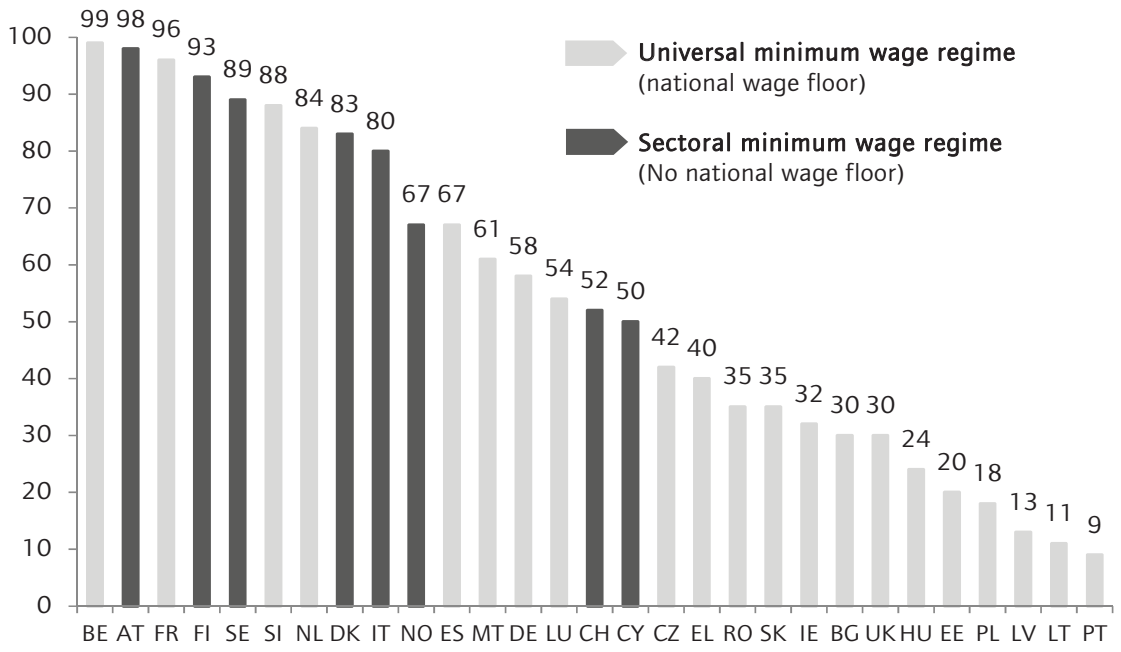
2.2 Minimum wage regimes and collective bargaining systems

Among the countries with sectoral minimum wage regimes a substantial number of states have a comprehensive system of collective agreements that ensures that a large majority of employees –up to 80 per cent or more– are protected by a collective agreement (Figure 1). This group of countries includes, in particular, the Nordic states Denmark, Finland and Sweden (and to a lesser degree Norway), but also Austria and Italy. The high level of collective bargaining coverage in these countries ensures a comprehensive minimum wage. However, in some of the countries with sectoral minimum wage regimes collective bargaining coverage is much lower. This applies to Cyprus and Switzerland, with 50 and 52 per cent collective bargaining coverage, respectively. In these countries a relatively large number of employees are not covered by collective agreements and therefore have no minimum wage protection whatsoever. The relatively low bargaining coverage of 58 per cent in Germany was also one of the major reasons why Germany finally introduced a general statutory minimum wage (Schulten and Bispinck 2014). A similar debate took place in Switzerland where, against the background of collective bargaining coverage of only 52 per cent, the trade unions campaigned for the introduction of a statutory minimum wage but failed to get a majority in a national referendum on that issue (Baumann and Rieger 2015).

Among the countries with universal minimum wage regimes there are both states with low coverage and states with high coverage (Figure 1). This indicates that there can be very different forms of interaction between national minimum wages and wage determination by collective

3. On the role of extension procedures in collective bargaining see Chapter 11 in this volume.

Figure 1 **Minimum wage regimes and collective agreement coverage, 2011–2013 (% of all employees covered by collective agreement)**



Note: * Latest available data.
Source: ICTWSS Database (Version 5.0). For Portugal and Spain: authors' calculations based on figures from labour ministries. For Norway: Stokke *et al*. (2013).

agreement (Grimshaw and Bosch 2013; Leonardi 2014). In countries with fairly poor collective bargaining coverage, such as most Central and Eastern European states, the minimum wage has an important anchoring function for the wage structure as a whole. The development of the minimum wage here represents the main benchmark for general wage development. In countries with a comparatively high minimum wage level, such as France, the development of the general minimum wage has a strong influence on the development of wages laid down in collective agreements, especially for lower wage categories. Finally, there are countries –such as the Netherlands– in which the scope of the statutory minimum wage is limited to a fairly small group of employees not subject to collective bargaining. In these cases it has no influence on the development of wages laid down in collective agreements, but on the contrary follows the development of collectively agreed wages. Overall, statutory and collectively agreed minimum wages are not necessarily in opposition to one another but can be complementary. In many western and southern European countries the statutory minimum wage is thus

merely a 'safety net' for those employees who are not (adequately) covered by minimum wages laid down in collective agreements.

3. Absolute and relative minimum wage levels in Europe

3.1 Absolute minimum wage levels

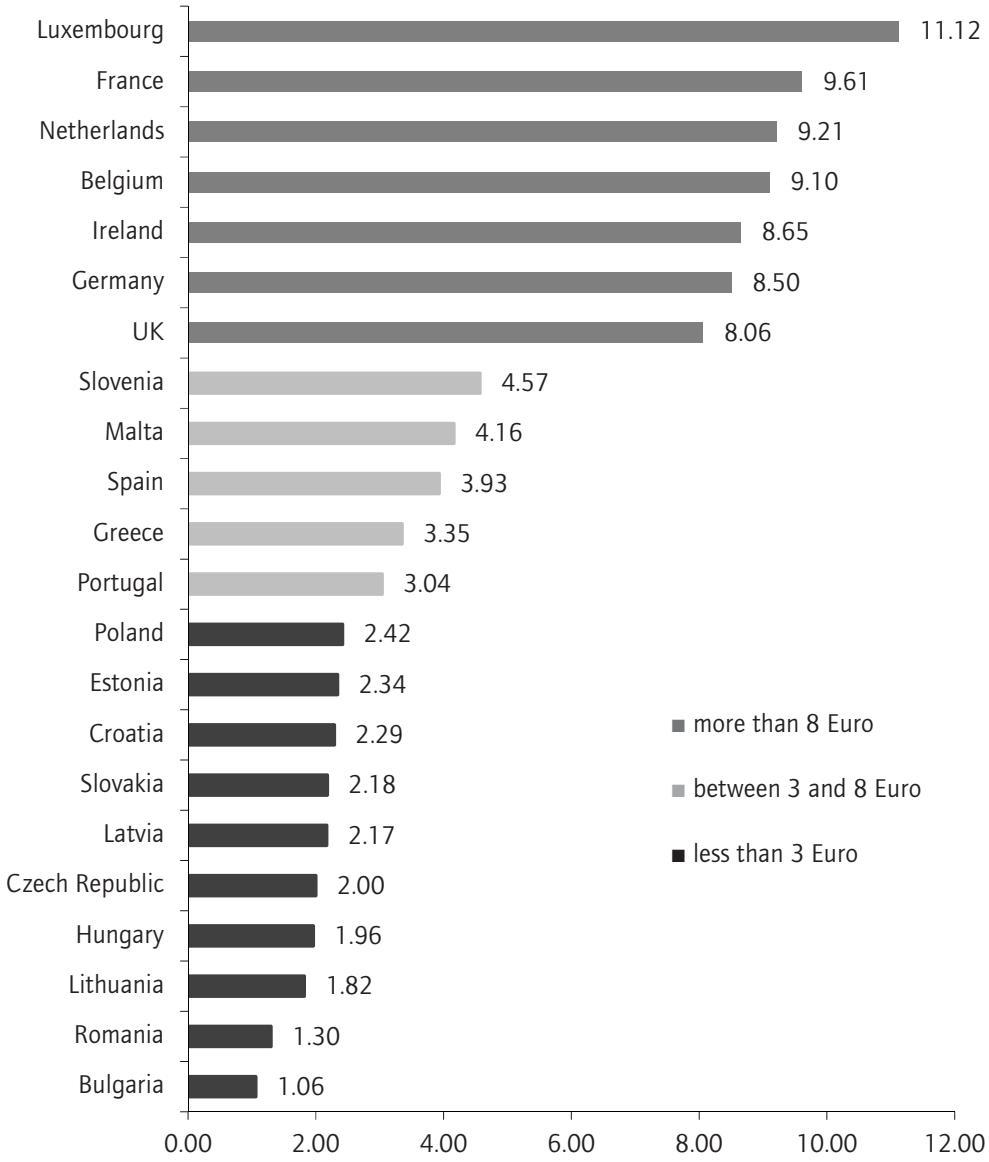
The scope and effectiveness of national minimum wage regimes is closely linked to the level of the relevant minimum wage protection, which varies considerably in Europe (Kampelmann *et al.* 2013; Schulten 2014b).[4] In countries with universal minimum wage regimes three groups can be distinguished with regard to the level of national minimum wages (in euros) (Figure 2). The first group, with relatively high minimum wages, includes seven western European countries. The leader of this group is Luxembourg with a minimum wage of 11.12 euros per hour, followed by three countries with minimum wages above 9 euros, namely France (9.61 euros), the Netherlands (9.21 euros) and Belgium (9.10 euros) and three further countries with minimum wages between 8 and 9 euros, namely Ireland (8.56 euros), Germany (8.50 euros) and the United Kingdom (8.06 euros).

The second group, with national minimum wages between 3 and 8 euros an hour, is made up of five, mainly southern European countries: Slovenia (4.57 euros), Malta (4.16 euros), Spain (3.93 euros), Greece (where the minimum wage was cut by more than 20 per cent in February 2012, bringing it down to 3.35 euros), and finally Portugal with a minimum wage of 3.04 euros. The third group of countries, with minimum wages below 3 euros, comprises ten countries all from Central and Eastern Europe, ranging from Poland (2.42 euros) to Bulgaria (1.06 euros).

Because of the lack of national minimum wages the minimum wage level in countries with sectoral minimum wage regimes can be determined only by analysing the lowest wages laid down in collective agreements. The few recent studies on this indicate that two groups of countries have to be distinguished (Eldring and Alsos 2012; Kampelmann *et al.* 2014).

4. Up-to-date information on national minimum wages in Europe, as well as numerous non-European countries can be found in the WSI Minimum Wage Database. An English version of the database is available at: http://www.boeckler.de/wsi-tarifarchiv_44064.htm.

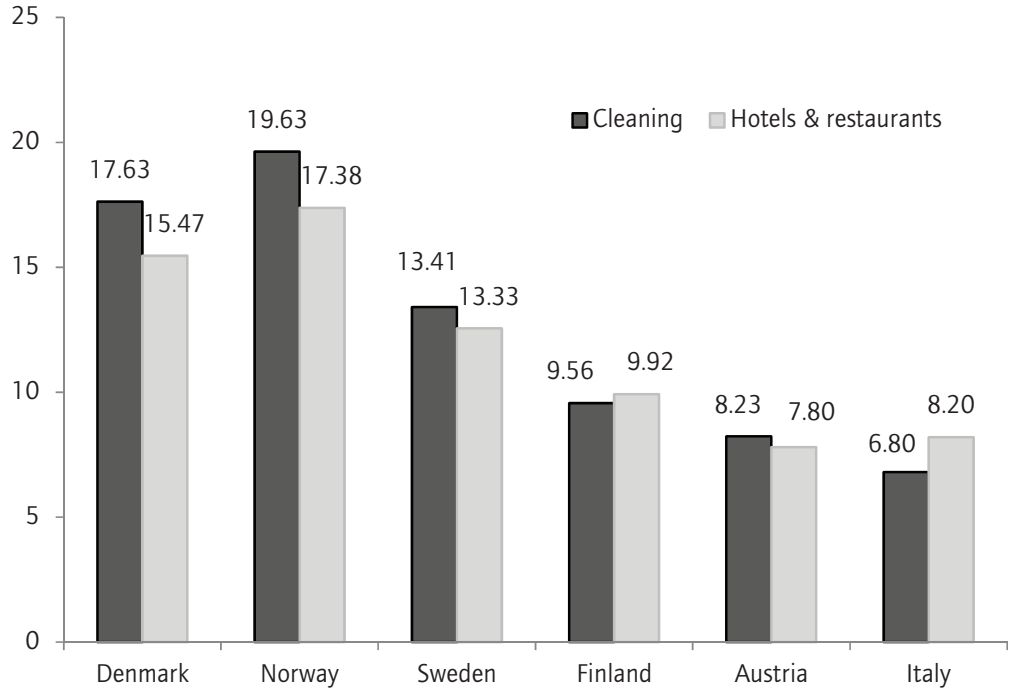
Figure 2 **National minimum wages in the EU, 2015* (per hour, in euros)**



Note: * Effective 1 January 2015.
Source: WSI Minimum Wage Database.

On one hand, there are the Nordic countries, whose minimum wages laid down in collective agreements are substantially higher than national minimum wages in the other EU states. On the other hand, there are the countries, such as Austria, Italy –and before the introduction of a statutory minimum wage also Germany– in which, in some instances, relatively low minimum wages are laid down in collective agreements, which are substantially below national minimum wages in comparable western European countries.

Figure 3 **Lowest collectively agreed minimum wages in countries with sectoral minimum wage regimes (per hour, in euros)***



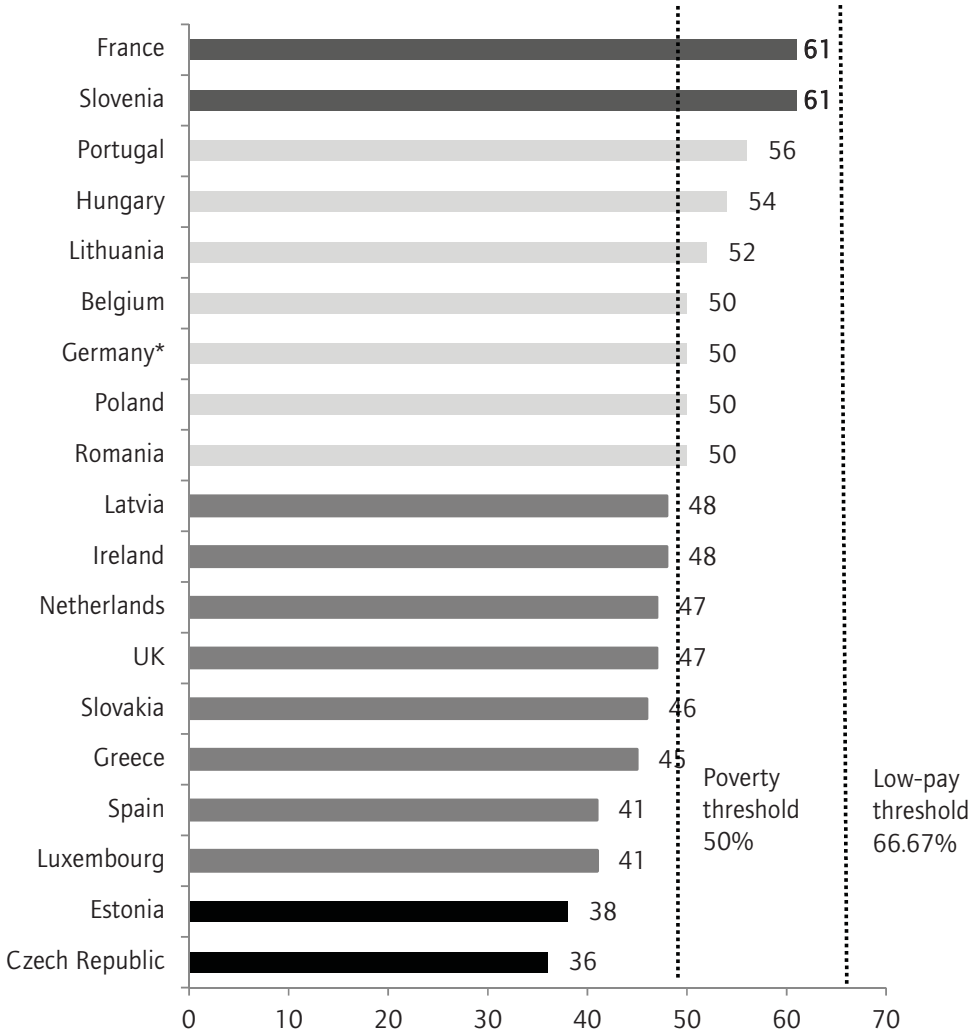
Note: * Effective 1 January 2015.
Source: Authors' calculations based on current collective agreements.

Taking the examples of cleaning and hotels and restaurants as two traditional low-wage sectors, the lowest collectively agreed wages range between 13.00 and 20.00 euros per hour in Denmark, Norway and Sweden; these wages lie far above the statutory minimum wages in other European countries (Figure 3). In Finland, collectively agreed minimum wages in both sectors are only slightly above or even at a level comparable to statutory minimum wages in some Western European countries. Finally, in Austria and Italy, the collectively agreed minimum wages are in both sectors below the wage levels of those European countries with the highest statutory minimum wages.

3.2 Relative minimum wage level

The real level of the minimum wage is not derived from its absolute value, however, but from its relative level in relation to the national wage structure. The latter can be measured with the so-called 'Kaitz index',

Figure 4 **Minimum wage as a percentage of the median wage for full-time employees, 2013**

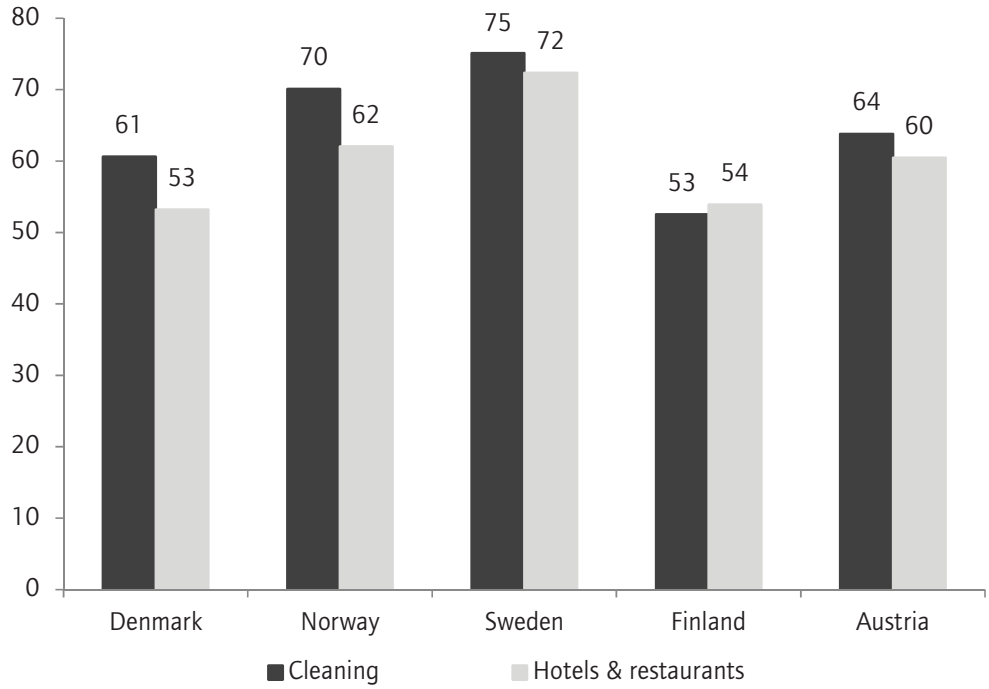


Note: * On the basis of a fictive minimum wage of 8.50 euros per hour.
Source: OECD, for Germany: calculations of the WSI based on data from the Federal Employment Agency.

which measures the minimum wage as a percentage of the national median wage.[5] The available data on this –which are published regularly by the OECD– are based, however, on non-harmonised national data sources and can thus be regarded only as approximate values. According

5. The median wage is the wage that divides the overall wage structure into two equal segments, with one half of employees earning more and the other half earning less. The median wage should not be confused with the average wage, which represents the arithmetical mean of all wages.

Figure 5 **Collectively agreed sectoral minimum wages as a percentage of the national median wage***



Note: * Current sectoral minimum wages (Figure 3) as a percentage of national median wages from 2013.
Source: Authors' calculations based on current collective agreements, data for median wages from national statistical offices.

to OECD figures for 2013, minimum wages, measured in terms of the median wages of full-time employees in the EU, varied between 61 per cent in France and Slovenia and 36 per cent in the Czech Republic, with the majority of countries registering a value of between 40 and 50 per cent (Figure 4). In Germany, a minimum wage of 8.50 euros per hour in 2013 would have represented 50 per cent of the median wage.

Measured in terms of national wage structures statutory minimum wages in Europe are relatively low. They all lie below the so-called low-wage threshold, which by international convention stands at two-thirds of the median wage. In conformity with the poverty threshold used in international poverty research a wage that lies below 50 per cent of the median wage is a 'poverty wage'. In many EU countries, statutory minimum wages are thus not above the poverty wage level (Marx *et al.* 2012).

In countries with sectoral minimum wage regimes, the relative minimum wage levels can be measured by considering collectively agreed

minimum wages as a percentage of the national median wages (Figure 4). Considering again the cleaning and hotels and restaurants sectors, the Kaitz index for minimum wages laid down in collective agreements is usually over 60 per cent, in the case of Sweden even above 70 per cent. The only exceptions are Finland (for both sectors) and the Danish hotels and restaurants sector, where the Kaitz index is only 53 or 54 per cent. These findings are confirmed by other studies, which found that the relative value of minimum wages in sectoral regimes based on collective agreements is usually well above the level of countries with universal minimum wage regimes (Eldring and Alsos 2012; Kampelmann *et al.* 2014).

4. The debate about fair and equitable minimum wages

Considering the often rather low levels of minimum wages in Europe, the debate about a European minimum wage policy is first of all about the issue of a fair and equitable minimum wage. In international and European social law there are several documents which claim that every worker should have the right to a 'fair (minimum) wage' that guarantees a certain socio-cultural subsistence minimum. Although there is no universally accepted definition of a fair wage one can identify at least two lines of discussion. The first is the debate on 'living wages', which is very much inspired by developments in the United States and within Europe became rather prominent in particular in the United Kingdom and more recently also in Ireland. The second line is the debate on an adequate relative minimum wage level, which aims to define a fair minimum wage in relation to average or median wages. This debate started as early as the 1970s within the Council of Europe and has become more prominent at EU level since the mid-2000s.

4.1 Normative foundations of a right to a fair wage

The normative justification of a European minimum wage policy can find support in a series of international and European conventions and agreements, from which the principle of fair and adequate remuneration can be derived as a basic social right (Schulten 2008; Ofek-Ghendler 2009). There is already a corresponding clause in the 1948 UN General Declaration of Human Rights, according to which 'Everyone who works has the right to just and favourable remuneration ensuring

for himself and his family an existence worthy of human dignity' (Article 23, para 3).

In its Constitution, whose original text dates from 1919, the International Labour Organisation (ILO) calls for 'the provision of an adequate living wage' (Preamble) for all employees. The notion of a living wage continues to stand for a demand that the minimum wage should not amount merely to a wage floor, but should establish a wage level that enables one to maintain a (minimum) standard of living in keeping with the level of development of the society in question (Anker 2011). Within the framework of two Conventions (No. 26 of 1928 and No. 131 of 1970), accordingly, explicit minimum requirements are formulated for determining minimum wages. According to ILO Convention No. 131 'in determining the level of minimum wages ... the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups' should be taken into consideration (Article 3, para a).

At the European level, a 'right of workers to a remuneration such as will give them and their families a decent standard of living' was first laid down in the European Social Charter adopted within the framework of the European Council in 1961 (Article 4, para 1). Finally, the EU, too, with the adoption of the Community Charter of the Fundamental Social Rights of Workers at the EU summit in Strasbourg in December 1989, recognises the right to 'an equitable wage' as a basic social right. In the document also known as the European Social Charter all workers in Europe should receive a wage 'sufficient to enable them to have a decent standard of living' (Title I, para 5). The task of a European minimum wage policy, accordingly, would be to coordinate national minimum wage policies in such a way that the fundamental social right of 'an equitable wage' is realised throughout Europe.

4.2 The concept of a living wage

Normative arguments in defence of a fair wage also played a key role in the first living wage movements, which emerged in the late nineteenth century, when, in a context of low pay, long hours and poor social conditions, political activists and social reformers challenged the dominant neoclassical view that the free market forces of supply and demand will provide for a fair wage (Figart 2004: 1). Drawing on different ideologi-

cal justifications, all early conceptions of a living wage share the overall objective of protecting workers from below-subsistence wages and enabling them to maintain an adequate living standard. Against this background, the concepts of minimum and living wages were used synonymously. One of the earliest documents that explicitly formulates a 'doctrine of a minimum living wage' is Pope Leo XIII's 1891 encyclical '*Rerum Novarum*' in which he demands that 'the remuneration must be enough to support the wage earner in reasonable and frugal comfort' (Ryan 1912: 32–33).

The first modern living wage movement emerged in the mid-1990s in the United States, when activists in Baltimore, Maryland, pushed the city government to address the problem of in-work poverty and low-wage work by passing a so-called 'living wage ordinance' requiring any firm holding a contract for service work to pay their workers a living wage, which at the time was more than 70 per cent above the federal minimum wage (Luce 2002). From there the idea spread quickly across the country so that in 2012 there were living wage ordinances in more than 140 cities, counties and universities (Luce 2012: 12). In Europe, the revival of the living wage concept took place in 2001 in London where a broad community coalition called 'London Citizens' managed to get political support from the Greater London Authority to implement the idea of a living wage. In 2011, London Citizens launched a Living Wage Foundation responsible for setting a living wage rate for the rest of the United Kingdom outside London. After a slow start, the UK living wage campaign convinced approximately 1,300 employers with around 80,000 workers to sign up and pay a living wage on a voluntary basis. In London alone there are over 400 accredited living wage employers with over 20 000 workers (GLA 2014: 5). The success of the UK living wage campaign triggered a lively debate in Ireland to launch a similar campaign as a means to address in-work poverty, which has increased sharply as a result of the current crisis.[6]

An important factor that spurred the re-emergence of living wage campaigns in the 'Anglo-Saxon' world (including Ireland) is the fact that the minimum wage concept has increasingly failed to prevent in-work poverty. Referring to the United States, Grimshaw states that living wage campaigns emerged 'in a context of a failed societal system of institu-

6. For a more detailed account of the current debate in Ireland see Collins (2014).

tional regulation: low minimum wage rates, weakened unions, and privatization of public services' (2004: 101). Similar criticism has been levelled by living wage activists in the United Kingdom against the national minimum wage, which they view as too low, with lower rates for young workers not comprehensive enough to keep workers out of poverty without welfare payments by the state to supplement earnings (Grimshaw 2004; Wills 2009).

The key objective of the living wage approach of ensuring that every worker can make a decent living from what he or she earns is reflected in its calculation which usually follows the basic living costs approach (GLA 2014).[7] This implies the calculation for different household types (and regions) of a wage that is needed to cover the costs of a standard basket of goods and services in order to achieve an acceptable standard of living. While the composition of this basket is highly time- and place-specific, it usually includes the costs of: a nutritious low-cost diet, basic acceptable housing, clothing and footwear and other costs of a decent life, such as transportation, child care and education, health care, recreation and cultural activities, communication and personal care (Anker 2011: 6). Based on this empirical method, the UK living wage was £7.85 in 2014 which was more than 20 per cent higher than the national minimum wage of £6.50. Taking into consideration the higher cost of living in London, the London living wage of £9.15 was 40 per cent higher than the national minimum wage.[8]

4.3 Debates on a fair (minimum) wage at European level

An early attempt to operationalise the concept of a fair wage was undertaken within the framework of the European Council in the 1970s (Lörcher 2006). This primarily involved finding criteria for verifying compliance with the European Social Charter. After long discussions the European Council reached agreement on defining an 'equitable wage', which, in line with the European Social Charter, should be at least 68 per

7. For a detailed methodological review of the various ways to measure living wages see Anker (2011).
8. The calculation of the London living wage is based not only on the basic living costs approach, but also on the income distribution approach, which takes 60 per cent of the median wage as the benchmark. The level of the living wage is then calculated as the average of the two figures resulting from the basic living costs approach and the income distribution approach plus a 15 per cent margin to cover against unforeseen events (GLA 2014).

cent of the national average gross wage. In the mid-1990s, the definition was changed and henceforth the basis for the minimum wage was to be at least 60 per cent of the national average net wage. This definition is still used by the European Council in monitoring compliance with the European Social Charter (Schulten 2012).

Within the EU, the debate about adequate wages started in the early 1990s (Schulten 2008). In order to implement the right to an 'equitable wage' laid down in the 1989 Social Charter, the European Commission set up an international group of experts at the end of 1990 to look into the scale of low wages in Europe. After the group already at that time recognised the existence of a substantial low wage sector (Schäfer 1991) the European Commission published its first Opinion on an Equitable Wage in 1993. This document emphasises that 'low wages represent a problem in all countries of the European Communities' and 'very low income levels at both individual state and Community level ... [cause] problems concerning justice and social cohesion that could have a detrimental effect on economic performance in the long term' (European Commission 1993).

Given the existence of a low wage sector in Europe the European Commission called on the member states to 'take appropriate measures to protect the right to an equitable wage'. Besides the member states the 'social partners' were also called upon to address the issue of an 'adequate wage' at 'Community, national, regional and local level'. For itself the European Commission formulated the task of keeping an eye on the development of national wage structures in Europe and of monitoring national implementation of the right to an adequate wage through further studies (European Commission 1993).

The European Commission's Opinion can be interpreted as a first hesitant and still very vague attempt to coordinate national minimum wage policies at the European level. In particular, the European Parliament had spoken out in favour of a much more far-reaching Opinion in the run up to the report and in this context had proposed binding requirements with regard to national minimum wage policies. Thus in early 1993 in the report by the European Parliament's Committee for Social Affairs, Employment and the Working Environment (the so-called Wilson Report) the 'introduction of a fair reference wage at the national level' was called for, to serve 'as basis for collective bargaining'. Furthermore, all member states were supposed to introduce 'mechanisms to establish a

minimum wage related to the national average wage' (European Parliament 1993).

In the second half of the 1990s, however, the development of a Europe-wide coordinated minimum wage policy foundered on the obduracy of a number of member states. For the Progress Report on equitable wages presented by the European Commission in 1997 ('Equitable Wages – A Progress Report') only seven member states were even willing to provide data on their national wage structures (European Commission 1997). The majority of EU member states took the position that minimum wage policy is a purely national matter and that no competences should be established at the European level in that regard.

In fact, already in the early 1990s, when social policy competences at the EU level were extended, the area of 'remuneration' was explicitly excluded from the scope of the new social policy chapter of the European Treaty (TFEU Article 153, No. 5). On top of that, quite a few governments, with a view to 'labour market flexibilisation', far from seeking to limit the low wage sector and precarious employment, had begun to champion them. This also explains why in the Charter of Fundamental Rights in the European Union, which was adopted at the EU summit in Nice in December 2000, the wage issue was no longer even taken up and the establishment of a right to an adequate wage came to grief in the face of the resistance of numerous national governments from the very outset (Lörcher 2006).

Since the end of the 1990s the European Commission has given up trying to develop minimum wage policy as a European policy area in its own right. In numerous publications the European Commission –especially DG Economic and Financial Affairs– has, on the contrary, embraced the neoliberal demand for 'wages in line with productivity', thus favouring wider wage differentiation and expansion of the low wage sector. On the other hand, in various social policy documents of the European Commission, largely produced by DG Employment, Social Affairs and Inclusion, a more open and positive approach towards the need for an adequate wage can be found (for example, European Commission 2012).

After a group of German, French and Swiss economists had presented their relatively widely read 'Theses for a European Minimum Wage Policy' in 2005 (Schulten *et al.* 2006a) the topic was taken up again in the second half of the 2000s, especially by the European Parliament (Eldring

and Alsos 2012; Schulten 2012). In an opinion presented in 2007 it was stated that 'in many Member States the minimum wage is set very low or at below subsistence level' (European Parliament 2007: 469). Against this background a year later the European Parliament called on the European Council 'to agree an EU target for minimum wages (statutory, collective agreements at national, regional or sectoral level) to provide for remuneration of at least 60 per cent of the relevant (national, sectoral, etc.) average wage and, further, to agree a timetable for achieving that target in all Member States' (European Parliament 2008).

4.4 Economic arguments for a European minimum wage policy

Besides the more normative discussions on fair and equitable minimum wages, more recently economic arguments have increasingly played an important role in the demand for a European minimum wage policy (Schulten 2012; OFCE *et al.* 2013; Brischoux *et al.* 2014). So far, the economic debate has focused mainly on the possible impact of minimum wages on employment. For a long time the debate was shaped largely by representatives of neoclassical labour market theory, according to which minimum wages by their very nature have negative effects on employment. The continuing influence of this belief is attested by the current EU crisis management, which prescribes that the allegedly too high minimum wages in numerous countries should be frozen or – as in the case of Greece – dramatically cut (Schulten and Müller 2015).

However, more recent international empirical research on minimum wages overwhelmingly takes the view that existing minimum wage regimes have no negative effects on labour markets (for a summary see Schmitt 2012; Bosch and Weinkopf 2014). Against this background, an alternative theoretical approach to minimum wages based on Keynesian economics focuses on the influence of the minimum wage on general wage development and thus the development of aggregate demand (Herr *et al.* 2009; European Commission 2012). The macroeconomic significance of the minimum wage can vary considerably within the framework of the specific national minimum wage regime. In many European countries, however, the development of the minimum wage not only influences wages in the lower wage segment, but also forms an important benchmark for wage developments as a whole. The higher the relative value of the minimum wage the more the wage structure of the economy can be compressed from below and the lower the wage differentiation

between different groups of employees. A more egalitarian wage structure, however, boosts aggregate demand because the propensity to consume of low wage earners is much greater; that is, they spend a much higher proportion of their income and save less.

Against the background of high unemployment, wage development in Europe since the outbreak of the crisis in 2009 has been characterised in many countries by persistent real-wage losses (Schulten and Müller 2015). These losses have contributed substantially to the collapse of aggregate demand and thus have exacerbated economic stagnation in these countries. EU crisis management has been a decisive factor in triggering a downward spiral in wage policy that has encouraged strong deflationary tendencies and now has even brought a European deflation crisis into the realm of possibility. On top of all that, Europe overall continues to be characterised by stark economic imbalances between (current account) deficit- and surplus countries, reductions in which have to date not been discernible, in particular with regard to the surplus countries (notably Germany).

A European minimum wage policy could constitute a substantial starting point for closer coordination of wage policy in Europe, which first and foremost as a kind of European deflation brake could prevent further falls in real wages and also stabilise aggregate demand. Furthermore, especially in the surplus countries a sharper increase in minimum wages could boost the domestic economy and thus help to reduce economic imbalances in Europe (OFCE *et al.* 2013; Brischoux *et al.* 2014).

5. The difficult debate within the European trade unions

5.1 The minimum wage debate within the ETUC

The debate about a European minimum wage approach is a recurring theme within the European Trade Union Confederation (ETUC).[9] The more recent revival of the debate within the ETUC was triggered mainly by three developments: first, the increase of in-work poverty and low-wage work in many EU countries as a consequence of the current crisis and the crisis management approach pursued by European and national

9. For a summary of the debate until the mid-2000s (Schulten 2008).

policy-makers; second, and closely linked to this, the internal demand from some affiliates –notably but not exclusively from the CEE countries– to start a discussion about a European minimum wage approach because of their difficult situation in the national context (ETUC 2014a: 3); and third, the fact that Jean-Claude Juncker, the new president of the European Commission, attaches great importance to the issue of minimum wages, which is why the ETUC sees the need to develop its own concept to participate in the debate at European level (ETUC 2014a: 5).

The debate within the ETUC is dominated by two opposite positions. On one hand, a substantial number of affiliates from Central and Eastern Europe are pushing for a European approach and on the other hand, affiliates from the Nordic countries, for reasons outlined in more detail below, reject a European approach to the issue. Moreover, there is also some opposition to a European minimum wage approach among Italian trade unions (Furaker and Loven Selden 2013; Leonardi 2014). The Central and Eastern European affiliates have turned to Europe for help because they hope that a joint European approach can make up for the adverse conditions in the national context. The situation of the Polish ETUC affiliates illustrates the situation in many CEE countries. The Polish affiliates' capacity to address the problems of in-work poverty and low wage work by themselves is limited by the following factors: a minimum wage which is just at the poverty threshold of 50 per cent of the national median wage and therefore too low to effectively protect low-wage workers; a highly fragmented and decentralised system of collective bargaining with extremely low collective bargaining coverage and union density, which puts them in a weak bargaining position; a political climate hostile to trade unions and, linked to this, negative experiences with tripartite discussions about minimum wage developments and, finally, real wage development that consistently lags behind productivity development. The Polish trade unions therefore hope that a European minimum wage campaign would help them to improve their situation in the national context.

Against this background, the ETUC is in an extremely difficult moderating position in trying to broker a compromise between these two opposed views. The ETUC position on a European minimum wage approach is based on three key assumptions shared by all the affiliates. First, wage setting is and should remain a national responsibility (ETUC 2012a). The objective of a European minimum wage approach pursued by the ETUC is therefore not to impose one particular minimum wage regime

–for instance, a universal regime with statutory minimum wages– on all countries. The objective rather is to come to a common political understanding of an appropriate level of minimum wages measured in the context of the overall wage structure which would then be implemented in accordance with national customs and practices. Second, this level should be high enough to ensure a decent living standard (ETUC 2012b). The ETUC therefore usually refers to the definition of the Council of Europe, whose European Committee of Social Rights stipulated that a fair and decent wage is at least 60 per cent of the average net wage (ETUC 2014b: 2). The third basic assumption is that the preferred way of ensuring decent wages is through collective agreements negotiated by strong trade unions (ETUC 2012b). The European minimum wage approach should therefore always be discussed in the broader context of strategies to strengthen collective bargaining coverage (for instance, through erga omnes rules and other forms of extending collective agreements) and trade union density. However, in the absence of these conditions, minimum wages can be considered an alternative tool to provide a floor and to address the problems of inequality, in-work poverty and social dumping (ETUC 2012b: 6; 2014a: 1).

In light of the different internal views, the ETUC and its affiliates, so far, have failed to agree on a more binding European minimum wage approach based on guidelines or other procedural coordination rules that go beyond these common understandings. However, in light of the challenges mentioned above the ETUC intensified the debate at its collective bargaining school in Warsaw in October 2014. Here, the issue of a European minimum wage approach was discussed in the broader context of developing an overall trade union strategy for fair and equitable wages in Europe. This broader debate included not only the issue of an appropriate reference for the setting and implementation of minimum wages but also the crucial question of how to support national affiliates in establishing and strengthening collective bargaining institutions (ETUC 2014a, 2014b).

A European minimum wage policy is not much of an issue in most of the sectoral European trade union federations. An exception, however, is the European Federation of Public Service Unions (EPSU) which, with its 2006 campaign against low pay, pursued an approach that was similarly broad to the one pursued by the ETUC most recently. The 2006 EPSU campaign against low pay included both a 'political campaign on statutory minimum wage rates and a co-ordinated campaign of collective

bargaining targeting minimum wages in collective agreements' (EPSU 2006: 18). More recently, EPSU confirmed its commitment to tackle low pay by continuing its campaign to increase minimum wages to at least 60 per cent of average monthly wages in countries with statutory minimum wages and to at least 70 per cent in countries where minimum wages are set by collective agreements (EPSU 2009: 2). In its most recent resolution on collective bargaining adopted at the Congress in May 2014, EPSU dropped the distinction of different levels for different minimum wage regimes. EPSU instead embraced the concept of living wages in order to protect lower paid workers. In addition, EPSU is still committed to supporting its affiliates in their attempts to improve 'minimum wages in collective agreements and statutory minimum wages where they exist, continuing to assert the aim of achieving legal minimum wages that are at least 60 per cent of national average wages' (EPSU 2014: 10).

The key challenge for the ETUC and the sectoral trade union federations alike is not so much to technically define a commonly shared reference level for national minimum wages. The most challenging task in developing a European minimum wage approach is to generate a common understanding of a broader political idea and project around the issue of minimum wages in the context of which the national affiliates can mobilise their members. The ETUC's attempt to frame the issue more broadly in terms of a political project to achieve fair wages in Europe is a first step in this direction, despite the reservations that still exist in some of its affiliates, especially those in the Nordic countries.

5.2 The minimum wage debate in the Nordic countries

The Nordic countries are characterised by relatively high unionisation rates and high collective bargaining coverage, although the trade unions have lost some of their strength over the past 15 years (Nergaard 2010). Trade unions and employers' associations have the main responsibility for wage regulation in all these countries, but only Sweden and Denmark apply this arrangement exclusively. Finland, Iceland and Norway also have mechanisms for legal extension of collective agreements, but none of the countries has adopted statutory minimum wage schemes (Eldring and Alsos 2012, 2014).

Since EU enlargement in 2004, a major challenge to the Nordic minimum-wage regimes has been in the internationalisation of labour mar-

kets. The influx of labour migrants and service providers from Central and Eastern European countries has challenged the labour market model and the collective agreements' ability to halt low-wage competition and social dumping. This development has triggered debates on the need for supplementary measures with regard to minimum wage setting, but so far this has mainly concerned the possible introduction or strengthening of mechanisms for the legal extension of collective agreements.

To the extent that the issue of a national minimum wage has been debated in the Nordic countries, trade unions tend to be very much against it, while some employers' associations argue in favour.[10] The concept of a statutory minimum wage has arisen most frequently in Norway, especially as a possible alternative to the extension of collective agreements. In the Norwegian context, a statutory minimum wage does not appear as a supplement to extensions –as in many other European countries– but as an alternative. Proposals for a statutory minimum wage are to some extent used by the employers as a hostile response to various initiatives by the trade unions to improve and activate the existing extension mechanism (Eldring and Alsos 2012). In Denmark, the white collar trade union federation FTF has argued in favor of statutory minimum wage regulation, and in particular legal extension of collective agreements, but so far with minimal or no support from other trade unions or the employers' side. FTF has also urged the Nordic unions to join in the debate on a possible European minimum wage policy (Preisler 2015).

So far, all proposals for a European minimum wage policy have been met with deep scepticism in the Nordic countries, and in particular among the trade unions. The resistance must be understood in light of the existing minimum wage systems in these countries. There is a widespread concern that statutory schemes may undermine the autonomy of collective bargaining, hamper the normative effect of collective agreements, exert a negative pressure on wage levels and weaken the incentives for being organised among both workers and employers. Even though some workers may stand to gain from a common minimum wage floor, the fear is that a great many others will fall towards a statutory minimum

10. For the minimum wage debate in the Nordic countries see also the contributions of the special issue of the Nordic Labour Journal (February 2015) on 'The minimum wage — fit for the Nordic region?' (http://www.nordiclabourjournal.org/i-fokus/minimum-wage-for-the-nordic-region).

level below the collectively agreed minimum rates. A relevant question is whether a European minimum wage scheme that entails reservations concerning the maintenance of national traditions for minimum wage setting could meet the demands of those countries that do not wish to establish a statutory minimum wage. However, even though the Nordic labour markets have a relatively low proportion of working poor and low wages, none of the countries have a watertight regulatory system. This applies to Norway in particular, where only half of the employees in the private sector are covered by collective agreements and only a minor proportion by extended agreements (Eldring and Alsos 2014).

It might appear strange that the apparently robust and sustainable Nordic labour market regimes could feel threatened by a European minimum wage policy that is intended primarily for countries with low minimum wage levels or no functioning minimum wage regimes. Some would also claim that the Nordic trade unions have failed to grasp the scope of the low-wage problem in some European countries, thereby attenuating their sense of solidarity. From the Nordic perspective, the question remains whether the introduction of a statutory minimum wage in the long term will undermine the Nordic wage-setting model and provide less protection for workers in the Nordic labour markets than today. As a result, the Nordic countries have so far maintained their negative attitude towards both national and European policy initiatives that might interfere with their current minimum wage-setting systems.

6. Possible implementation of a European minimum wage policy

6.1 Political-institutional implementation

The implementation of a European minimum wage policy would require, first, that the EU countries were able to reach agreement on criteria for an equitable minimum wage. In order to take national wage differences and related different levels of economic development in Europe properly into account such criteria could take their bearings only from a relative minimum wage that would stand in a particular ratio to the national wage structure. Most proposals for a European minimum wage policy thus aim at establishing a European minimum wage norm, defined as a certain percentage of the national average or median wage.

Besides agreement on the content of a European minimum wage policy, however, a number of political and institutional obstacles would have to be overcome. This involves, first, the fundamental problem that regulatory competences in the area of wage policy are explicitly ruled out in the European Treaty. On the other hand, in recent times the EU has been perfectly willing to intervene in the (minimum) wage policy of individual member states, sometimes massively (Schulten and Müller 2015). This has been most striking in the so-called crisis states –such as Greece, Ireland and Portugal– where the Troika (made up of the European Commission, the European Central Bank and the IMF) have linked the provision of financial support to extensive 'reform' requirements, including drastic intervention in wage and collective bargaining policy. Furthermore, with the establishment of the European Semester, the EU has created an institutional framework for the purpose of imposing also wage policy requirements on individual member states as part of a Europe-wide coordination of economic policy.

Against this background, it is perfectly conceivable that, within the framework of the European Semester, recommendations on the development of national minimum wages might be made, oriented towards a common European minimum wage norm. Experiences with rather 'soft' governance reforms of this kind, especially in the field of social policy within the EU, are not particularly auspicious, however, because in practice they are not very binding and national actors show little inclination to comply. With regard to the development of a European minimum wage policy, therefore, they might possibly be only a first step that would later be followed by 'harder' governance reforms, such as the adoption of a directive. The latter would in all probability require a change of the European Treaty, however.

Given the different national minimum wage regimes in Europe, a European minimum wage policy will ultimately be accepted only if it forgoes institutional harmonisation of national minimum wage regimes (for example, the Europe-wide introduction of statutory minimum wages). Thus the question arises, however, of how implementation of European minimum wage norms could be ensured at national level. This would be less problematic in countries with a universal minimum wage, in particular if they are based on statutory guidelines. It would be more difficult for countries with sectoral minimum wage regimes, in which wages are laid down exclusively in collective agreements and universal wage norms have been unknown to date, as in the Nordic countries, in particular.

In principle, there are two possibilities for implementing a European minimum wage policy without introducing a statutory minimum wage: first, employers and trade unions could conclude a national framework agreement about a universal wage floor, as they did, for example, in Austria.[11] Second, it would be possible to increase the scope of sectoral collective agreements by enforcing the instrument of extension in order to guarantee the general application of sectoral minimum wages. As the example of Finland shows, such a system could be used to implement an (almost) universal wage floor via collective bargaining.

6.2 Impact of a possible European minimum wage policy

The effects of a possible European minimum wage policy are only hypothetical, especially because they would be directly related to the specific European minimum wage norm chosen. The only study available to date was produced by the European Foundation for the Improvement of Living and Working Conditions (Eurofound), which attempted to evaluate the consequences of a European minimum wage policy (Aumayr-Pintar *et al.* 2014: 82ff). The study assumes the introduction of a hypothetical minimum wage norm of 60 per cent of the median wage, which in most European countries is substantially above the existing relative minimum wage level (Section 3.2).

According to the Eurofound study in 2010 in the EU as a whole 16 per cent of all employees would have benefited from the introduction of such a European minimum wage norm (Figure 6). In absolute terms this represents more than 28 million workers.[12] The foreseeable impact of such a European minimum wage standard varies considerably from one country to another, depending on the size of the country's low-wage sector. The calculation ranges from just 7 per cent in Finland and Sweden to a staggering 24 per cent of workers in Germany and Lithuania who would have benefitted from a European minimum wage policy.

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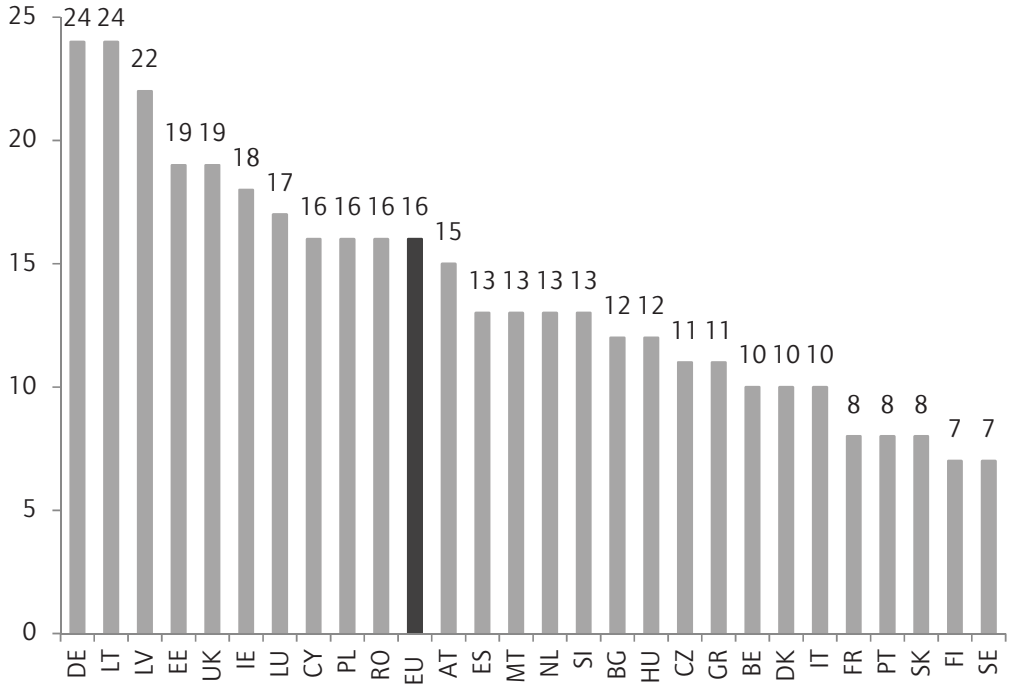
11. In 2007, the Austrian employers and the trade unions concluded a national framework agreement on a minimum wage of 1 000 euros a month, which was not supposed to be undercut in any sectoral collective agreement.

12. The absolute figures were obtained directly from the authors of the Eurofound study.

Figure 6 **Workers on less than 60 per cent of the national median wage, 2010 (% of all workers)**



Source: Aumayr-Pintar *et al.* (2014), p. 112, based on EU-SILC and SES.

7. Conclusion

For more than two decades there has been a debate on the idea of a European minimum wage policy. Recently, the debate intensified in light of the strong increase of social inequality and poverty (even among those in work) in many European countries as a consequence of the crisis and the crisis management based on austerity and structural reforms. In particular, the dramatic social consequences of the crisis management have revealed that, in many European countries, the existing minimum wages are below the subsistence minimum and, therefore, are insufficient to effectively protect low-wage workers and to prevent in-work poverty. Thus, in the context of the crisis, the fundamental social right to an 'equitable' and 'adequate' wage –as called for in, among other things, the European Social Charter and the Community Charter of the Fundamental Social Rights of Workers– is being violated on a massive scale in Europe.

Despite the dramatic social consequences, the obvious failure of the current EU crisis management also represents a window of opportunity because the need for alternative concepts and a change of policies is be-

coming increasingly apparent. In this context, political support for and societal acceptance of a European minimum wage policy have increased considerably. A European minimum wage policy is not only being put forward as a tool to ensure 'adequate' minimum wages throughout Europe but also as a basic building block of a broader macroeconomic reorientation away from the current supply-side policies towards a demand- and wage-led model of growth that takes into account the important role played by wages in boosting internal demand and social cohesion.

However, as our analysis illustrates, the implementation of such an approach still faces major obstacles – both institutionally with respect to the diversity of national minimum wage regimes and levels and politically with respect to the different views even within the European trade union movement. Against this background, a European minimum wage policy would have to meet three key requirements. First, it would have to refrain from imposing a specific model and absolute minimum wage level on the member states. Instead, the key task is to reach agreement on a European minimum wage norm that defines a minimum wage as a certain percentage of national median or average wages. Second, such a relative level should be sufficiently high to effectively protect low-wage workers. By gradually raising national minimum wages, for example, to 60 per cent of national median wages up to 16 per cent of all workers in the EU could benefit from a European minimum wage policy. Third, in view of institutional diversity and the different views within the European trade union movement, a European minimum wage policy must take account of the fact that statutory and collectively agreed minimum wages are functionally equivalent for the purpose of ensuring the comprehensive application of minimum wages. Any discussion of a European minimum wage policy must therefore also include measures to strengthen national collective bargaining systems in order to increase collective bargaining coverage. Thus, a European minimum wage policy is compatible with retaining existing national industrial relations and wage-setting systems.

If understood in this sense, a European minimum wage policy could make an important contribution to reducing (income) poverty and (income) inequality. However, its impact would not only be limited to the social dimension. Economically, it would instigate a considerable demand boost and thus create new potential for growth and employment, as well as counteract the current risk of deflation in Europe. Finally, in view of the current legitimacy crisis afflicting European politics in many

EU countries, a European minimum wage policy would also have broader political implications because it could represent a concrete political project for reviving the idea of a 'social Europe', thereby helping to 'regain people's trust in the European project' (Juncker 2014c).

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Chapter 11
The role of extension for the strength and stability of collective bargaining in Europe

Thorsten Schulten, Line Eldring and Reinhard Naumann

1. Introduction

Nearly two-thirds of all employees in the European Union fall within the scope of a collective agreement, which makes Europe's collective bargaining coverage higher than that of any other region of the world (European Commission 2015: 28). The reason for this relatively high collective bargaining coverage lies first of all in the predominance of multi-employer bargaining in many European countries.[1] There is a clear-cut relationship between the level and the coverage of collective bargaining, as countries in which multi-employer bargaining predominates in general have a much higher bargaining coverage than countries in which company bargaining predominates (Visser 2013). While multi-employer agreements cover various companies of a certain bargaining unit –mostly a branch or sector– independent of their specific state of industrial relations, in company bargaining systems the existence of a collective agreement depends directly on the particular power relations between workers and employers at the individual firm.

Over the past two decades most traditional systems of multi-employer bargaining in Europe have undergone profound changes and have given more space to company bargaining (Marginson 2014). In most cases the decentralisation of collective bargaining took place in an 'organised' manner within the framework of multi-employer agreements and often led to a system of two-tier or multi-level bargaining. Against the background of the current economic crisis in Europe, however, several European countries – in particular in southern Europe – have experienced the emergence of a more radical form of decentralisation, leading to a

1. See also the contribution by Keune in this volume (Chapter 8).

significant weakening of multi-employer bargaining and a sharp decline in bargaining coverage (Schulten and Müller 2015).[2]

The strength and spread of multi-employer bargaining depends mainly on two factors. The first is the existence of strong and encompassing bargaining parties that are able to guarantee a certain bargaining coverage through their own organisational strength. During the past two decades, however, there has been a decline in union density in almost all European states, leading to a significant weakening of labour's bargaining power. Against that background, it is all the more astonishing that the spread of multi-employer collective bargaining and bargaining coverage have remained particularly stable in many European countries (OECD 2012a; Visser 2013). Thus, there is a second factor that determines the spread and stability of multi-employer bargaining systems, namely the existence of supporting policies and regulations on the part of the state.

As already argued by Traxler *et al.* (2001: 194ff) in many European countries state support is the most important variable explaining high bargaining coverage. The most important instrument here is the administrative extension of collective agreements, which makes them applicable beyond the immediate contracting parties, covering all workplaces and workers in a certain area and/or sector. The agreement's reach can thus be significantly increased, thereby buttressing the collective bargaining system as a whole.

Despite the importance of state support policies for the stability of collective bargaining, there are still only a few studies that explicitly examine this issue of extension on a comparative basis (Traxler and Behrens 2002; Ahlberg and Bruun 2009; Stokke 2010; Kamanabrou 2011; Kerckhofs 2011, Schulten 2012; Visser 2013). The analysis in this chapter therefore looks beyond the predominantly legalistic discourses to the question of the current significance of extension for the development and stability of collective bargaining systems in Europe. It first discusses some theoretical arguments on the pros and cons of extending collective agreements and analyses its significance from the perspective of the various social actors (the state, trade unions and employers) (Section 2). Thereafter, an empirical overview is provided of the different legal

2. See also the contribution of Jesús Cruces, Ignacio Álvarez, Francisco Trillo and Salvo Leonardi in this volume (Chapter 3).

requirements for extension in Europe and its spread and use in practice (Section 3). In a further step more recent trends in the use of extension are analysed by elaborating the examples of Portugal, Norway and Germany (Section 4). The chapter also examines the importance of extension for collective bargaining coverage in Europe and asks how it is related to the organising power of unions and employers (Section 5). Finally, the main arguments are summarised in order to discuss the future role of extension with regard to the strength and stability of collective bargaining in Europe (Section 6).

2. Basic function of extension of collective agreements

The basic function of extension procedures is closely bound up with the particular nature and purpose of collective agreements. Rooted in the structural imbalance of power between labour and capital, the original aim of collective agreements was to limit competition between individual workers by means of collective arrangements and to safeguard certain (minimum) labour standards. Over time, however, with the emergence of national collective bargaining systems, the social and economic regulating functions of collective agreements have been extended, particularly in Western Europe (Bispinck and Schulten 1999; Visser 2013). From the workers' point of view, the immediate *protective function* has been supplemented by a *distributive and participative function*, enabling them to exercise democratic participation in economic development. From the employers' perspective, collective agreements mainly have a *cartel function*, by creating a certain competitive order in which competition on wage and labour costs is largely abolished. In addition, there is an order and peace function which ensures that, during the validity of a collective agreement, enterprises can count on the plannable and mostly undisrupted conduct of their economic activities. Finally, from the state's point of view, collective agreements whose particular characteristic is 'autonomous self-regulation' (Sinzheimer 1916/1977) have an important *function of easing the burden of the state*, as they enable the authorities to steer clear of regulating certain potentially conflictual issues of labour, wage and, to some extent, social policy.

The extent to which collective bargaining is able to perform these regulatory functions depends, first and foremost, on the reach of the respective bargaining systems, and this is determined by three basic factors. The first significant element is the bargaining level, which defines the

applicability of the collective agreement, both geographically (regional/national) and functionally (enterprise, sector or multi-sector). Second, collective agreement coverage depends directly on the organisational strength of the employer organisations and trade unions involved. This is because collective agreements are directly applicable only to those who are party to them, namely organised workers in organised businesses.

Third and lastly, the coverage of a collective agreement can be broadened by extending its applicability to workers and enterprises that are not organised within one of the contracting parties. A fundamental distinction must be made here between two approaches. First, there is the extension of bargaining coverage to non-organised workers in organised workplaces. In order to prevent workplaces bound by collective agreements from sidestepping this coverage by taking on non-organised employees, most European countries have a legal *erga omnes* provision for such cases (Kamanabrou 2011). This means that collective agreement provisions in workplaces bound by those provisions are also applicable to their non-organised employees. In practice, even in countries that do not have *erga omnes* provisions, such as Germany and Norway, agreement provisions are generally applied to all employees within the workplaces covered. One reason why equal treatment of organised and unorganised employees is in the employer's own interest is that more advantageous collectively agreed provisions would otherwise provide employees with a strong incentive to join the union.

The second approach is the extension of agreement coverage to unorganised workplaces. Here, the usually preferred means is a *declaration of general applicability*, through which the state, by a legislative act, extends the scope of the collective agreement beyond those workplaces that are direct members of the contracting party. In addition, a number of countries have functional equivalents of extension, which also enables the state to ensure a high level of agreement coverage. One possibility is to have a legal *erga omnes* provision that applies to employers, by means of which the collective agreement is also virtually automatically applicable to unorganised firms. Furthermore, the state may also build into procurement legislation a requirement to abide by the prevailing collective agreement (Schulten *et al.* 2012). However, this approach –known in Germany as a 'small extension'– is restricted to public procurement, in contrast to the 'big extension'. Finally, the state may at the outset accord collective bargaining status only to such bodies –such as economic chambers– membership of which is compulsory, which is an indirect

means of achieving full coverage for collective agreements. This is the case, for example, in Austria.

State-supported extension of collective agreements by means of a *declaration of general applicability* or another functional equivalent sometimes runs into conflicting interests among the bargaining parties (for an early example, see Hamburger 1939). From both employers' and employees' point of view, extension of collective agreements has the attraction of depriving individual enterprises of the opportunity to secure a competitive advantage by undercutting collectively bargained standards. This makes a substantial contribution to the stability of the collective bargaining system, inasmuch as competition from outsiders tends to undermine the cartel function of collective agreements and can, once it becomes sufficiently widespread, exert such pressure that the very existence of the collective agreement may be called into question. On the other hand, the employers may see a certain level of outside competition as wholly desirable, because it opens up exit options for firms, thus increasing their bargaining power vis-à-vis the unions.

Based on neoclassically oriented insider/outsider models, the thesis has also been advanced that large enterprises that are well established in the market have a particular interest in extension, as it enables the setting of certain collectively agreed standards that newly founded firms are unable to meet. Such standards discourage new firms from entering the market (Haucap *et al.* 2001) and therefore might have negative effects on overall economic performance (Murtin *et al.* 2014; Villanueva 2015). However, an objection to this view of extension as a protectionist instrument for market insiders is that provisions in collective agreements are only minimum standards, which are often surpassed precisely by larger and well-established firms through additional local bargaining. If new markets are created, there is, on the contrary, often the problem that a lack of binding sector-wide collective agreements often leads to a significant deterioration of working standards as competition is mainly on labour costs. This has often been the case, for example, after the liberalisation and privatisation of public services (Schulten and Brandt 2012).

In legal debates, extensions of collective agreements are often criticised as breaches of what is called 'negative freedom of association' (see, for example, Sittard 2010). This term is applied mainly to firms' right to deliberately decide not to join an employers' association and to make their own arrangements about working conditions. However, other lawyers

take the view –which in Germany has also been confirmed by the Federal Constitutional Court– that while an extension of a collective agreement does impose restrictions on a firm's freedom to decide that are similar to labour law provisions, this should nonetheless not be considered a breach of negative freedom of association, as it is not associated with any obligation to be a member of a particular organisation (see, for example, Kempen 2006: 1105; Lakies 2006: 1339). A similar position is taken by the International Labour Organization (ILO) which, in its Collective Agreements Recommendation from 1951 (No. 91), explicitly points to extension as a possible instrument for promoting collective bargaining. As long as the extension concerns a collective agreement that was concluded by the most representative parties in each case, it does not, in the ILO's opinion, constitute a violation of freedom of association (Gernigon *et al.* 2000: 62f).

From the state's point of view, extensions are a way of supporting the collective bargaining system without interfering in the contracting parties' autonomous decision-making. This is a 'legislative act of a particular kind' (Lakies 2006: 1342), through which collectively bargained standards acquire the character of general social rights. In this way, the state can increase its own powers of guidance without –as, for example, in the case of statutory minimum wages– having to take responsibility for the substantive content of the settlements. In many cases, the offloading function that collective agreements have for states can become operative only once the collective agreement provisions concerned have been declared generally applicable. This is particularly the case when social policy tasks are transferred to the bargaining parties, but it also applies, for example, to the setting of living minimum wages.

At first sight, trade unions have a rather ambivalent view of the extension of collective agreements. Unlike the employers' associations, the unions often fear that extension might tend to decrease their organising power, as it will reduce the incentive to join a union and will considerably increase the free-rider problem. It also implies greater political dependency on the state and, depending on the political colour of the government in office, this may also work against the unions. Scepticism about extension is particularly prevalent among strong unions with relatively high densities.

On the other hand, experience shows that unions are often not in a position to secure comprehensive collective agreement coverage purely

on the basis of their own organising strength. That being the case, the extension of collective agreements does make it possible for a union to extend its influence considerably beyond its own organising arena and to exercise a power of public settlement. Thus, an established extension practice may also be seen as an expression of trade unions' 'institutional power' (Schmalz and Dörre 2014). Whether extension really does have a negative impact on union organising rates is a question that can only be answered empirically (cf. Section 4).

3. The spread and use of extension in Europe

Although the extension of collective agreements is mainly a characteristic of European industrial relations, their earliest precursors, at the end of the nineteenth century, were to be found not in Europe but in New Zealand and Australia (Van der Veldt 2002). The first nation-wide regulation on extension was introduced in Germany with the Collective Agreement Order of 1918, followed during the 1920s and 1930s by several other European countries. Before the outbreak of the Second World War, more or less extensive legislative provisions on extension were in place in eleven European countries (Austria, Belgium, Czechoslovakia, France, Greece, Italy, Luxembourg, the Netherlands, Portugal, Switzerland and Yugoslavia; Hamburger 1939). The most comprehensive laws on extension were adopted in the mid-1930s in France and the Netherlands (Dufresne and Maggi-Germain 2012; Rojer and van der Veldt 2012). During the Second World War, extension was even temporarily introduced in the United Kingdom, which has otherwise had a strictly voluntaristic tradition of industrial relations (Kahn-Freund 1943).

After 1945, most European countries returned to developing their collective bargaining systems along their traditional pre-war lines. In most continental and southern European countries, administrative extension became an integral part of the national collective bargaining system, whereas the Anglo-Saxon and Scandinavian countries mainly did without legal requirements with regard to extension. Finally, in the 1990s and 2000s, the possibility of extension was made legally possible throughout central and eastern Europe as part of the reconstruction of collective bargaining systems in these countries (Kohl 2009: 30).

3.1 The current importance of extension in practice

Of the 30 European countries considered below (including all 28 EU states plus Norway and Switzerland) only six have no legal requirements for administrative extension of collective agreements (Table 1). These are, in addition to the special case of Cyprus, the Nordic countries Denmark and Sweden, along with two countries that have an 'Anglo-Saxon' industrial relations tradition, the United Kingdom and Malta. There is also no legal procedure for administrative extension in Italy. Due to Article 36 of the Italian constitution, however, every worker has the right to 'fair remuneration', which in case of dispute Italian labour courts usually define as the remuneration laid down in the relevant collective agreement. This system might be interpreted as a more indirect form or a functional equivalent of extension (Treu 2014).

The great majority of the European states considered here (24 out of the 30) have legal requirements on the extension of collective agreements. The use of administrative extension in practice, however, differs widely. One can distinguish three groups of countries in which extension is used 'frequently', 'to a limited extent' or 'rarely'. In countries with 'frequent' use of extension, the majority of all sectoral or national agreements are regularly declared to be generally applicable. Countries in this group include the Benelux states, France, Spain and Finland. Until recently the group also covered Greece, Portugal and Romania, but they have recently undergone an extreme reduction in the number of extensions after some fundamental changes in the legal requirements (for Portugal see Section 4.1). To these should be added Austria and Italy, which both have functional equivalents according to which most collective agreements are de facto universally applicable. In Austria most sectoral collective agreements are signed on the employers' side by economic chambers, which have compulsory membership, so that all companies are covered by the agreements. A similar chamber system also existed in Slovenia, but compulsory membership was abolished in 2008 (Banerjee *et al.* 2013).

There is a second group of countries with a 'limited' use of extension. Here extension is limited to a small number of sectors, in particular in more labour-intensive and domestic-oriented branches with a high number of small and medium-sized companies (for example, construction). Countries belonging to that group are Germany, Switzerland, Ireland and Norway, as well as a few central and eastern European countries, such as Bulgaria, Croatia, Czech Republic, Slovakia and Slovenia.

Table 1 **Use of extension of collective agreements in Europe in 2015**

Frequently: The majority of sectoral agreements are generally applicable	Belgium, Finland, France, Luxembourg, Netherlands, Spain (Greece, Portugal and Romania until 2011)
Limited: Only a limited number of sectors have agreements that are generally applicable	Austria*, Bulgaria, Croatia, Czech Republic , Germany, Norway, Ireland, Slovakia, Slovenia, Switzerland (Portugal since 2012 and Slovenia since 2010)
Rarely: Almost no agreements are generally applicable	Estonia, Hungary, Latvia, Lithuania, Poland (Greece and Romania since 2012)
Functional equivalents: Most sectoral agreements are de facto generally applicable	Austria, Italy (Slovenia until 2009)
No legal requirements for extension	Cyprus, Denmark, Italy**, Malta, Sweden, United Kingdom

Notes: * Only in sectors and professions that are not members of the Austrian Economic Chamber. ** No legal provisions for extension, but indirect forms of extension through established practice of labour court judgments (functional equivalent).

Sources: Stokke (2010); Kerckhofs (2011); Schulten (2012); Visser (2013).

Finally, there is a third group of countries in which the legal possibility for extension is only 'rarely' used in practice so that an extended collective agreement is absolutely exceptional. This group contains the Baltic States (Pärnits 2014), Poland and Hungary, as well as, more recently, also Greece and Romania.

To a certain extent the use of administrative extension or functional equivalents corresponds to the established classification of industrial relations systems in Europe. For example, taking the approach of Jelle Visser, who distinguishes a total of five different industrial relations systems across Europe (European Commission 2009: 51), the following ranking in the use of extension can be made: extensions of collective agreements have traditionally been most widespread in the southern European industrial relations system (France, Greece, Italy, Spain and Portugal), which in every case except Italy is marked by strong state influence. The use of extension is also of high relevance in most continental European industrial relations systems (Austria, Benelux countries, Slovenia) with the exception of Germany and Switzerland, where it only started to gain importance more recently (Eldring and Schulten 2012).

In the central and eastern European industrial relations model, as reconstructed post-1990, there is in general a legal possibility to extend collective agreements, but it is only limited or rarely used in practice.

Finally, there are the Anglo-Saxon and Nordic industrial relations systems which, despite all the differences between them, are both based on strongly autonomous collective bargaining systems with little interference by the state. Thus, in both systems most countries do not even have the legal requirements for extending collective agreements. There are, however, two interesting exceptions, namely Finland and Norway. In Finland the use of extension became very widespread after a labour law reform in the early 1970s (Ahlberg and Bruun 2009; Hellsten 2011), while in Norway the use of extension is a more recent phenomenon and is so far limited to a small number of sectors (see Section 4.2 below).

3.2 Preconditions and procedures for the use of extension

The extension of collective agreements is generally subject to many preconditions, which may impede or facilitate their spread (Table 2). Most countries have requirements regarding the representativeness of a collective agreement that is to be declared generally applicable. In principle, there are two basic variants of representativeness: one relies on collective bargaining coverage and the other is based on the importance of the trade unions and employers' associations that concluded the agreement.

The first group of countries, in which the representativeness requirement is determined by bargaining coverage, includes Finland, the Netherlands, Portugal, Slovenia and Switzerland. In these countries, an agreement can be extended only if it already covers a certain number of employees. Often the necessary coverage quorum is set at 50 per cent of all the employees in workplaces covered by the agreement, regardless of union membership. In the case of the Netherlands extension requires a 'meaningful majority' of workers covered, which in practice is usually interpreted as coverage of between 55 and 60 per cent. In the case of Portugal the coverage quorum introduced in 2012 was set at 50 per cent, but in 2014 the government created the possibility to bypass this restrictive criterion by introducing an alternative one: employers' associations at least 30 per cent of whose members are SMEs do not need to reach the 50 per cent threshold (see Section 4.1). In contrast, a recent reform of the Collective Bargaining Act in Germany abolished the former 50 per cent coverage quorum and replaced it by a more vague provision according to which the agreement should have 'predominant importance'. The latter was intended to give the parties involved somewhat more flexibility to declare collective agreements universally binding (see Section 4.3).

Table 2 **Requirements and procedures for the extension of collective agreements in selected European countries, 2015**

	Requirements	Application	Decision
Belgium	Representativeness of the bargaining parties	One or both parties to the agreement	Ministry of Labour
Bulgaria	Representativeness of the bargaining parties	Joint request of both bargaining parties	Ministry of Labour
Croatia	Public interest	One or both parties to the agreement	Ministry of Labour after consultation with the Tripartite Commission of the Economic and Social Council
Czech Republic	Representativeness of the bargaining parties	Joint request of both bargaining parties	Ministry of Labour
France	Representativeness of the bargaining parties	One or both parties to the agreement, or the state	Ministry of Labour after consultation with the National Collective Bargaining Commission
Finland	Representativeness of the agreement to be proved by at least one of the following criteria: 1. 50% bargaining coverage of all employees 2. high organisational density of both bargaining parties 3. established bargaining practice in a sector	No application needed/ automatically checked	Independent commission appointed by the state
Germany	Public interest Agreements should have 'predominant importance'	Joint request of both bargaining parties	Ministry of Labour after approval by the Collective Bargaining Committee
Netherlands	'Sufficient' bargaining coverage of all employees (55–60%)	One or both parties to the agreement	Ministry of Labour
Norway	Documentation of migrant workers performing work under conditions below the collectively agreed standards	One or both parties to the agreement	Independent commission appointed by the state (one each from employers and trade union plus three independent members)
Portugal	50% bargaining coverage of all employees (30% if the majority of companies are SMEs)	One or both parties to the agreement	Ministry of Labour

Table 2 (cont.)

	Requirements	Application	Decision
Romania	50% bargaining coverage of all employees	Joint request of both bargaining parties	Ministry of Labour
Spain	Representativeness of the bargaining parties	No application/decision needed, as the representative collective agreement automatically becomes applicable, without further checking, to all enterprises within the bargaining area defined (sector/region).	
Slovakia	Exclusion of companies with fewer than 20 employees, with more than 10% disabled workers, which have been operating in the market for a period shorter than 24 months	One or both parties to the agreement	Ministry of Labour after consultation within a Tripartite Advisory Committee
Slovenia	50% bargaining coverage of all employees	One or both parties to the agreement	Ministry of Labour
Switzerland	50% bargaining coverage of all employees and employers 50% bargaining coverage of all employees (in some sectors with a high number of migrant workers)	Joint application by both parties to the agreement Tripartite commission	Federal Council/ Canton Tripartite commission

Source: Stokke (2010), Kerckhofs (2011), Schulten (2012), Visser (2013).

A more flexible regulation exists in Finland which also has the 50 per cent coverage quorum as one criterion, but adds the organisational importance of the contracting parties as well as the importance of the agreement in the past as additional criteria (Hellsten 2011). This leaves some room for discretion, so that in certain cases agreements with less than 50 per cent coverage can be declared generally applicable. Finally, the most restrictive regulation can be found in Switzerland, which even has a double quorum, requiring that at least half of all employees and employers are covered. However, in recent years a number of sectors have been particularly affected by labour migration, for which the requirements for extension have been relaxed so that in these cases, only the agreement's coverage of employees is taken into account (Eldring and Schulten 2012).

In a second group of countries covering, for example, Belgium, France, Spain as well as many central and eastern European states, it is not the particular collective agreement but the importance of the parties signing the agreement that is decisive in determining its representativeness.

If the trade unions and employers' associations involved are defined as representative the agreement can be extended irrespective of its individual bargaining coverage. Consequently, no minimum coverage is required in order to extend a collective agreement. The idea behind this concept is that employers' organisations and trade unions not only represent the immediate interests of their members but also perform an important regulatory function for society as a whole. The criteria on how to determine an organisation as representative may differ from country to country. On the trade union side, for example, the representativeness criteria often draw on union density and/or the election results for representative bodies at company level; this is the case, for example, in France or Spain. Sometimes representativeness is also determined in relative terms so that only the largest trade union and employers' association in the respective area is seen as representative. In the Czech Republic, for example, only collective agreements concluded by the largest organisations can be extended (Kroupa 2006).

Apart from representativeness, some countries have further requirements for extending collective agreements. In Croatia and Germany, for example, there is the more unspecified provision that the extension has to be 'in the public interest'. In Norway, before an agreement is extended, it has to be proved that foreign workers are not receiving the collectively agreed conditions. This reflects the origin of the Norwegian regulations, which were introduced as a means of avoiding social dumping as a result of growing labour migration (see Section 4.2). Finally, some countries have explicitly excluded particular groups of companies from extension. In Slovakia, for example, collective agreements cannot be extended to small and newly-established companies with fewer than 20 employees or in operation for fewer than 24 months. Formerly, extension even needed the consent of the companies affected. This provision, however, was abolished with the most recent reform of the Slovakian collective bargaining law (Bednárik 2015).

To launch an extension procedure, most countries require explicit application from one or both of the contracting parties. In France, an application for extension can also be made by the state (Dufresne and Maggi-Germain 2012). No application is needed in Finland, where all sectoral agreements are checked automatically to see whether they should be extended. The same holds true for Spain, which has an erga omnes provision according to which all collective agreements are automatically

extended to non-organised workplaces in the respective bargaining area, without any special legislative act. A similar arrangement existed in Romania until the *erga omnes* regulation was abolished with the Labour Law revision of 2011 (Trif 2014).

In most countries the final decision on the extension of a collective agreement is taken by the Ministry of Labour, often after consultation with trade unions and employers' associations. In Germany, the decision has to be approved by a majority of the national Collective Bargaining Committee, which is composed equally of representatives of the peak-level trade unions and employers' organisations. Consequently, both parties have a de facto veto power to block an extension. Finally, in Finland and Norway it is not the Ministry of Labour but an independent commission that decides on extension.

All in all, the requirements and procedures for extending collective agreements also influence the frequency of its use in practice. Most countries with a frequent use of extension prescribe the representativeness of bargaining parties as the major legal criterion and not a bargaining coverage quorum, which seems to be a somewhat higher hurdle. The major exception is the Netherlands, which has a very high number of extensions despite a relatively high bargaining quorum. Behind the Dutch story stands a high degree of acceptance and support for extension procedures among both trade unions and employers' associations (Rojer and van der Veldt 2012). The support of both parties is also a major precondition for frequent use of extension in other countries. However, under certain circumstances stricter rules for extension can also lead to a significant decline, as shown by the example of Portugal (see Section 4.1)

4. Recent developments in the use of extension – Portugal, Norway and Germany

In order to discuss recent developments in more detail the following sections provides three small case studies covering Portugal, Norway and Germany. While Portugal is an example of a sharp decline in the use of extension, in Norway and Germany the instrument has recently gained more importance.

4.1 Portugal

The current Portuguese collective bargaining system was established in the first decade after the overthrow of the dictatorship in 1974, when the trade unions were able to oblige employers to accept comprehensive collective framework agreements with detailed regulations on workers' rights, work organisation and workers' tasks (Naumann 2006). According to the Portuguese Constitution (Article 56) trade unions have a fundamental 'right of collective bargaining' (Article 56) with the exception of the public sector, in which wage bargaining is still prohibited (DGAEP 2013). In Portugal there are three types of collective agreement:

(i) branch-level agreements (*Contrato Colectivo de Trabalho*, CCT);
(ii) company agreements (*Acordo de Empresa*, AE); and
(iii) agreements of groups of companies (*Acordo Colectivo de Trabalho*, ACT).

Until recently, most collective agreements were concluded at branch level (Table 3). As the Portuguese economy is dominated by small companies, it is the employers who have a particular interest in creating a certain competitive order within branches. The agreements of groups of companies are a special form of multi-employer bargaining with a limited number of firms, which became relevant in particular in formerly nationalised public industries and utilities. There are also a number of company agreements (especially in some larger firms) but with fairly limited scope.

The role of extension in Portuguese collective bargaining

Collective agreements in Portugal cover directly only those workers who, first, are employed by companies that are affiliated with the signatory employers' association(s) and, second, are members of one of the signatory trade union organisations. There is some evidence that in practice companies apply collective agreements to all workers no matter whether they are trade union members. In addition, Portugal has a long tradition of administrative extension, so that unorganised companies in a certain area or sector are also covered by the respective collective agreement. According to the Portuguese Labour Code (Código do Trabalho) (Articles 514–516), the Ministry of Labour had the possibility to extend every collective agreement if requested by employers and/or trade unions. Until recently, there were no further criteria for extension (for example, concerning the representativeness of an agreement or that of the

Table 3 **Number of renewed collective agreements in Portugal published by the Ministry of Labour**

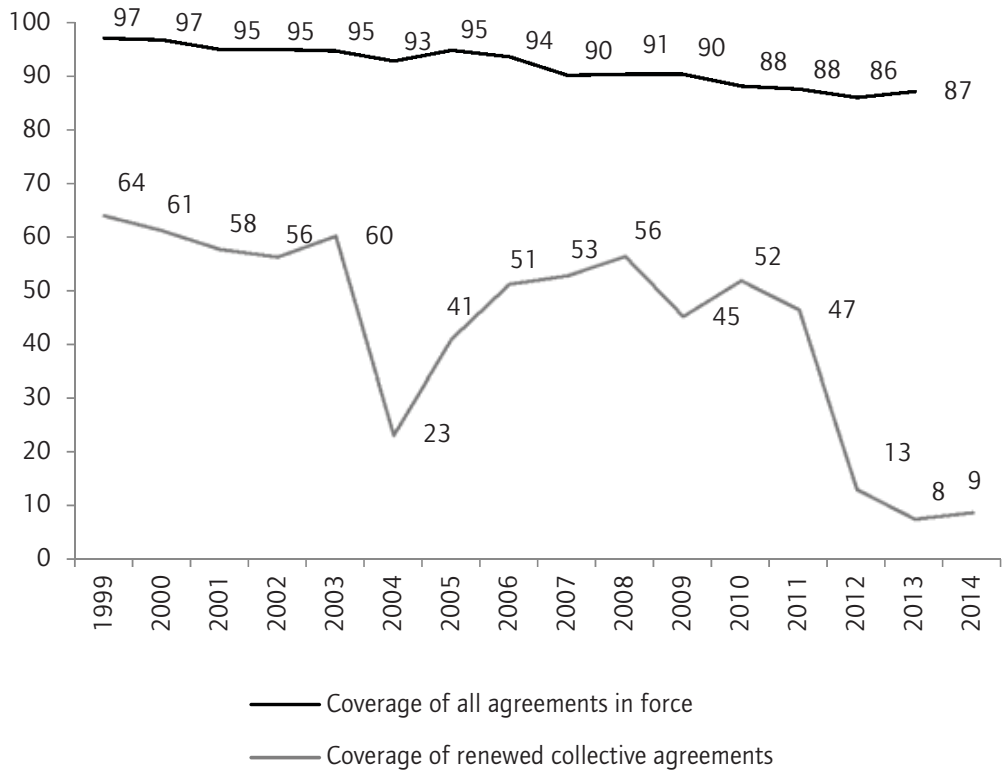
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Branch-level agreements (CCT)	264	245	238	230	232	100	155	153	160	172	142	141	93	36	27	49
Groups of companies agreements (ACT)	18	22	22	19	30	15	28	26	27	27	22	25	22	9	18	23
Company agreements (AE)	105	103	100	88	80	46	73	65	64	97	87	64	55	40	49	80
Total number of agreements	388	371	361	338	342	162	254	245	252	296	252	230	170	85	93	152
Number of extension decrees	183	144	185	147	152	4	56	137	74	131	101	116	17	12	9	13
Workers covered (in 1000)	1465	1453	1396	1386	1512	600	1125	1419	1570	1704	1303	1407	1237	328	187	214

Source: DGERT (Portuguese Ministry of Labour).

bargaining parties). Thus, in practice Portugal had a system of quasi-automatic extension, in which a majority of multi-employer agreements were regularly extended (Table 3).

While, according to different sources, only between 11 per cent (Addinson *et al.* 2015) and 18 per cent (ICTWSS Database, see below Figure 4) of workers in Portugal are members of a trade union, the widespread use of extension has largely contributed to fairly high collective bargaining coverage. Until the 1990s, almost all workers were covered by a valid collective agreement. Since then formal bargaining coverage has shown a slight decline, to 87 per cent in 2013 (Figure 1). Formal coverage, however, includes all collective agreements in force, including framework agreements and agreements that often have not been renewed for a longer period. In order to measure the real importance of collective bargaining in Portugal a more important figure is current bargaining coverage, which takes into account only the annually renewed collective agreements. The latter can be taken as an indicator of the extent

Figure 1 **Collective bargaining coverage in Portugal as a percentage of all workers entitled to collective bargaining**



Source: DGERT (Portuguese Ministry of Labour), authors' calculations.

to which especially wages are regulated by collective agreements. Until the late 2000s, current collective bargaining coverage varied mainly between 50 and 60 per cent. The high number of annual extension decrees underlines its importance for the scope and stability of the Portuguese collective bargaining system. The latter became obvious when in 2004, after some legal reforms in collective bargaining, the conservative government under Prime Minister Barroso temporarily stopped extending collective agreements and current collective bargaining coverage immediately fell.

Recent changes in the legal criteria and practice of extension

The widespread use of extension in Portugal has been strongly supported by both trade unions and the majority of employers' associations. Criticisms of the system come mainly from some economists who –often supported and promoted by the Bank of Portugal– see extension as a barrier to the downward flexibility of wages, which from a neoclassical point of view has negative consequences on employment (for example, Addison 2015; Martins 2014; Murtin *et al.* 2014; Portugal and Vilares 2013). These criticisms have been supported by some international organisations, such as the OECD, which openly demanded the abolition of extension in Portugal in order to promote more company bargaining (OECD 2012b: 10).

In 2011, when Portugal was forced to ask the EU and the IMF for a bailout, the national government had to sign a Memorandum of Understanding (MoU) with the so-called 'Troika' comprising the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF), in which it committed itself to a set of reforms in various policy areas.[3] Labour market policy in general and the revision of the wage-setting mechanism in particular have played a particularly prominent role in the MoU.

In order to reduce labour costs and to promote wage flexibility at the individual firm-level, the MoU called on the Portuguese government to 'define clear criteria to be followed for the extension of collective agreements and commit to them'. Furthermore, it stated that 'the representativeness of the negotiating organisations and the implications of extension for the competitive position of non-affiliated firms will have to be

3. The 2011 MoU is documented in European Commission (2011).

among these criteria' (European Commission 2011: 80). The aim of this reform was pointed out more explicitly in the second review of the Memorandum: 'The authorities' new commitment not to grant automatic extension of collective agreements in 2012 should reduce wage pressures inconsistent with the economic situation of firms not represented in the bargaining process' (IMF 2011: 11).

A few months after the MoU was signed, the extension of collective agreements was almost completely suspended by the newly elected conservative government, even before reform of the legal criteria for extension was adopted. Finally, in October 2012 the Portuguese government passed Resolution 90/2012, which introduced a 50 per cent threshold, in accordance with which the employers covered by collective agreements have to represent at least half of the workers in the respective sector before it can be extended.[4] The decree was introduced against the resistance of the two major trade union confederations, CGTP-IN and UGT, as well as the most important peak-level employers' organisation, CIP (*Confederação Empresarial de Portugal*). In a meeting with representatives of the Troika the CIP declared that suspension of extensions 'favours unfair competition, restrains and disintegrates organised interest, fosters the informal economy and is deadly to collective bargaining' (CIP 2012).

In most sectors the proportion of workers covered by collective agreements is clearly below 50 per cent, which makes an extension unlikely. Since 2011 the number of annual extension decrees has varied between 9 and 17 in comparison with more than 100 in previous years (Table 3). Along with the crisis and its profound economic uncertainty this was one important reason for the strong decline in the number of branch-level agreements. Without extension many employers no longer support branch-level agreements as outside competition cannot be avoided. The strong decline in the number of branch-level agreements finally led to a dramatic fall in current bargaining coverage to a historical low of less than 10 per cent (Figure 1). Although some observers have tried to downplay the changes by referring to the still fairly high formal bargaining

4. Resolution 90/2012, adopted on 10 October 2012, opened up the possibility for extending the agreements of employers' associations with less than 50 per cent representativeness if SMEs were exempted from the respective agreement. It seems that no association has made use of this possibility. Official designation of the resolution: Resolução do Conselho de Ministros No 90/2012; available at: http://dre.tretas.org/dre/304490/

coverage (Addison *et al.* 2015), the fact that less than 10 per cent of workers currently have renewed wage agreements marks a more fundamental crisis of Portuguese collective bargaining.

In reaction to growing criticism from both trade unions and employers' associations, in June 2014 the government passed Resolution 43/2014, which revised the criteria for extension.[5] The new resolution has added an additional criterion according to which an extension is also possible if at least 30 per cent of the contracting employers association's members are small, medium and micro-companies. Taking into consideration that more than two-thirds of Portuguese companies employ four workers or less (GEE 2013), this new criterion meant that probably almost all employers' associations would qualify for the extension of their agreements. However, this new regulation has not had an immediate impact on collective bargaining so far. It remains to be seen whether extension could regain a stronger role to restabilise Portuguese collective bargaining.

4.2 Norway

Norway's law on the extension of collective agreements (*Lov om allmenngjøring av tariffavtaler m.v.*) was introduced only in 1994, as a consequence of Norway's signing the EEA agreement. The background was a fear that the country's inclusion in EU's joint labour market would lead to a flow of foreign 'cheap labour' into Norway. The purpose of the act was to ensure that wages offered to foreign workers were equal to those of Norwegian employees. However, the expected influx of foreign workers failed to materialise and application of the new Act became relevant only after the EU's eastward enlargement in 2004. During the past ten years Norway has received large numbers of labour migrants and posted workers, in particular from Poland and the Baltic states. Trade union density is low compared with the other Nordic countries; in the private sector only 50 per cent of employees are covered by collective agreements (Stokke *et al.* 2013) and there is no statutory minimum wage. The inflow of migrant workers from the accession countries has exposed existing weaknesses in the regulatory system, with a large section of the labour market being left more or less open for low wage competition and

5. Resolution 43/2014, adopted on 26 June 2014 (Resolução do Conselho de Ministros No. 43/2014 can be consulted at: http://dre.tretas.org/dre/317923/

Table 4 **Extended collective agreements in Norway (as of May 2015)**

Sector (Year of introduction)	Minimum wage rates in euros per hour*	
	Unskilled workers	Skilled workers
Construction (2007)	19.60	21.80
Shipbuilding (2008)	17.40	19.20
Agriculture (2010)	13.10–16.70	
Cleaning (2011)	19.60	
Fish processing (2015)	19.50	20.70
Electricians (2015)	20.30	24.20

Note: * Calculated on the basis of the average exchange rate for 2014.
Source: Authors' composition.

'social dumping' (Alsos and Eldring 2008). Although it implied a shift from the long-standing tradition of leaving all responsibility for ensuring minimum wage levels to the social partners, the development led the Norwegian Confederation of Trade Unions (LO) to apply for extension of certain collective agreements. The extension mechanism was soon recognised to be one the most powerful tools for combatting wage dumping in the Norwegian labour market, but still only a few agreements have been extended. As of today, parts of the collective agreements in construction, shipbuilding, agriculture, cleaning, fish processing and electrical work are extended (Table 4). All in all, extended collective agreements cover around 10 per cent of all workers in private industry.

Purpose and process

There is a considerable difference between Norway and other European countries with regard to the purpose of its *erga omnes* measures (Stokke 2010). In most European countries the objective of extending collective agreements is to ensure their widespread diffusion in the labour market. When the law on extension was introduced in Norway, it was emphasised that this was not the objective, but rather to ensure that the wage levels and labour conditions offered to foreign workers are equal to those of Norwegian employees. In 2010, the act was amended to also include the objective of 'hampering unfair competition' in its purpose paragraph. The Norwegian system also takes a separate approach in terms of the criteria to be fulfilled before a collective agreement can be extended. Most European systems specify the parties entitled to apply for extension, the

requirements of the collective agreement to be extended and the preconditions for an extension to be approved. The precondition for enforcing an extension in Norway is that it is probable that, without such an extension, foreign workers would perform work under conditions that are generally inferior to the norms stipulated by nationwide collective agreements for the relevant occupation or industry, or to the general conditions prevailing in the relevant location or trade. This type of criterion is not found in any other country. The decision to enforce an extension is made by the Tariff Committee (*Tariffnemnda*), which is appointed by the government. The committee comprises three independent members (currently, a judge from a district court heads the committee and the two other independent members are academics from the University of Oslo), one representative from the employers' organisations and one from the trade unions, meaning that neither employers nor unions can veto a decision. The provisions extended are made generally binding by means of administrative regulation. The law only allows for extension of provisions regarding wages and other individual working conditions and addresses the provisions to be encompassed by a decision on a case-by-case basis. In particular cases it can also determine wage levels and labour conditions other than those stipulated by the collective agreement. To date, only very few of the provisions in collective agreements have been extended. The extent to which such provisions should be made generally binding has been a contentious issue ever since the initial decision to use this instrument (in 2004). The employers' organisations in particular have argued that provisions regulating issues that are already covered by applicable law should not be extended. Subsequent decisions by the *Tariffnemnda* have taken this criticism into account, resulting in extension only of provisions that regulate issues not already covered by legislation, mainly those that specify minimum wages for skilled and unskilled workers (see Table 1). This characteristic, as well as those mentioned above, makes Norwegian practice somewhat different from other European *erga omnes* instruments (Alsos and Eldring 2008).

Experiences and effects

In 2011, an evaluation of the government's action plan to combat social dumping included the measures that were implemented to improve the system for the general application of collective agreements. The overall conclusion was that the situation would probably have been considerably worse without the measures implemented. This was true in particular in the areas with extended collective agreements, where regulations, controls and sanctions were strengthened, and much less in areas with-

out *erga omnes* extensions. In sectors without generally binding agreements the risk of low wage competition and wage dumping was still very high (Eldring *et al.* 2011). The evaluation documented that the majority of employers in the affected sectors had a positive attitude towards the generally binding agreements, although employers in export-oriented industries, such as shipbuilding, were somewhat more sceptical.

A central, but complex question concerns the extent to which generally binding agreements affect labour migrants' wage conditions. An analysis of register-based wage data showed that few employees in the relevant sectors had wages below the minimum rates in the collective agreements, although central and eastern European workers in the construction and shipbuilding industries on average earned less than native workers (Eldring *et al.* 2011). A more recent study indicates that the average wage among construction workers has increased as a result of the extension, and that the share of workers with wages below the collectively agreed minimum wage has shrunk (Bratsberg and Holden 2015). Because the register data do not include posted workers or short-term and unregistered migrants, there is a risk that the register data overestimate real wage levels. A survey carried out in Oslo in 2010 among Polish migrants documented that 19 per cent earned less than the legally extended minimum wage, of which most were posted workers and/or worked in the black market. Despite the tendency towards non-compliance with the regulations in certain segments of the labour market, the evaluation report concluded that the situation would probably have been worse without the legal extension of collective agreements (Eldring *et al.* 2011). An overall reflection is that as long as only a few sectors are covered by generally binding agreements, there are ample opportunities for wage dumping in large parts of the labour market.

The trade unions have mixed views on the legal extension of agreements. Their main fear is that it would exacerbate the free-rider problem and also that it would interfere with the strong principle of autonomous collective bargaining. After a few years' experience with the mechanism, however, the scepticism has turned into enthusiasm, above all because extensions have proved to be effective in the struggle against social dumping, but also because it is has become a useful tool in the unionisation of labour migrants. Extension means that the unions can help migrants to get the minimum wage, even if there is no collective agreement in their company (Eldring *et al.* 2012; Hardy *et al.* 2012).

Despite the largely positive experiences, the introduction of the extension mechanism has not been uncontroversial. The service sector employers' association Virke has repeatedly declared that they wish to replace the extension scheme with a statutory minimum wage, and even the Confederation of Norwegian Enterprise (*Næringslivets Hovedorganisasjon*, NHO) has repeatedly stated that it sees a national minimum wage as a more attractive solution than extensions of collective agreements. In the Norwegian context, a statutory minimum wage does not appear as a supplement to extensions (as in many other European countries), but more as an alternative. The proposal for a statutory minimum wage is used by the employers almost as a threat, in response to various trade union initiatives to improve and activate the current extension scheme (Eldring and Alsos 2012). As of today, the situation is more or less deadlocked; the unions want to strengthen the mechanism and argue that the documentation criteria are too strict, and that the period for each extension should be prolonged. The previous Red-Green government adopted the fight against social dumping as a kind of 'power brand' and implemented several revisions of the extensions act. The current, conservative, government has declared that the extension mechanism will continue, but so far seems unwilling to enter into discussions or initiatives related to improving the system.

As described above, EU enlargement to the east in 2004 was an immediate rationale for introducing the extension of collective agreements as an instrument to combat low-wage competition in Norway. However, extensions focus on industries with a high number of labour immigrants and presuppose that the partners wish to extend the agreement to all employees of the industry in question. To date, only a few agreements have been extended, and we can find industries that have low coverage by collective agreements where there are no mandatory minimum wage rates. As things stand, it seems likely that more agreements will be extended in the coming years. There has been a clear tendency towards new applications for extension in recent years and several unions have signalled that they are considering initiating extension processes within their sectors. However, there is still a certain tension between the labour market parties related to the extension mechanism, with regard to both extension procedures and the content of extended agreements. The latter has been most pronounced in the shipbuilding sector, where the decision to extend parts of the collective agreement has been disputed in court by nine shipyards and the main employers' confederation NHO. Despite a very clear Supreme Court ruling in 2013 in favour of the current practice,

the employers are still claiming that the extension, which includes the right to compensation for travel, lodging and board, is disproportionate and that it is hampering competition. However, due to the composition of the Tariff Committee, disagreement between the bargaining partners does not necessarily hinder new extensions. In the longer term, conflicts related to the extension system will probably affect the further development and future of the mechanism. Whether this will lead to deterioration or strengthening of the current system will probably depend on the strength of the bargaining partners, the situation in the labour market and, not least, how the national political landscape evolves.

4.3 Germany

With the adoption of the Collective Agreement Order (*Tarifvertragsordnung*) of 1918 Germany was the first country in Europe to introduce a nationwide regulation on the extension of collective agreements (Hamburger 1939). After the Second World War the newly adopted Collective Agreement Act (*Tarifvertragsgesetz*, TVG) of 1949 contains a separate paragraph on 'general bindingness' (*Allgemeinverbindlichkeit*), which determines the legal preconditions for extension; these are basically still valid today. On the application of at least one bargaining party the German Federal Ministry of Labour –or in case of regional agreements the ministry of labour of the affected federal state– has the possibility to declare a collective agreement universally applicable if the following preconditions are met (Table 5):

- the employer directly covered by the agreement represents at least 50 per cent of the affected workforce (until 2015);
- the extension is 'in the public interest';
- the extension has the support of the national or regional Collective Bargaining Committee (*Tarifausschuss*), which is composed of representatives of the peak employers' and trade union organisations on a parity basis, so that both parties have a de facto veto.

In the mid-1990s Germany introduced a second extension system through the Posted Workers Act (*Arbeitnehmer-Entsendegesetz*, AEntG) of 1996 (renewed 2009) in order to cover also posted workers from foreign countries. In comparison with the first system based on the Collective Agreement Act the second system based on the Posted Workers Act was originally more restricted as, in terms of content, it could

Table 5 **Two systems for extension of collective agreements in Germany***

Preconditions, procedures, content and scope	Collective Agreement Act (1949)	Posted Workers Act (1996/2009)
A quorum of 50% collective bargaining coverage	Until 2015: Yes **Since 2015: No**	No
Extension has to be 'in the public interest'	Yes	Yes
Application for extension	Until 2015: At least one party **Since 2015: Both parties**	Both parties
Confirmation by Collective Bargaining Committee	Yes	No
Content of extended agreements	No limitation	Limited to minimum wages and other minimum conditions
Sectoral scope	Total economy	Until 2015: Limited to certain sector **Since 2015: total economy**
Collective agreements to be extended	National and regional agreements	Only nationwide agreements

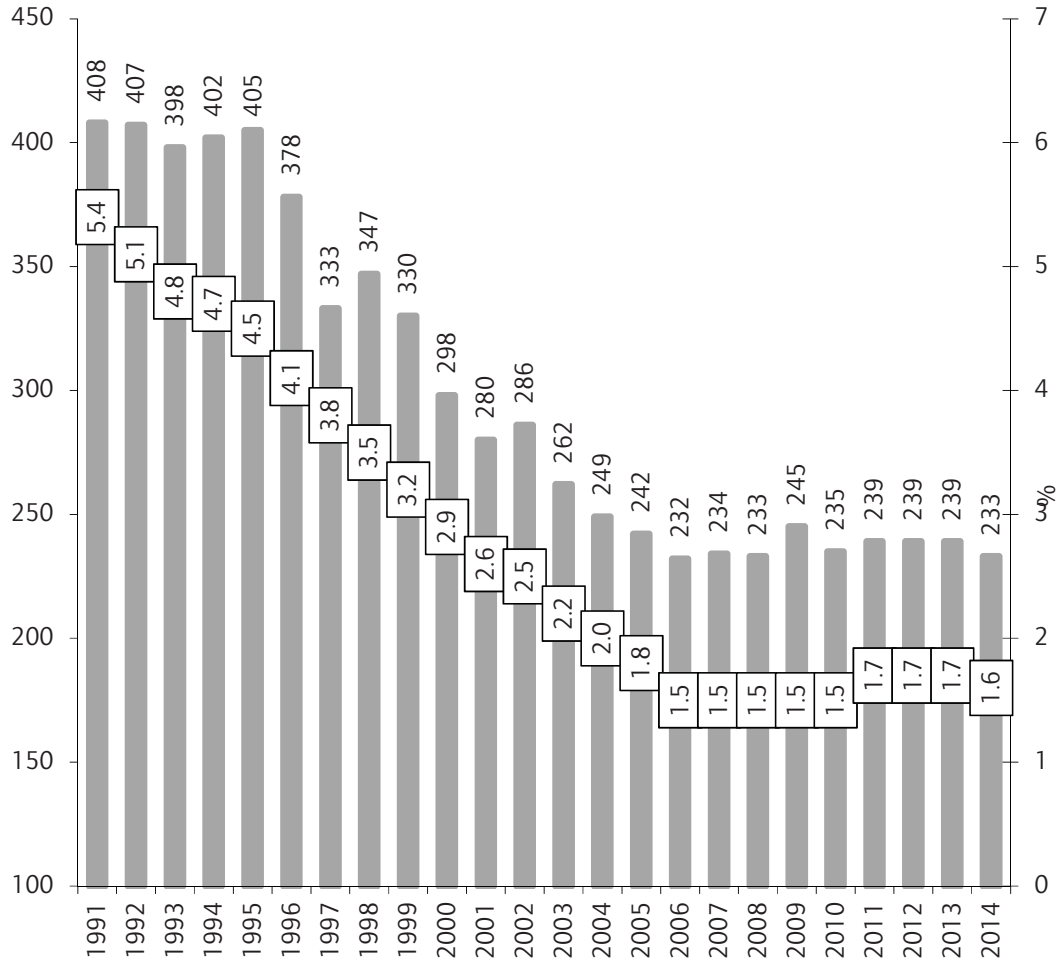
Note: * In **bold**: Newly introduced provision under the Law on the Strengthening of Collective Bargaining Autonomy (Bundesregierung 2014); valid from 1 January 2015.
Source: Update of Schulten and Bispinck 2013.

cover only minimum wages and conditions and in terms of scope it could be used only by a limited number of sectors (Table 5). However, the preconditions for an extension on the basis of the Posted Workers Act were somewhat less restricted, as there is no minimum threshold for collective bargaining coverage and no need for confirmation by the Collective Bargaining Committee.

Use of extension in practice

In contrast to many other European countries, in Germany the extension of collective agreements has always been of only limited importance (Bispinck 2012). During the 1950s Germany saw the development of a fairly comprehensive collective bargaining system, which in most sectors guaranteed a high bargaining coverage of between 80 and 90 per cent, so that there was no need for state support. However, there was always a limited number of sectors in which extension played an important role in stabilising sectoral collective bargaining. They included more labour-intensive branches with a high number of small and medium-

Figure 2 **Extension of collective agreements in Germany, 1991–2014 (total number of extended agreements and percentage of all branch-level collective agreements*)**



Note: * Only original agreements are considered (no parallel and amendment agreement).
Source: German Ministry of Labour, calculations by the authors.

sized companies, such as construction, retail trade, textiles, hotels and restaurants, as well as various craft trades.

At the beginning of the 1990s there were around 400 original branch-level agreements that were declared generally binding. This corresponded to 5.4 per cent of all original branch-level agreements. Until the mid-2000s there was a continuous decline in the number and proportion of extended agreements (Figure 2). Since then they have remained at an extremely low level. In 2014 there were only 233 extended collective agreements, equivalent to 1.6 per cent of all branch-level agreements.

Table 6 **Collectively agreed minimum wages extended on the basis of the Posted Workers Act**

Sector	West Germany	East Germany	Sector	West Germany	East Germany
Construction	11.15/14.20	10.75	Agriculture	7.40	7.20
Roofing	11.85		Care	9.40	8.65
Electro trade	10.10	9.35	Commercial cleaning	9.55/12.65	8.50/10.63
Painting	10.00/12.80	10.00/10.90	Further training	13.35	12.50
Stonemasonry	11.30	10.90	Meat industry	8.60	
Scaffolding	10.50		Waste disposal	8.86	
Laundry services	8.50	8.00	Hairdressers	8.00	7.50
Chimney sweeping	12.78		Textiles & clothing	8.50	7.50
Temporary agency work	8.80	8.20			

Source: WSI Collective Agreement Archive (June 2015).

Most of the agreements that are still extended on the basis of the Collective Agreement Act are framework agreements that cover working time, holidays, special bonuses, pensions and so on, but not regular pay. Very few wage agreements have been declared universally binding on the basis of the Collective Agreement Act. In recent years, however, a growing number of wage agreements have been extended on the basis of the Posted Workers Act (Table 6). In contrast to the former, however, the latter cover only sectoral minimum wages and not wages as a whole.

Reform of the legal framework for extension

During the past two decades German collective bargaining has experienced a continuous decline and partial erosion (Schulten and Bispinck 2014). German bargaining coverage decreased from around 80 per cent at the beginning of the 1990s to less than 60 per cent in 2014. Against that background there has been a growing discussion on how to restabilise German collective bargaining (Bispinck and Schulten 2009). Among other things, there was a broad debate on how to reinforce the instrument of extension in order to reinforce the bargaining system (Schulten and Bispinck 2013).

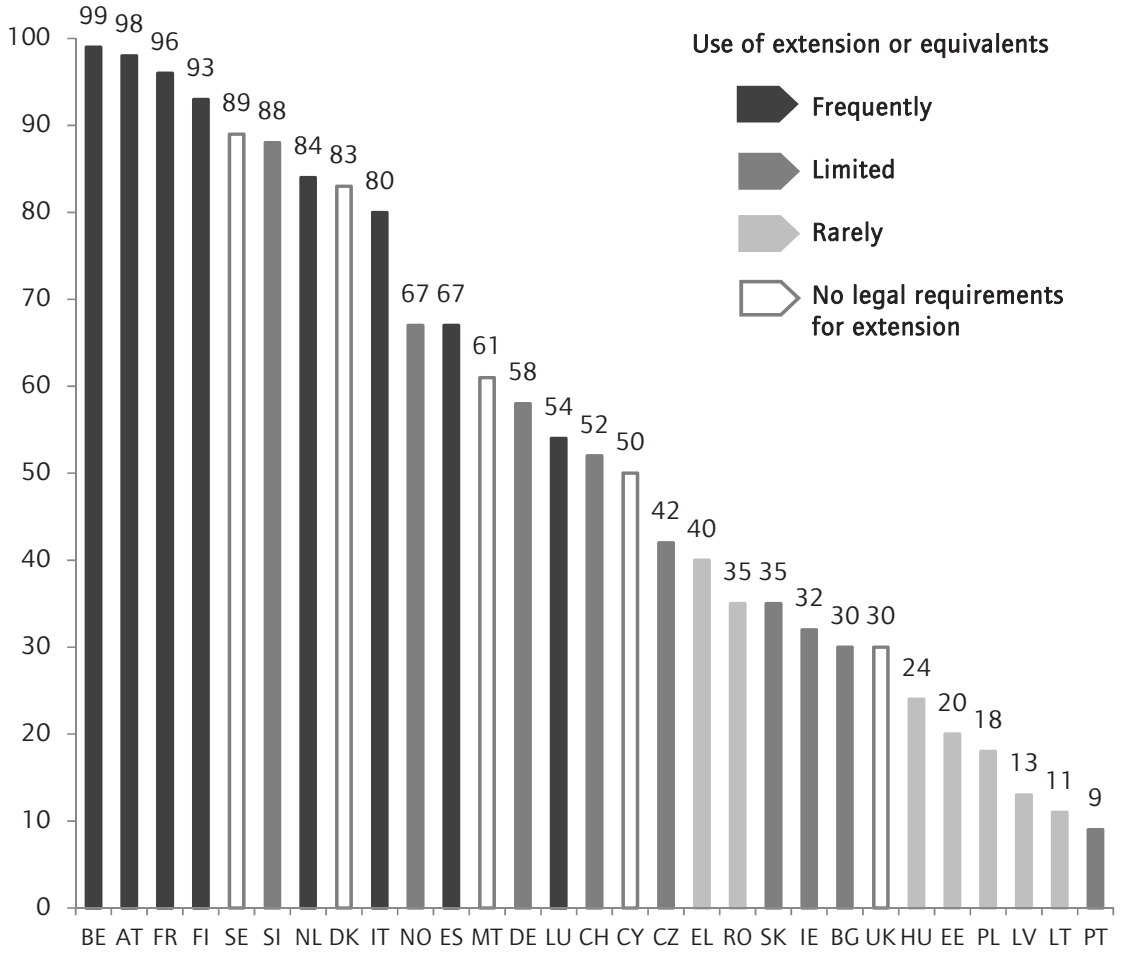
In July 2014 the German Parliament finally adopted a legislative package on 'strengthening free collective bargaining' (*Gesetz zur Stärkung der Tarifautonomie*), which apart from introducing a national statutory minimum wage also includes some revisions of the legal preconditions for extension of collective agreements (Bundesregierung 2014; see also Table 5). The most important change is the abolition of the 50 per cent bargaining coverage threshold for extension on the basis of the Collective Agreement Act. Because, against the background of declining bargaining coverage, the threshold became a more and more substantial obstacle to the use of extensions it has now been replaced by a more flexible regulation which gives the Ministry of Labour more space to decide whether or not an extension is in the public interest. Another important revision concerns extension on the basis of the Posted Workers Act, which is no longer restricted to certain sectors but can now be used throughout the whole economy. All in all, it is hoped that the less restrictive criteria can promote the use of extensions in Germany and therewith can make a contribution to reinforcing the bargaining system.

5. The importance of extension for collective bargaining coverage and its relationship with the organisational strength of unions and employers' associations

5.1 Extension and bargaining coverage

The importance of extension for the scope of collective bargaining systems in Europe may be seen most clearly if its use is compared with collective agreement coverage in individual European states. At first sight, collective bargaining coverage varies widely across Europe, ranging from 99 per cent in Belgium to 9 per cent in Portugal (Figure 3). The countries with very high coverage of 80 per cent or more are mainly states that make frequent use of administrative extension or functional equivalents. The only exceptions are Denmark and Sweden, where high coverage is achieved without extension, purely through the organisational strength of the contracting parties. High bargaining coverage can also be found in Slovenia which currently makes only limited use of extensions but still benefits from the period before 2009 when bargaining coverage was ensured by means of employers' compulsory membership of economic chambers (Banerjee *et al.* 2013). On the other hand, the group with low agreement coverage of 50 per cent or less is composed mainly of countries with limited or rare use of extensions or –as in the case of the

Figure 3 **Collective bargaining coverage and the use of extension 2011-2013* (as a percentage of all employees covered by a collective agreement)**



Note: * Most recent data.
Source: ICTWSS Database (Version 5.0). For Portugal and Spain: authors' calculations based on figures from labour ministries. For Norway: Stokke *et al.* (2013) (numbers for Norway do not include workers covered through extensions).

United Kingdom– lacks legal requirements for any form of extension. In these countries, too, there is a strong correlation between bargaining coverage and the organisational strength of the contracting parties.

All in all, this confirms the thesis propounded by Traxler *et al.* (2001: 203) that, in principle, there are only two ways of achieving high collective agreement coverage. One, the Nordic way, which ensures high coverage through a high organising density, particularly on the union side, is absolutely exceptional, bound up with a whole series of political and

institutional peculiarities of the Nordic model of capitalism.[6] However, the continental and southern European path of achieving high collective agreement coverage through comprehensive use of extension can be seen more as the rule. As an expression of the institutional power of the bargaining parties, extensions of collective bargaining have also contributed to keeping agreement coverage relatively stable in many countries, despite a fall in union density (Visser 2013). Conversely, a reduction of administrative extension or its functional equivalents might lead to a significant decline in bargaining coverage, as has been the case more recently in Greece and Portugal. At the same time, the relaxation and increased use of extension can help to stabilise or even increase bargaining coverage, as seen for example in Norway or Switzerland.

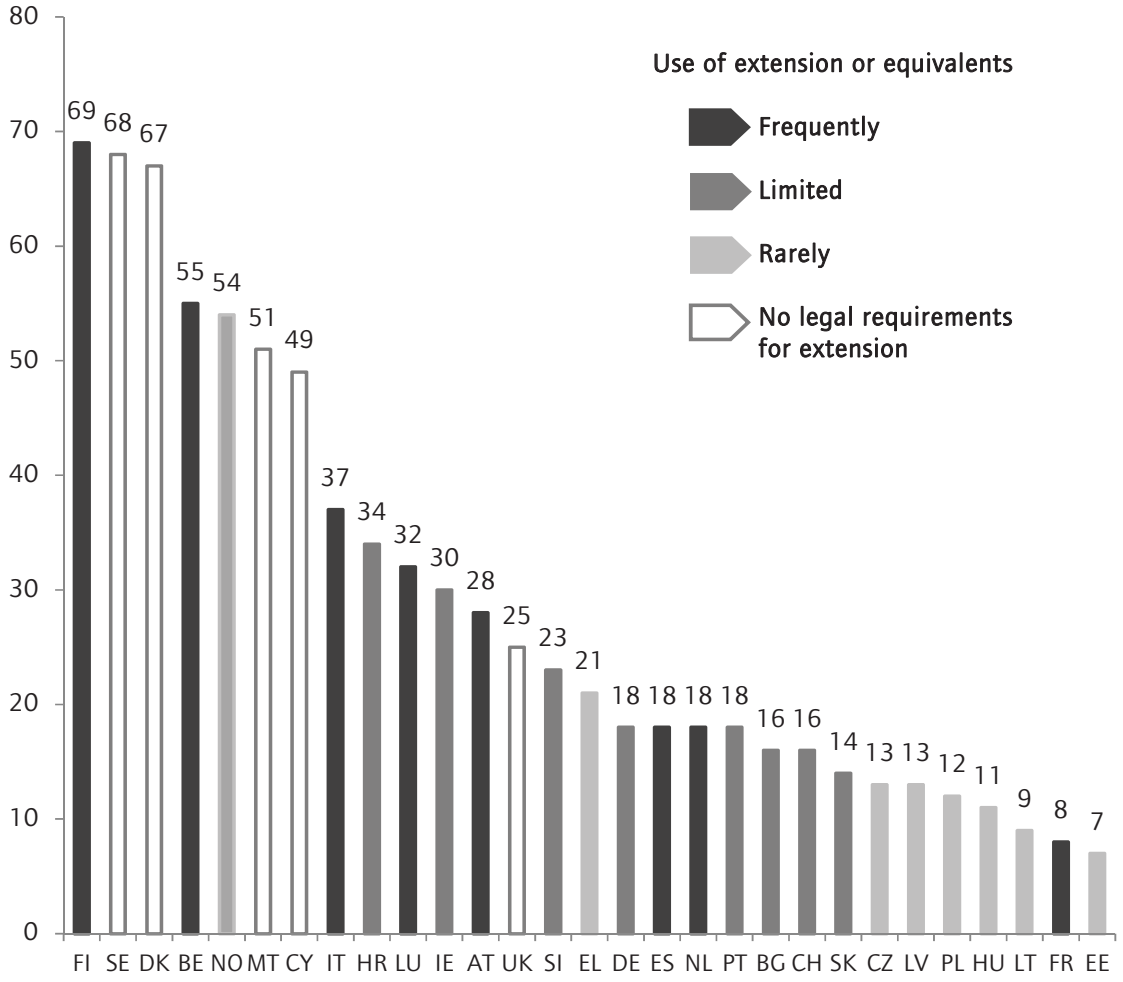
5.2 Extension and union density

Trade unions sometimes fear that frequent use of extension might have a negative impact on union density as workers obtain collectively agreed standards for free and therefore lose a major incentive to become a union member. A frequent use of extension might also lull the unions into 'institutional security' (Hassel 2007) and make them highly dependent on the state, while at the same time preventing them from building up their own organisational power basis. When the state revokes its support for extension this could become highly problematic as the unions might be too weak to defend high collective bargaining coverage by their own organisational power alone. Recent developments in countries such as Greece or Portugal might be a good example of such a development. However, if unions rely only on their organisational strength, in most European countries collective agreements would cover only a minority of workers and collectively agreed conditions would not be transformed into universal working standards (Schulten 2013).

A comparison of the use of extension and union density in Europe, however, shows that there is not at all a clear correlation (Figure 4). On one hand, Denmark and Sweden, two of the three countries with the highest

6. In particular, the so-called Ghent System comes to mind here (except for Norway, which did not have this system), under which the trade unions administer the unemployment benefit funds and thus have particular recruitment opportunities. Recently, however, conservative governments in both Denmark and Sweden have put through political reforms that have led to a weakening of the Ghent System and a clear decline in union density (Kjellberg 2011).

Figure 4 **Trade union density and the use of extension, 2011–2013* (working trade union members as a percentage of all workers)**



Note: * Most recent data.
Source: ICTWSS Database (Version 5.0).

union density, have no extension instruments at all. On the other hand, in Finland, union density has clearly risen since the introduction of administrative extension in the early 1970s (Ahlberg and Bruun 2009). In Norway, too, there is no evidence that the increasing use of extension has had negative consequences for recruiting new union members (Eldring *et al.* 2012).

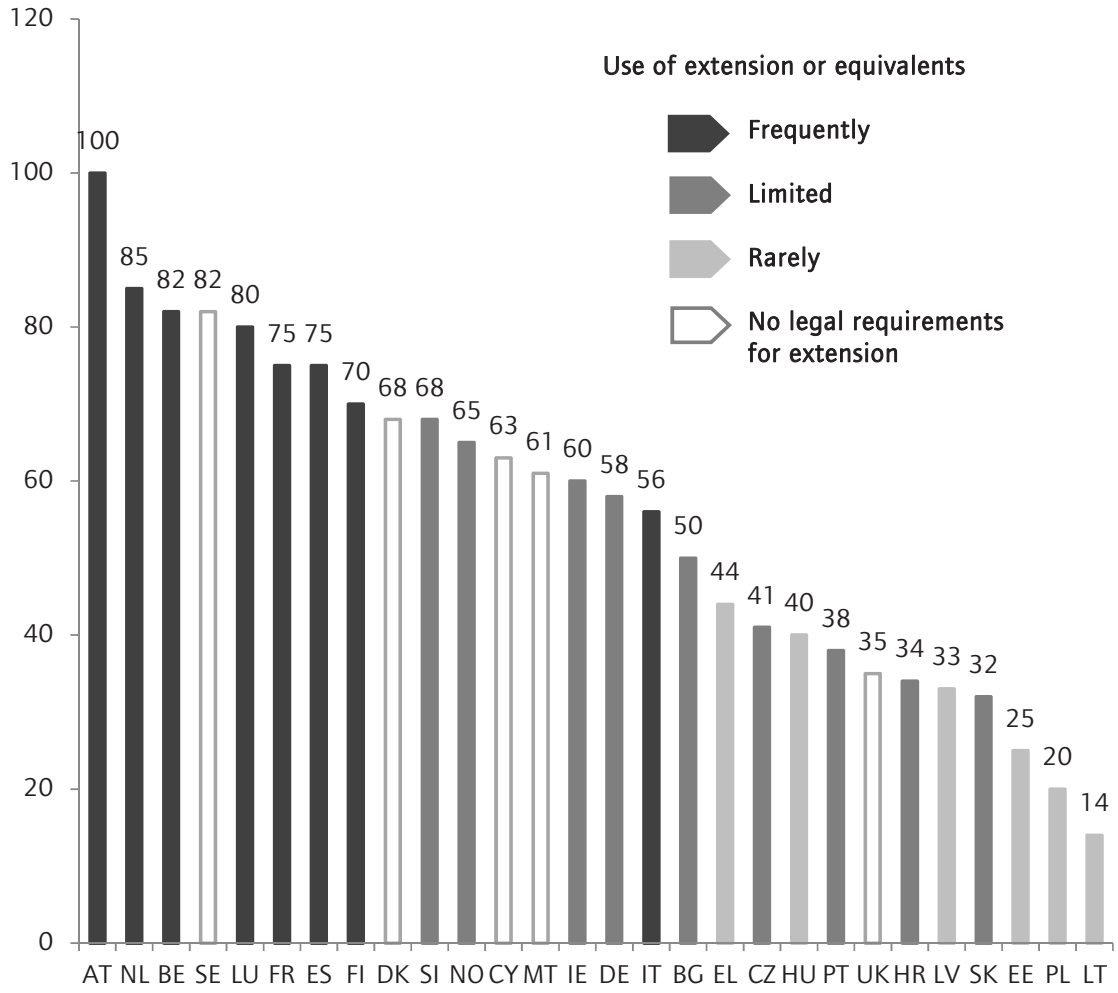
There are other countries, such as Spain, the Netherlands and, in particular, France, which at first sight seem to confirm the proposal that high bargaining coverage secured by extension has a strong negative impact on union density. However, there are also a couple of other coun-

tries with a similar low union density in which extension plays only a limited role. All in all, the overall European picture shows that different kinds of combinations between the use of extension and union density are possible. In fact, the organisational strength of trade unions depends on a wide range of economic, social and political factors and cannot be reduced to a single issue, such as the use of extension. From the trade union point of view high bargaining coverage, which depends solely on extension, is of course a risk. However, this risk will be less if organisational and institutional power are strengthened as a complementary strategy.

5.3 Extension and employers' density

The relationship between the use of extension and employers' organising power is a different matter. Earlier studies already identified a clear positive correlation in this regard (Traxler 2004). Comparing both issues with more current data from eight countries with the highest employers' density of at least 70 per cent, seven countries have made frequent use of extension (Figure 4). The fact that employers know that they will be covered by a collective agreement anyway obviously seems to create an incentive for them to join an employers' association in order to exercise their voice option (and perhaps to benefit from other services of the association). A high employers' density, which in most European countries is much higher than union density, also strongly supports high bargaining coverage (Visser 2013). Thus, the use of extension supports the collective bargaining system, not only through direct widening of bargaining coverage, but also through the more indirect effects on employers' associations.

Figure 5 **Employers' density and the use of extension, 2008–2012* (members of employers' associations as a percentage of all employers)**



Note: * Most recent data.
Source: ICTWSS Database (Version 5.0), for Portugal: Quadros de Pessonal 2013, for Norway: Stokke *et al.* 2013.

6. Conclusion: the future of extension as a factor in stabilising collective bargaining in Europe

This chapter has shown that the use of administrative extension is of high importance for the scope of collective bargaining in Europe. In many European countries, it has ensured high and stable collective bargaining coverage, which supports the use of collective agreements as a central institution for the regulation of employment conditions, something that is often regarded as a cornerstone of the European social model. In the wake of the current economic crisis, however, in many European coun-

tries collective bargaining systems are under strong pressure to follow a strategy of a more radical decentralisation, leading to a hollowing out or even abolition of multi-employer bargaining (Marginson 2014; Schulten and Müller 2015). The outcome of these 'reforms' is a drastic decline in collective bargaining coverage and a widespread devalorisation of collective agreements as an instrument for determining working conditions.

In the neoliberal strategy of dismantling collective bargaining the diminution or even abolition of administrative extension is a core issue. Drawing on the tiny number of econometric studies which on the basis of neoclassical labour market models claim to find evidence of the negative impact of administrative extension on employment performance (Murtin *et al.* 2014; Villanueva 2015) the 'decrease of extension' is justified as an 'employment-friendly reform' (European Commission 2012: 103). The impact of such a 'reform' can be observed most clearly in Portugal where the Troika imposed the introduction of representativeness criteria for the use of extension, thus provoking a strong decline in the number of extension decrees and, consequently, contributing to the dramatic fall in bargaining coverage. Similar developments could also be observed in Greece and Romania, where the use of extension has de facto been abolished.

Besides the situation in many southern and central and eastern European countries, there are, however, also some countervailing developments that indicate a strengthening of collective bargaining through an increased use of administrative extension. The most prominent examples here are Norway and Germany where in recent years extension has continuously gained importance. While Germany has further relaxed its legal requirements for the use of extension, the Norwegian experiences are being debated intensively in other Nordic states, such as Denmark and Sweden. In particular, the consequences of EU enlargement and the growing number of migrant workers has functioned as a catalyst for the increasing importance of extension as an important instrument to counter social dumping (Eldring and Schulten 2012). A further boost has come from some important rulings of the European Court of Justice, which tend to accept only universally applicable collective agreements as legitimate limitations on basic European freedoms (Kocher 2010).

If collective bargaining is to remain a distinctive feature of European labour market regulation many European countries need to undertake a 'reconstruction of their bargaining systems' (Ewing and Hendy 2013)

in order to make sure that a majority of workers will again be covered by collective agreements. Such reconstruction cannot be organised by trade unions and employers' associations alone, but also needs the support of the state. Therefore, instead of supporting its abolition, the European Union should actively promote administrative extension in order to strengthen collective bargaining all over Europe.

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Concluding remarks
A transnational coordinated reconstruction of collective bargaining as a precondition for inclusive growth in Europe

Thorsten Schulten and Guy Van Gyes

> 'Europe has learned many lessons from the recent financial and economic crisis. We see very clearly now that in a highly integrated Union, and even more so in a monetary union, our economies and our successes are linked. Although the EU has a number of instruments for the co-ordination of economic policy the crisis has shown that they have not been used to the full and that there are gaps in the current governance system. There is broad political agreement that this has to change and that the EU needs to be equipped with a broader and more effective set of policy instruments to ensure its future prosperity and standards of living.'
>
> European Commission:
> Enhancing economic policy coordination for stability, growth and jobs –
> Tools for stronger EU economic governance COM(2010) 367/2

> 'I regard the growth of collective bargaining as essential. I approve minimum wage and hours regulation. I was altogether on your side the other day, when you deprecated a policy of general wage reductions as useless in present circumstances.'
>
> John Maynard Keynes in a letter to
> Franklin D. Roosevelt, 1 February 1938

The focus of the present book is the recent policy shift in European economic governance in which wages and wage formation systems are under attack. The book has: (i) evaluated and critically reviewed the policy theory backing this new policy approach; (ii) assessed its impact; and (iii) outlined and argued for another view on the role wages and collective bargaining can play in a more productive and sustainable EU socio-economic perspective. The book takes as its starting point the strategy of inclusive growth embraced (in principle) by Europe, which is – according to many observers – key to a productive and sustainable European socio-economic approach.

1. Current views on wage bargaining under the new European Economic Governance

Strong unions and comprehensive collective bargaining within the framework of which the majority of workers are protected by collective agreements have been widely regarded as a cornerstone of the European social model, as it developed in the first two decades after the Second World War in many western European countries (Visser 2013), thereby delivering a 'golden age' of inclusive growth. Strong unions were seen as a necessary countervailing power against the more destructive tendencies of capitalism, while comprehensive collective bargaining was regarded as the core institution for promoting a more equal distribution of income as a major precondition for sustainable and inclusive growth. Along those lines the European Commission (2015: 3) even recently argued, in the latest Industrial Relations Report of DG Employment, that 'countries with strong social dialogue institutions are among the EU's best performing and most competitive economies, with a better and more resilient social situation'.

In contrast, however, a counterview has become more and more influential among European policymakers during the past three decades. With strong mainstream academic support and promotion by neoliberal interests this counterview regards unions and collective bargaining mainly as institutional rigidities that hinder 'efficient market allocation'. Consequently, there is a more or less open demand for a 'decrease' in collective bargaining coverage and an 'overall reduction in the wage-setting power of trade unions', as pointed out a few years ago in the already famous DG ECFIN report on 'Labour Market Developments in Europe' (European Commission 2012: 104).

Within the framework of the new European economic governance, neoliberal views on wages and collective bargaining have become even more prominent and have guided various policy reforms and interventions. As the crisis in Europe came to be interpreted largely as a crisis of competitiveness, wages were seen as the core adjustment variable for 'internal devaluation', which are supposed to restore competitiveness by reducing labour costs. Although all policy interventions on wages and collective bargaining ultimately take place at national level, they have very much been promoted through European economic governance procedures (European Semester and Macroeconomic Imbalance Procedure). In the case of countries under the European Stability Mechanism these inter-

ventions have been imposed in a more authoritarian and fairly undemocratic way by the 'Troika' (the European Commission, the European Central Bank and the International Monetary Fund).

The new political interventionism in the area of wage policy basically takes two forms (Schulten and Müller 2015). First, many countries have directly intervened in current wage developments through wage cuts and freezes in the public sector, but sometimes also in the private sector with more or less open violations of collective bargaining autonomy. Second, in many countries the state has promoted 'structural reforms' of collective bargaining and wage-setting systems. These reforms, which were usually imposed against the resistance of trade unions and sometimes even of employers' associations, have aimed at a more radical decentralisation of collective bargaining in order to increase downward wage flexibility at company level.

As a result, a considerable diminution of multi-employer agreements and collective bargaining coverage have been witnessed, especially in southern countries such as Portugal and Spain (see Chapter 3 in this volume). Besides limited exceptions (for example, Slovenia), this policy framework has also been dominant for a while in the catch-up countries of central and eastern Europe. A low-wage economic strategy is embedded in a non-developing or receding context of institutionalised collective bargaining, occasionally interrupted by (tripartite) political settlements to increase minimum wages (Chapter 5). As such, these policies reflect the trend of dismantling collective bargaining in the United Kingdom since the 1980s (Chapter 6). Low-wage competition has also been introduced in the political debate in the Nordic countries, as Chapter 4 of this volume shows. On one hand, German wage 'leadership' has led to the heightened adoption of organised decentralisation bargaining in Denmark and Sweden. On the other hand, liberalising labour mobility has led to social dumping in sectors such as construction, transport and food industry.

2. The failure of internal devaluation

As a direct result of this new European and national interventionism in wage policy, a series of countries – in particular in eastern and southern Europe – have faced a significant decline in real wages, as well as a strong increase in wage inequality. The economic consequences of these

wage developments have been negative. Although many countries were – at least on paper – able to improve their cost competitiveness by reducing unit labour costs, this did not lead to the hoped-for export-led recovery (Le Bayon *et al.* 2014; Uxó *et al.* 2014). In contrast, the decline in real wages had a strong negative effect on the development of domestic demand and thus contributed to the persistence of economic stagnation and high unemployment. Moreover, as many European countries have followed the same strategy of wage restraint in an already stagnating economic environment, this has largely contributed to a decline in price development and has put the threat of a Europe-wide deflation on the agenda.

The failure of internal devaluation calls into question the dominant mainstream narrative of the economic crisis in Europe and its underlying assumptions regarding the role of wages (Chapter 7 in this volume). First of all, there is a widespread view that the countries that are still suffering from the crisis basically have a problem of weak competitiveness which in the past was exacerbated by 'too high' wage increases. Turning to real wage developments and productivity increases, however, wage restraint has been ongoing in the 2000s almost everywhere in Europe, leading to a significant fall in the wage share and a redistribution from labour to capital (Lavoie and Stockhammer 2013).

Secondly, there is often no clear correlation between unit labour cost developments and export performance, as the latter depends first of all on export demand. Moreover, competitiveness is not only about costs but also about a wide range of non-price factors, such as innovation, quality, originality, brand image and services, as well as sectoral specialisation. According to recent scholarship these non-price competitiveness factors are much more able to explain the export performance of a country than the narrow view based on wages and labour costs (for example, Storm and Naastepad 2015). Consequently, the development of export industries cannot be promoted by wage restraint, but only by a more specific structural and industrial policy, as well as by a modern and efficient public infrastructure.

Finally, there is a narrow focus on an export-led strategy as a supposed 'royal road' to economic recovery. Such a perspective is highly problematic for at least two reasons: first of all, it is simply physically impossible that all countries could follow an export-led development model and rely on running a trade surplus. Export-led development strategies that

attempt to defy this fundamental truth are likely to result in senseless downward competition among countries on issues such as wages, social security contributions and tax. Apart from that, however, the focus on export-led development strategies largely ignores the fact that in almost all European countries most economic activities still take place in the domestic economy (Feigl and Zuckerstätter 2012). Under such conditions possible positive effects of wage restraint with regard to the price competitiveness of export industries will usually be offset by the negative effects on private demand, so that the overall consequences for economic growth will be negative. A typical example of this was Germany during the 2000s, when both wages and private demand grew well below the European average (Schulten 2015).

3. An alternative view of wages for more inclusive economic development

During the 2000s wage developments in most European countries were characterised by falling wage shares and growing wage dispersion (see Chapter 2 in this volume). As a consequence, wage-led private demand systematically lagged behind and hindered these economies in realising their growth potential. In order to compensate this structural demand gap, two different economic models have emerged in Europe. One is an export-led growth model (followed by most northern European countries) where weak domestic demand came to be at least partially compensated by growing trade surpluses. The other was a debt-led growth model (followed by many southern European countries) which promoted a domestic demand boom based on private debt rather than income. With the crisis it became clear that both models – which depend on each other – are not sustainable (Hein 2012).

Under the conditions of the crisis the problem of weak demand was at first further exacerbated as many countries not only followed a policy of strict 'austerity', but also saw a significant fall in real wages. In the meantime, it has become more and more obvious that these policies promoted by the new European economic governance procedures have failed to create a way out of economic stagnation, so that a growing number of political and economic actors are demanding that these policies be renounced. Besides the necessary shift from austerity to more investment, there is also a need for a strong shift in wage policy. As the Director for Employment, Labour and Social Affairs at the OECD, Stefano Scarpetta,

has put it: 'Any further reduction of wages risks being counter-productive because then we would run into a vicious circle of deflation, lower consumption and lower investment' (quoted in Financial Times, 3 September 2014, see also OECD 2014a).

An alternative economic development model based neither on increasing private debts nor on increasing trade surpluses requires a much more equal distribution of income and wealth in order to solve the demand problem. A more sustainable growth strategy could therefore only be an inclusive growth strategy; at least on paper this became the official guiding principle of the Europe 2020 strategy (European Commission 2010). As the OECD (2004b) put it, inclusive growth aims to 'take all on board', in order to make sure that all people can gain from economic development. There is a fairly broad consensus that an inclusive growth strategy basically needs to reverse the ongoing trend towards growing inequality of income and wealth. However, the role of wage policy in such an inclusive growth model has so far been largely neglected. This is even more astonishing because wages are still the major source of income for most people and as such the main source for private demand.

An inclusive growth strategy requires a supportive wage policy which goes beyond the traditional 'golden wage rule' according to which wages should grow in line with national trend productivity and target inflation rate. A new 'optimum wage regime' in Europe, as suggested by Chagny and Husson (Chapter 9 in this volume), calls for wage developments that are solidaristic in the sense that they avoid increasing wage differentials between the various sectors and lift up wages at the lower end of the scale. Moreover, wage developments should be allowed – at least for a certain period – to be more expansive in order to reverse the downward trend in wage shares. As recent studies have shown, more expansive and solidaristic wage developments in Europe could contribute to a significant push in growth and investment (Onaran and Obst 2015; Kelly and D'Arcy 2015).

4. Institutional preconditions for a more expansive and solidaristic wage policy

A shift in the current economic development model in Europe towards a more wage-led and inclusive growth model needs institutions that are able to support such an alternative strategy (Berg *et al.* 2015). As far as

wage-setting and collective bargaining are concerned, however, recent 'structural reforms' promoted within the framework of the new European economic governance have led to the paradoxical situation in which more macroeconomic-oriented coordination of wages becomes less and less possible (see Chapter 8 in this volume).

With the more radical decentralisation or even individualisation of wage-setting, wage developments tend to follow the business cycle closely and thus to promote pro-cyclical economic development. While in times of economic downturn more decentralised systems indeed show much greater downward wage flexibility, in periods of economic upswing they might lead to much faster wage growth. In any case, more decentralised wage-setting systems generate much higher wage dispersion as wage developments depend highly on the economic performance of individual firms.

In contrast, it was one of the basic insights of Keynesian economics that, especially in times of economic crisis, strong wage institutions are necessary in order to prevent a downward development of wages and to maintain their role as economic stabilisers. Keynes (1936: 14) himself even claimed in his General Theory that 'it is fortunate that the workers, though unconsciously, are instinctively more reasonable economists than the classical school, inasmuch as they resist reductions of money-wages'.

Today, support for more inclusive economic development in Europe requires not only the prevention of further wage cuts and freezes, but also a more coordinated approach to more expansive and solidaristic wage developments. A macroeconomic coordination of wage policy, however, is possible only with adequate wage-setting institutions that make it possible to set wages beyond the scope of the individual firm. What are needed are basically three elements: adequate minimum wages, encompassing collective bargaining and strong trade unions.

Regarding minimum wages all European countries have determined more or less universal wage floors. In addition, in many countries – especially those with fairly weak collective bargaining – the development of statutory minimum wages has an important signalling function for wage development overall. However, the level of minimum wages is often fairly low and not able to prevent poverty. Against that background, a European-wide coordinated minimum wage policy would have the task

of ensuring decent wages for all workers (Chapter 10 in this volume). It would have to promote above-average wage increases at the lower end of the wage scale and thus encourage a significant push of private demand. As calculated by Eurofound, an increase in all minimum wages to 60 per cent of the respective national median wage would benefit about 16 per cent of all workers in Europe (Aumayr-Pintar *et al.* 2014).

Regarding collective bargaining, the situation in Europe is diverse (European Commission 2015). Collective bargaining coverage varies among countries between almost 100 per cent and only around 10 per cent. High bargaining coverage, with the majority of workers covered by collective agreements, requires a comprehensive system of more centralised multi-employer bargaining (Chapter 8 in this volume). Furthermore, it usually also needs supportive regulation by the state, for example, through the widespread use of collective agreement extensions. Instead of weakening or even destroying multi-employer bargaining structures, the EU should, together with European trade unions and employers' associations, launch a broad campaign to strengthen collective bargaining and increase bargaining coverage (Chapter 11 in this volume).

Finally, industrial relations researchers have long known and even economists of the International Monetary Fund (Jaumotte and Buitron 2015) have recently confirmed that a more inclusive growth model based on a more egalitarian distribution of incomes requires much stronger trade unions. Although it is first of all the task of the unions themselves to increase their organisational power base and to reverse the trend of falling union density, it is also society's responsibility to enable and support the development of strong trade unions. All in all, a shift towards a more sustainable and inclusive economic development model would require a broad-based reconstruction of collective bargaining as part of a more fundamental renewal of industrial democracy in Europe.

Institutional restoration would also contribute to a better European governance strategy. Despite the lip service to social dialogue, the approach adopted by Europe in recent years has been hampered by democratic deficiencies, as reflected in the social protests in southern countries and the growing legitimacy problems of the European project.

5. Challenge of transnational coordination (capacity)

A basic premise of this volume is that, in these times of globalisation and crisis, Europe needs an inclusive growth strategy that focuses on reducing inequality and enhancing real income growth among a broad(er) group of people (the '99%') than today. Restoring and supporting collective bargaining on wages is defined as a key factor in this strategy.

Finally, it is important to stress the transnational coordination challenge. Successful combination of both elements is key: coordination as governance method and at supra-national level in Europe. The main advantage of collective wage bargaining in the proposed strategy (as illustrated in this volume) is the coordinating effort that would act as a 'counterforce' against market forces, which are simply not delivering. The analyses of the book show that, on one hand, we are already witnessing this kind of European transnational coordination. However, it is politically imposed and does not promote, but rather distorts the necessary market-correcting function of wage bargaining institutions. It shows, also, that in such a policy context in the countries in which collective bargaining has remained in fairly good shape (mainly north-western Europe), trends of wage moderation, freezes and beggar-thy-neighbour policies have been dominant. Strengthening national institutions is necessary, but will probably not be sufficient to diffuse the outlined 'policy turn' in Europe.

Structural innovations in 'vertical' coordination at European level will be very important for success. Before starting a discussion on the needed changes in the governance structures of the European macroeconomic social dialogue or the functioning of bipartite – sectoral and cross-sectoral – social dialogue, it is important, in our opinion, to have a clear view on the following matters, which at the moment are still very 'open' policy questions.

The proposed restoration requires a broadening of horizontal subsidiarity at the European level, in which trade unions and employers' associations are given the chance to address the wage-related challenges of an inclusive growth strategy, for which they are better placed to find negotiated solutions. However, experience of social market implementation in Europe shows that in many countries policies have to be developed by means of a 'carrot and stick approach' to make horizontal subsidiarity deliver (Visser 2013: 56). What innovative and positive role can the European semester approach play in this regard?

Successful growth strategies depend on complementarities, as the literature on political economy has shown convincingly (Morgan *et al.* 2010). The main driver of the neoliberal approach that currently dominates in Europe is finance-led capitalism (Hein 2012). Just as this finance-led strategy strongly affects the kind of wage bargaining that takes place, a wage-led strategy will have to think and act on the complementarities needed in the financial economy.

European debates are still very strongly driven by the cost perspective of export sectors. We have already questioned the cost perspective in this conclusion, but it is equally important to broaden debates on wages at the European level to the more shielded service sectors. The stories of labour mobility dumping in the Nordic countries in Chapter 4 and the detected 'imbalances' in the service sector mentioned in Chapter 9 hint at this necessity.

6. En avant!

Building blocks have been offered in this book for constructing an alternative view of wage bargaining under the new European Economic Governance today. Pressing questions have been outlined that seek a political answer. Mobilising capacity for the strategy is another important step in this regard (Hyman 2015). An important role and responsibility should be given in this campaign to the European labour movement (ETUC and sectoral federations), because, as we have indicated, the 'policy turn' needs to be transnationally coordinated or it will not take place. Aggregating interests in a solidaristic way beyond national borders is the first fundamental challenge of such strategic union campaigns, while the second is a search for coalition partners.

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EU country codes

AT	Austria
BE	Belgium
BG	Bulgaria
HR	Croatia
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
EL	Greece
ES	Spain
FI	Finland
FR	France
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxemburg
LV	Latvia
MT	Malta
NL	Netherlands
PL	Poland
PT	Portugal
RO	Rumania
SE	Sweden
SI	Slovenia
SK	Slovakia
UK	United Kingdom