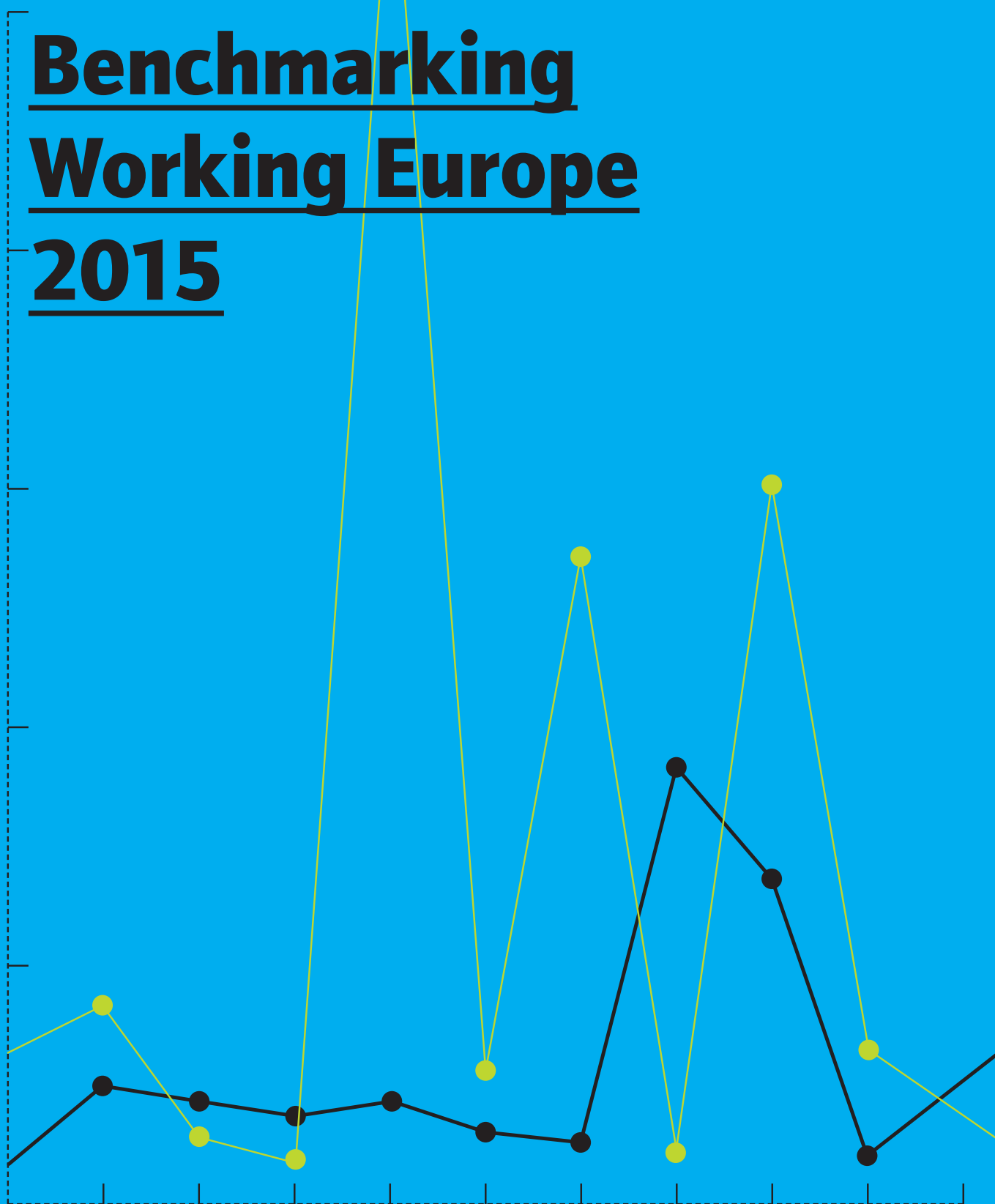


Benchmarking Working Europe 2015



Benchmarking **Working Europe** **2015**

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2015

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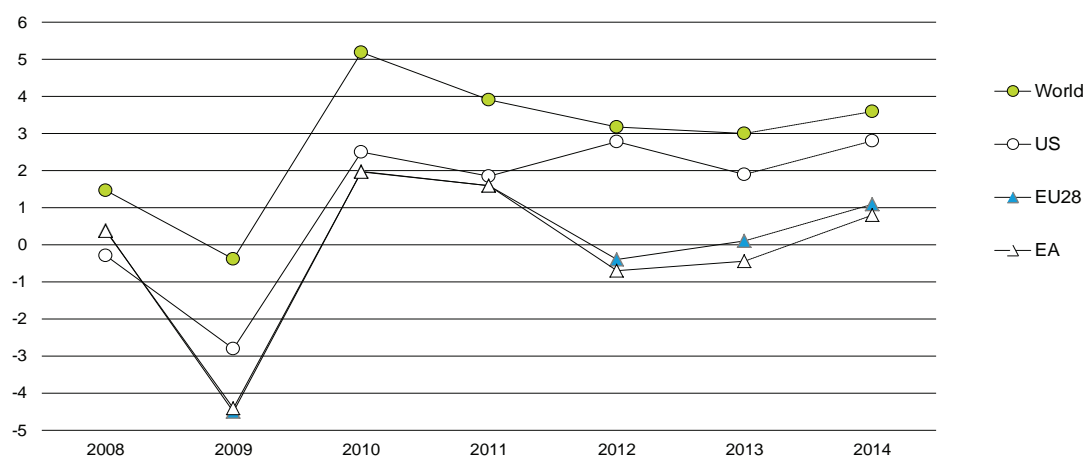
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Economic developments: very slow recovery

Figure 1.1. Real GDP growth (at 2005 market prices), EU28, EA, US, World, 2008-2014.



Source: Own calculations using IMF and Eurostat data. Note: 2014 are forecasts.

Lowered growth forecasts

Figure 1.1 shows the growth rates for the EU and eurozone compared with the USA and the world as a whole over the period from 2008, when the financial crisis spread beyond the banking sector in the USA, to 2014. Much of the world weathered the crisis with only a slight drop in growth rates. The EU too showed recovery after 2009 but, as Figure 1.1 shows, it diverged from the USA and the rest of the world from 2010, falling back into depression. Recovery from that second dip was slow and uncertain, leaving GDP as predicted by the IMF in real terms just 0.6% above its 2007 level in 2014. The eurozone has performed slightly worse than the EU as a whole, but the difference is small.

The European Commission did not foresee the second downturn, confidently asserting in its 2010 autumn forecast that 'the economic recovery ... is making progress' (European Commission 2010: 9) and foreseeing a growth rate of 2.0% in 2012. The reality was to be -0.3% for the EU as a whole and -0.6% for the eurozone. This reflected a failure to predict the effects of austerity policies applied with particular vigour to Greece and the

other so-called 'programme countries'. Indeed, Greece was expected to recover in 2012 after a GDP decline of 7%. In reality, GDP had fallen by 20.5% by 2012 and continued to decline. The inaccurate forecast followed from an inability to predict exports, which did not grow in response to wage reductions, and the inability to predict the full effects of cuts in public spending which led to lower GDP with no significant compensating recovery from the private sector. As the following sections indicate, Greece was an extreme case, but the roots of forecasting errors were similar across countries.

Forecasts became more cautious after the predicted post-2010 recovery turned into a double-dip recession. However, the autumn forecast of 2013 reported that 'recovery is expected to continue and gather speed' (European Commission 2013: 11), foreseeing 1.4% growth in 2014, a figure progressively revised downwards to 1.1% during the year. A year later it was accepted that recovery 'began to slow again' and not much acceleration was foreseen for 2015. The prediction was rather of 'slow recovery with very low inflation' (European Commission 2014b: 11).

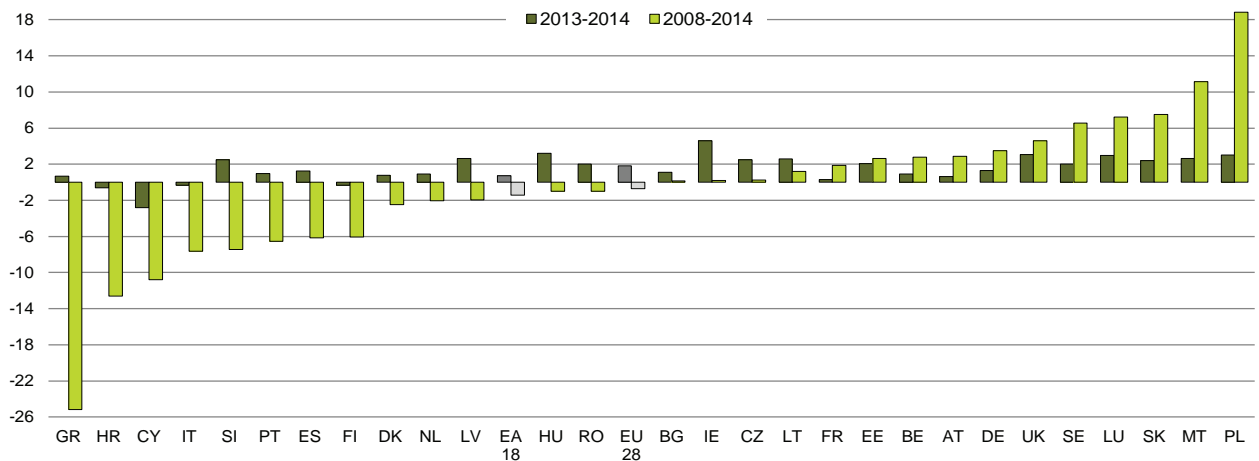
The reasons behind this near stagnation are clear. Austerity policies have been applied across the EU with a number of countries running balanced budgets and very substantial balance-of-payments surpluses (see below). This

depresses demand both in those countries themselves and across the EU. Stagnation has thus ceased to be an issue only for the countries in the greatest difficulty but has spread also to previously more secure parts of the EU.

The longer-term future remains uncertain. The principal barrier to faster growth is the absence of demand, as confirmed directly or indirectly by surveys of business. This lies behind low employment and low investment. Evidence also suggests that it is a major factor blocking a recovery in bank lending, a problem particularly for countries that have been most severely affected by recession, with banks citing the perceived macroeconomic situation and prospects for individual branches as reasons for caution on lending (ECB 2014). The seriousness of the situation has been recognized by Jean-Claude Juncker with his warnings of the existential threat to the EU if economies do not recover. His remedy in the form of an increase in investment is discussed in a later section.

Economic developments: very slow recovery

Figure 1.2. Change in real GDP, 2008 to 2014



Source: Calculated from AMECO database, GDP at market prices and GDP price deflators. Note: 2014 figures are estimates.

Slowdown spreading across Europe

Differing rates of decline and growth after 2008 led to widening divergences across the EU. The richer countries tended to do better. This was becoming less clear in 2014 when a number of high-income countries – notably Germany, Austria and Finland – performed badly while some lower-income countries were emerging from the depths of their depressions.

Figure 1.2 shows differing GDP growth performances across countries. There is no easy division between East and West, between North and South, or between the eurozone and the rest of the EU. The crisis of 2008 hit hardest those countries that had become dependent on inflows of credit from abroad. The collapse of construction booms in Ireland, Spain and the Baltic Republics cut out significant parts of GDP. Countries exporting manufactured goods were hit in 2009, but recovery was fairly rapid in 2010. The downturn after 2010 was most marked in countries pushed into the severest austerity measures after facing sovereign debt problems, either directly or following crises in private finance. The

worst affected was Greece (GDP down by 25% from 2008 to 2014) while Cyprus, Italy, Spain and Portugal all experienced post-2010 decline leading to GDP levels still significantly below those of 2008.

The rest of the EU had broadly restored the 2008 GDP level by 2013, but very few member state economies had grown much above that level. Poland was something of an exception with GDP having increased by 19%. It was not severely hit by the banking crisis of 2008 – it had not been dependent on credits from outside – nor was it severely affected by declining export demand in other countries and it continued with planned public investment projects while others were cutting back.

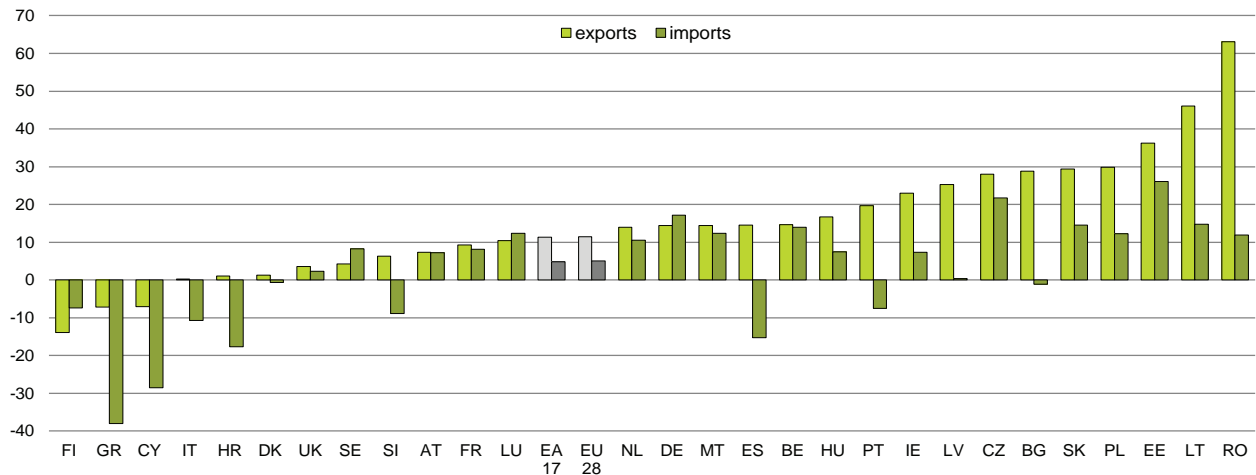
A number of other countries appeared to be recovering in 2014. The UK, having pursued less vigorous austerity policies than eurozone members and continuing to run a budget deficit that would not be allowed within the latter's rules, showed significant growth in GDP and employment in 2014. However, it was heavily dependent on an increase in low-income self-employment and accompanied by a persistent current account deficit. The three Baltic Republics, having experienced exceptionally deep initial depressions, showed reasonably strong recoveries which slowed down in 2013 and 2014. These countries were significantly helped by public investment, financed to a great extent from EU sources.

A remarkable feature of 2014 was the slow recovery in core eurozone countries. Germany's post-2008 growth had depended heavily on higher exports rather than domestic demand. Continued determination to achieve a budget surplus inevitably depressed domestic demand, overwhelmingly the most important element in total demand, and hence GDP. France's experience was slightly different, with exports doing worse than domestic demand. Finland also demonstrates the combined effects of austerity with export failure. The latter was particularly important, as explained below, while attempts to remain true to the austerity doctrine that Finland had advocated for other countries led both to a worsening of fiscal indicators and to the depressive effects of declining domestic demand (European Commission 2014b: 121).

The differing performances of individual countries demonstrate the continuing importance of the impact of the 2008 crisis, the varying severities of austerity policies, and the diverse export performances that are discussed in a subsequent section.

Eliminating current account deficits

Figure 1.3. Percentage changes in exports and imports, 2008-2014, 2010 prices



Source: calculated from AMECO database.

Diverging export results

Figure 1.3 shows the growth in exports and imports of goods and services from 2008 to 2014. Exports, which had grown by 11.4% for the EU as a whole, were well in excess of imports, turning the EU into an area in net current account surplus with the rest of the world: a deficit equivalent to 0.2% of GDP in 2004-8 (0.3% surplus for the eurozone) had become a surplus equivalent to 1.4% of GDP (2.5% for the eurozone) in 2014. This major change was accompanied by depressed internal demand, and some reduction in demand for countries elsewhere in the world.

Variation between countries is enormous. Exports grew very rapidly in the Baltic Republics, Poland, Romania and Slovakia, but declined in Greece, Cyprus and Finland while barely increasing in Italy, Denmark and Croatia. The variations cannot be explained by differences in policies pursued at the time. They depended on countries having products to export and on developments in their export markets. Thus Greece, the worst performer in exports, suffered from an absence of high-value export-oriented activities, a weakness that could not be overcome by the policies it was

required to pursue. On the other hand, changes in imports relate more clearly to policy choices, with the sharpest falls where the most severe austerity policies were imposed, notably in Greece, Spain and Portugal.

This was the principal effect of the policy of so-called 'internal devaluation', favoured by the European Commission for eurozone countries in the greatest difficulty. The argument was that, unable – within the common currency – to devalue, they should achieve the same reduction in export prices by cutting wage costs. In fact, wage reductions were predominantly in non-tradable and public sector activities and did very little to improve export competitiveness. Exports increased primarily for more advanced products for which quality is more important than price. For Spain major contributors to higher exports were nuclear reactors and aircraft, while pay in manufacturing as a whole was increasing. For Ireland the increase was strongest in computer services, an activity with high and increasing pay levels.

The importance of improved quality in export increases is indicated by an increased price of exports, particularly in a number of countries with large increases in export volumes. For Ireland export prices increased by 7.6% against a 2% drop in the domestic price level. For Latvia the respective figures were 14.8% and 1.1%. On the other hand, average export

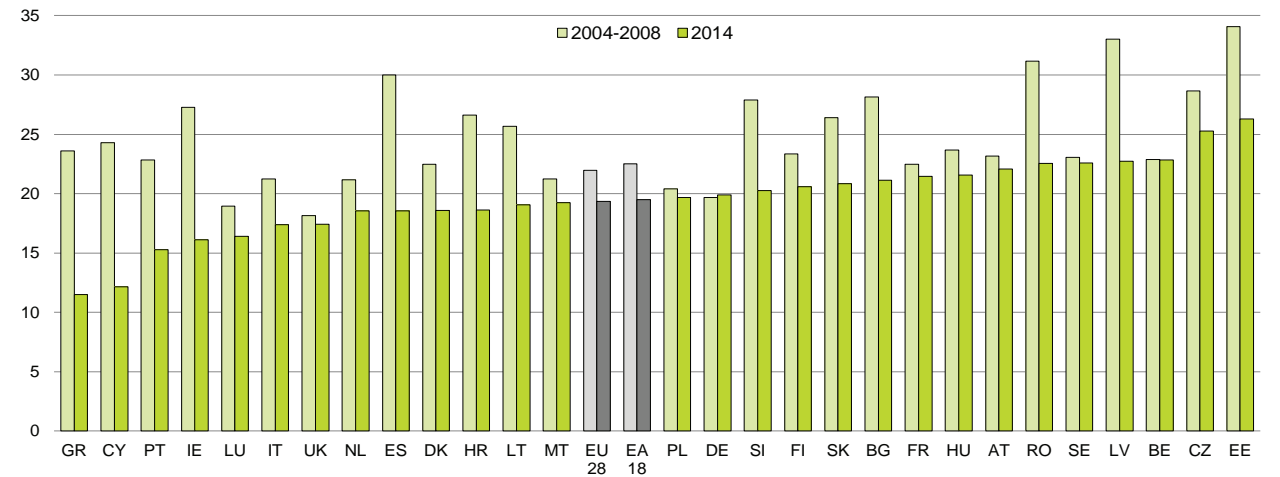
prices for Finland, one of few countries with declining exports, increased by only 1.7% against a growth in domestic prices of 11.7%.

Finland's experience demonstrates in a different way the importance of innovation and product quality. The biggest element in declining exports was the failure of Nokia to compete with Apple and Google. Prices were not the issue in this market and attempts to maintain budget discipline failed to help, ultimately proving unsuccessful as tax revenues declined. Nokia had at one time provided about a fifth of Finland's exports and 4% of the country's GDP (Ali-Yrkkö 2010: 18); its decline led to greater dependence on less sophisticated products and hence to the falling average export price.

These changes in exports and imports led to the elimination of, or massive reduction in, current account deficits in those countries where they been especially high. Latvia had been the record case, with, in 2003-8, a deficit equivalent to over 15% of GDP that, by 2014, had been reduced to 2.1%. A number of other countries had previously been strongly in surplus and roughly matching growth in exports and imports left that position unchanged. Notable among these were Germany (7.1% of GDP), Sweden (5.7%) and the Netherlands (7.8%) which stand out as countries that could comfortably afford higher domestic spending to boost demand both at home and in other countries.

Means for renewed growth

Figure 1.4. Gross fixed investment as % of GDP, 2004-2008 and 2014



Source: calculated from AMECO database.

Hopes and doubts from investment

Figure 1.4 shows that investment fell dramatically in the aftermath of the crisis. Its 2014 level was 15% below the peak of 2007, using 2010 prices. Total fixed investment fell from 22.0% of GDP in the 2004-8 boom period to 19.4% in 2014. In some countries – notably Germany, Austria and Sweden – there was little net change over this period. For some, by way of contrast, the drop was enormous: Cyprus, Ireland, Greece, Latvia and Spain all saw falls in investment equivalent to over 10% of their GDPs. Most of the decline was in private investment, including housing construction and industry, but public fixed investment also fell by more than 50% in Ireland, Spain and Greece.

While some past investment was no doubt misdirected, it would be wrong to consider investment levels in the years up to 2008 as harmful aberrations. All countries have demonstrable needs for investment to cope with the challenges of the future in transport and communications, education and research, climate change, energy, environment, and ageing of populations. Faster growing countries typically have considerably higher

investment rates, reaching almost 50% of GDP in China. Figure 1.4 shows that levels are extraordinarily low in a number of EU countries, leaving large numbers of unemployed and much unused capacity.

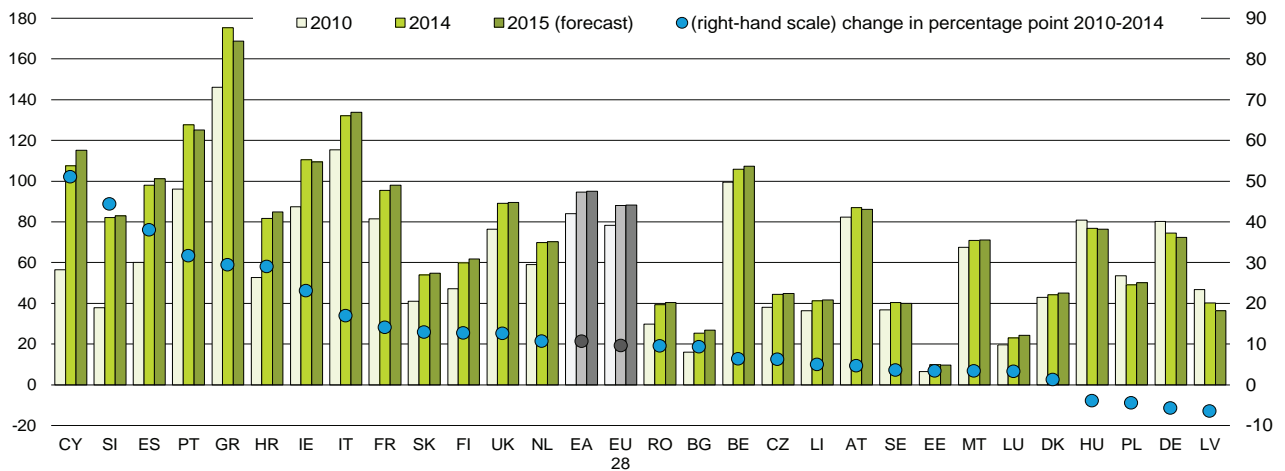
A revival in investment activity would provide an immediate stimulus to demand, increasing GDP by somewhat more than the increase in investment, thanks to multiplier effects. It is also essential for long-term growth and for overcoming growing divergences and inequality within the EU. In 2013 the ETUC presented a proposal for an investment plan (ETUC 2013) that would increase investment by the equivalent of 2% of GDP every year over a ten-year period. It could be financed by member states contributing to an increased capitalisation of the EIB on the basis of which long-term loans could be raised, taking advantage of the abundance of finance-seeking safe investment opportunities. The increases in GDP that could be expected would be much more than adequate to repay the debts incurred. Major barriers to such a programme include the eurozone rules on debt and budget deficits, both of which would need to be relaxed to some degree.

A more modest plan from European Commission President Jean-Claude Juncker proposed the investment of 2.4% of EU GDP over three years. The public commitment was also less clear, with the EU contributing a small guarantee and member states encouraged, but not

obliged, to contribute in exchange for a small degree of temporary leniency on budget rules (European Commission 2015). The plan suffered from two further weaknesses. The first was that the level of investment was to be maximised by allowing private lenders to choose which projects they would invest in, supporting a strong bias towards investing in the highest-income countries that had the least need of an EU programme. The second was that the plan was set to be combined with measures to satisfy business demands for easier conditions, for example by labour market deregulation. Private business was said to be holding back from investing due to a lack of ‘confidence’. In fact, regular surveys leave little doubt that business confidence is influenced primarily by the state of order books, in other words demand (see the Economic Sentiment Indicators, at http://ec.europa.eu/economy_finance/db_indicators/surveys/index_en.htm), pointing clearly to the benefits to be derived from a public investment programme for restoring business confidence.

Economic developments

Figure 1.5. Gross public debt/GDP ratios, 2010-2015 in the EU



Source: own calculations using AMECO data (UDGG).

The legacy of fiscal austerity: high debt/GDP ratios

The public finances of 15 out of 28 individual countries, as measured by the gross-debt-to-GDP ratio, deteriorated between 2010 and 2014 in spite of the fiscal austerity adopted throughout this period. This deterioration was not, however, evenly distributed. Member states that saw the biggest increases in their gross-debt-to-GDP ratios are also those which saw the greatest relative reductions in their real output over the same period, most notably Greece, Ireland, Portugal, Spain, Cyprus, Slovenia and Croatia. This group of most affected countries includes all the member states that have faced sovereign-debt and/or balance-of-payments crises in the markets since 2010 and which, along with Latvia, pursued, in response, the toughest austerity programmes as a condition for receiving financial help from the EU and the IMF. Of these, Greece alone had a debt/GDP ratio that was, in 2010, already relatively high, well above 100 per cent.

The evolution of debt-to-GDP ratios, especially in the member states that received bail-outs, testifies to the failure

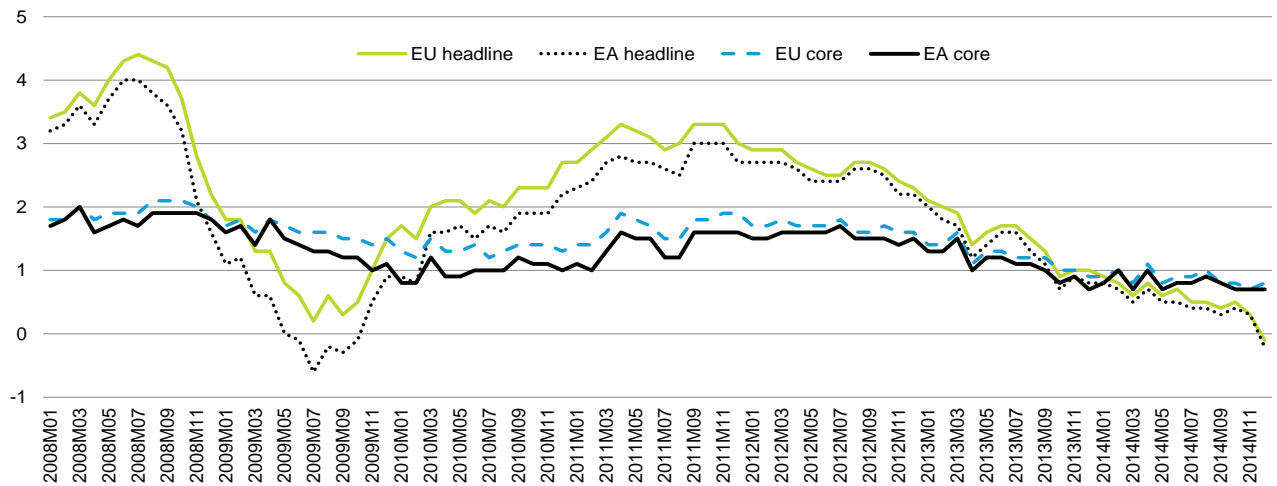
of financial support programmes which, by imposing deep fiscal austerity in the face of contracting economies, resulted in aggravating one of the symptoms they were meant to resolve, namely high public indebtedness. The results of fiscal austerity on output growth and, thereby, public debt/GDP ratios have been known since 2012 (IMF 2012), and yet there has been no essential change in policy course. In the bailed-out economies, this omission was directly related to the political unwillingness to finance the gaps that would emerge should fiscal consolidation take longer. More generally, however, the pursuit of austerity instead of growth as the main weapon for tackling high public/GDP ratios has been based on the threat that governments might lose access to the financial markets, in the way the peripheral euro-area members did. Again, this notion conveniently ignored the fact that the sovereign debt crisis in the euro area in fact subsided and financing costs decelerated once the ECB pledged to play its role as a lender of last resort in July 2012 by declaring that it would do 'whatever it takes' to preserve the integrity of the eurozone, including buying government bonds in the secondary markets through its Outright Monetary Transactions (OMT) programme.

The average debt-to-GDP ratios for both the EU and the euro area are forecasted to remain at the high levels they have reached, in the majority of

countries, in 2015. Even in those cases where a decline is forecasted, it is expected to be small and is conditional on whether positive output growth forecasts will also turn out to be correct. Rather than boosting confidence in the sustainability of public debt, austerity policies and their adverse effects on real output growth have undermined it, leading to persistently higher debt-to-GDP ratios.

Economic developments

Figure 1.6. Headline and core inflation rates, EU and euro area, 2008 MO1-2014 MO12



Source: Eurostat (prc_hicp_manr).

On the brink of a deflation trap

Following years of stagnant or negative output growth since the crisis began, in 2014 average inflation rates in the EU and particularly in the euro area decelerated further, well below the 2 per cent target of the ECB and dangerously approaching zero. Several member states, most notably Greece, Bulgaria, Cyprus and Spain, have been experiencing deflation, that is, negative inflation rates for several months. The average headline inflation rate (i.e. the one reflecting the entire basket of goods and services used for its calculation) was in December 2014 negative in more than half of the EU member states and virtually zero in a handful of others. The declining price of oil has been related to this as the core inflation (that is, the inflation rate excluding food and fuel) was negative in only four member states (Bulgaria, Greece, Cyprus and Spain). Even core inflation, however, was in December 2014 below one per cent in the majority of member states.

Inflation rates that are too close to or below zero are a worrying development as they suggest that, alongside very weak demand, economies are on the brink of a deflation trap. An economy

falls into a deflation trap when it suffers from deflation while nominal interest rates have also reached very close to zero. Under these circumstances, conventional monetary policy loses much of its potency: lowering nominal interest rates, the most conventional monetary policy tool for stimulating demand, is limited by the zero bound, while a negative inflation rate means that even with zero nominal interest rates, real interest rates, which really matter for investment and demand, become too high. In the case of the euro area, where fiscal policy is constrained by the stability and growth pact rules, having monetary policy losing its effectiveness to stimulate the economy exacerbates the difficulties.

Equally importantly, deflation or declining inflation increases the burden of servicing debt, whether in the public or the private sector. This happens because debts are denominated in nominal terms and paid off according to nominally fixed pay instalments. The fact that the debt remains constant whereas wages, prices and tax revenues fall, in the context of deflation, means that servicing the debt becomes harder, thus squeezing demand further and fuelling the spiral.

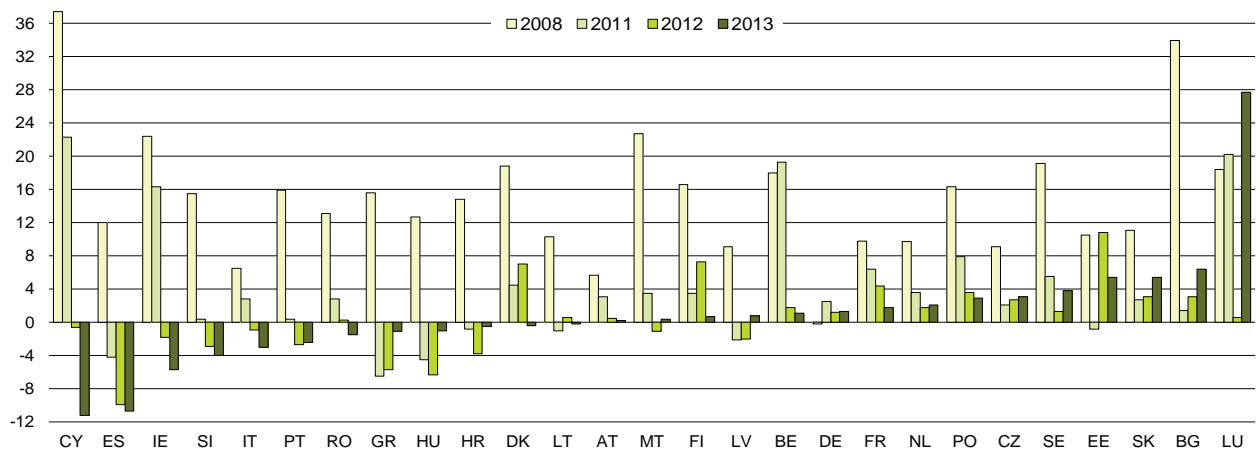
Last but not least, deflation makes the adjustment of relative wages more difficult. This is especially important for the eurozone where a process of relative price adjustment has been taking place since 2010 when the diverging current

account positions started unravelling. Practically, deflation means that the process of internal devaluation is becoming even more difficult and painful.

Deflation, once it becomes entrenched in wage and price expectations, comes to constitute a challenge for central banks, as wage- and price-setters pull each other, in the presence of falling demand, into a downward spiral of ever decreasing prices and nominal wages. As the example of Japan has shown, it is particularly difficult to draw an economy out of a deflation trap and sustained efforts from fiscal and monetary policies are essential (Koo 2009). In the context of the euro area, it is also hard to see how deflationary expectations could be avoided or uprooted without the support of coordinated collective wage bargaining.

Economic developments

Figure 1.7. Private sector (corporations and households) credit flows as % of GDP, 2008, 2011-2013



Source: Eurostat tipspc20.

Private sector: credit constrained where credit most needed

A factor of the weak demand in the EU and especially the euro area has been the meagre growth in private sector credit flows as a share of GDP. These declined substantially after 2008 in the vast majority of member states and have been negative or minimal for almost half of member states since 2011. The most affected have been mostly those worst hit by the crisis, where deleveraging has been taking place since 2010-11 with negative credit flows representing the reversal of the large credit growth in the run-up to the crisis.

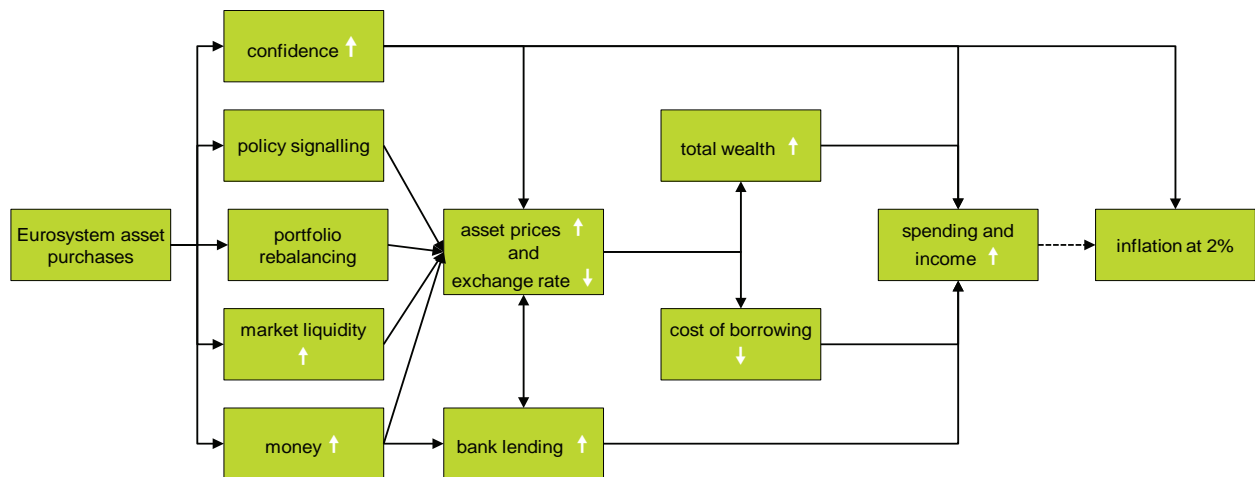
Low or negative credit flows to the private sector can be largely explained by the credit crunch conditions that have emerged in several member states due to the sovereign debt crisis and the subsequent prolonged recession, following the policies of adjustment. National banking systems, especially in those member states experiencing protracted financial distress, have also suffered from the double exposure to weak domestic economies

and financially distressed governments. Both these factors have been weakening their balance sheets.

To address the problem of the so-called 'lethal loop' between banking stability and sovereign debt, the euro-area members, in an effort to complete a banking union in the area, took steps such as the appointment of a Single Supervisory Mechanism for the 'systemically relevant' financial institutions and the establishment of a Single Resolution Mechanism (that is, a common pot of funds to help recapitalise and resolve troubled banks). While the steps have been in the right direction, the fact that the ECB has limited funds at its disposal in the resolution mechanism means that it may not always be as strict as necessary in identifying problematic institutions. A case in point is the stress tests that it conducted in 2014 ahead of taking over the supervision of the biggest banks. While the exercise was of unprecedented rigour, it emerged soon afterwards that the banks had not been stress-tested against deflation scenarios, which at the moment seem more plausible than ever. Several large banks marginally passed the tests.

Monetary policy

Figure 1.8. Quantitative easing



Source: Adapted from Joyce *et al.* (2011).

ECB becoming more activist

In 2014, the ECB reduced its main refinancing operations rate twice, in June and in September, bringing it down from 0.25 to 0.05%. Arguably, the interest rate cuts came with some delay, as the headline inflation in the euro area had by then fallen well below the two-per-cent target while economic activity in this area has been stagnant. The shift to a more activist ECB stance was signalled in a – now considered landmark – speech by Mario Draghi at Jackson Hole in August 2014, where, acknowledging the gravity of the unemployment situation in the euro area, he called for more active coordination of fiscal and monetary policies, at the same time urging governments to continue the pursuit of structural reforms.

On 22 January 2015 the ECB announced the launch of its quantitative easing (QE) policy whereby it will extend its asset purchase programme to securities issued by euro-area governments and European institutions to the tune of 60bn euros per month for at least 18 months and until there is evidence that the euro-area inflation rate is on the path to reaching its target of under but close to 2 per cent. The monthly amount of

purchases will be distributed according to the contribution of member states to the ECB's capital (that is, according to their relative GDP). In a move that signalled that there has been strong opposition to QE by Germany, the default risk of any government will remain largely with its national Central Bank.

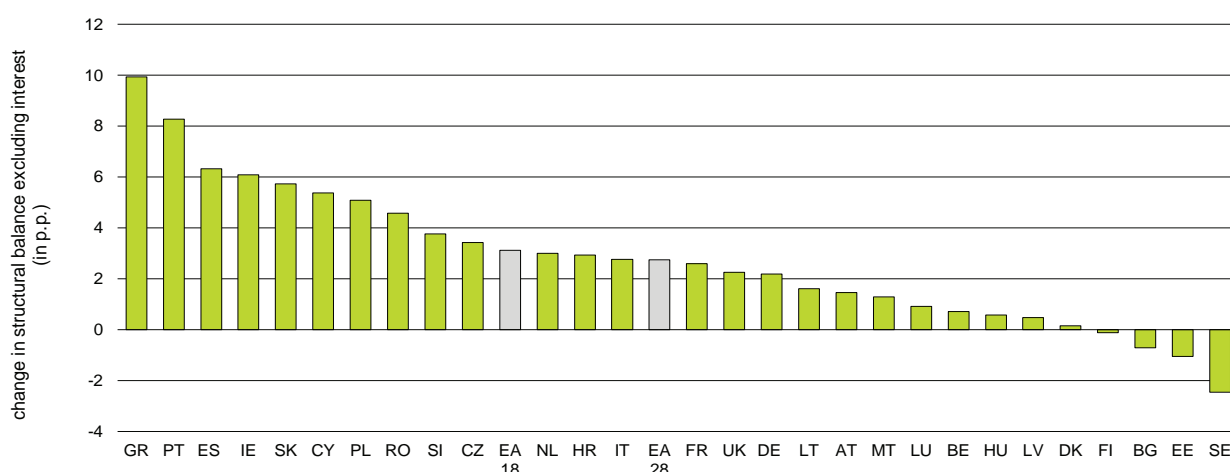
Quantitative easing is an unconventional policy whereby the central bank directly purchases private and public sector financial assets held by financial institutions. Conventional monetary policy, by a lowering of interest rates, increases demand for investment and other determinants of demand that are sensitive to interest rate movements, as well as fuelling exports (insofar as the lowering of interest rates can also lead to an exchange rate depreciation). QE is meant to work to stimulate an economy through a number of channels, namely, by improving the public's expectations about the economy (confidence); by signalling the central bank's commitment to raise the inflation rate (policy signalling); by reducing the interest rate on corporate bonds and thereby facilitating borrowing for companies which would presumably borrow to invest (portfolio rebalancing); by stimulating market activity for certain financial assets (market liquidity); and last but not least, by providing banks directly with extra cash which they can lend to households and firms (money) (Carlin and Soskice 2015: 479). Faced

with conditions of recession and very low nominal interest rates, the FED and the Bank of England used quantitative easing much earlier than the ECB. There is some limited evidence that it can be successful.

Given that quantitative easing involves central bank purchases of government bonds, there have been objections in the euro area to its pursuit by the ECB. For one thing, the effectiveness of the policy is still not well established, while it does create winners and losers among owners of financial assets; for another thing, there have been fears that, should a euro-area government default on its debt, then the ECB would have to take the losses and effectively make unauthorised fiscal transfers across member states' taxpayers. The uncertainty about the effectiveness of QE notwithstanding, it has been argued that these fears are largely irrelevant (De Grauwe and Ji 2013). In any case, as Mario Draghi also suggested, its potential effectiveness is not sufficient to pull the euro area out of the crisis. A more supportive fiscal stance is simultaneously required, as well as, in our view, structural reforms of the type that do not exacerbate wage deflation and demand in the short run.

Fiscal policy

Figure 1.9. Fiscal policy stance in the EU, 2010-2014



Source: own calculations using AMECO data (UBLGBPS).

Contractionary stance continues

One of the three pillars of the Annual Growth Survey for 2015 has been 'fiscal responsibility' (European Commission 2014a), meaning the lack of any deviation from adherence to the EU's fiscal rules. Various key EU policymakers, from Commissioners Katainen and Dombrovskis to Mario Draghi, have been emphasising the need to keep fiscal policy within the rules. This insistence has been flying in the face of what basic Keynesian macroeconomics would suggest: that in a context of recession, deflation and nominal interest rates virtually at zero, fiscal policy should step in to stimulate demand as the effectiveness of monetary policy to do so becomes severely constrained. The EU fiscal rules were set out under circumstances where excessive inflation, and not deflation, was the concern. Yet the fear of losing credibility by changing the rules to fit the current exceptional and not previously foreseen circumstances has been dominating policy considerations.

The fiscal stance in the vast majority of member states between 2010 and 2014 has been contractionary. Governments have been managing the part of spending and revenues that is at their

discretion – broadly everything apart from interest payments on debt – in a way such that revenues have been higher than spending. This can be seen in Figure 1.9 (above) which shows by how many percentage points the balance between discretionary public revenues and spending – i.e. the primary structural balance excluding interest – changed between 2010 and 2014. A positive change means that revenues increased relative to discretionary expenditure. In practice, this means that the vast majority of governments have not been using discretionary fiscal policy in order to stimulate demand in their economies in the face of recession or low demand, but have instead been contributing negatively to low demand in order to reduce their total government budget deficits.

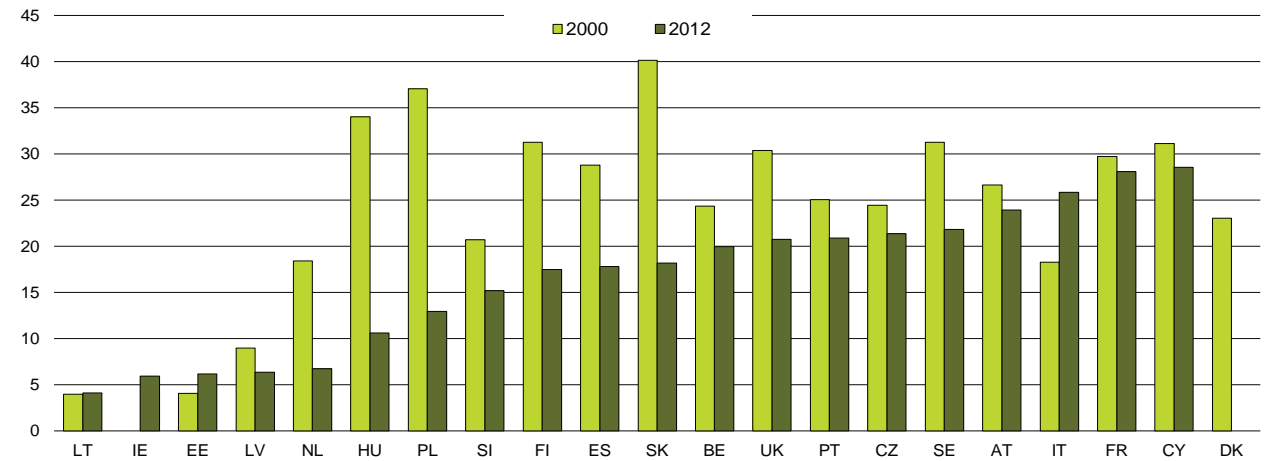
The largest consolidation took place in Greece, Portugal, Spain and Ireland, i.e. the four member states that received financial support from the EU, with Cyprus following only behind Slovakia. The graph underrepresents the fiscal effort made in Hungary and Latvia, countries that faced financial crises and had to pursue fiscal austerity earlier than the eurozone, and whose fiscal stance between 2007/2008 and 2012 tightened by 5 and 6 p.p. respectively.

What is most worrying in the Figure above is that the fiscal stance in the euro area and the EU28 as whole has been contractionary. Only a handful of

member states have faced sovereign debt crisis and of those only Spain is a large economy. Therefore, the above euro-area and EU28 averages have been driven by developments in member states which, in principle, would have the space to use expansionary fiscal policies, for example Germany. The EU fiscal rules do not impose fiscal expansion under any circumstances, so it is up to the individual governments with available fiscal space to decide whether they are going to expand their policies in order to support the aggregate stance in the eurozone. So far, such calls have been falling on deaf ears, even though the financing costs (long-term real interest rates) in countries such as Germany have been at or below zero since 2012.

Company tax victim of a tax race

Figure 1.10. Implicit tax rates, % of corporate income, 2000 and 2012



Source: Implicit tax rates: DG Taxation and Customs Union and Eurostat (online data code: gov_a_tax_itr).

Government policies allow tax avoidance by multinationals

Taxes on corporations account for a small share of tax revenue in the EU with substantial variation between member states. In 2012, after a period of declining tax rates over two decades, the EU average was 6.5%. High levels were recorded in Malta (18.7%), Cyprus (17.8%) and Luxembourg (13.4%). The lowest levels were in Slovenia (3.4%) and Greece (3.3%). The simple average top statutory tax on corporate income rates in EU28 fell from 35% in 1995 to 22.9% in 2014, albeit still leaving substantial variation between countries. The trend continued in 2014 with four member states cutting their statutory rates: Finland (from 24.5% to 20%), followed by the United Kingdom (23% to 21%), Slovakia (23% to 22%), and Denmark (25% to 24.5%). Against this trend, France’s statutory top rate for large companies was raised in 2014 through the change in the exceptional surcharge.

Implicit tax rates (ITRs) on corporate income in 2000 and 2012 in

individual EU countries are shown in Figure 1.10. These measure actual tax revenue as a percentage of potential tax revenue, thereby taking account of deductions and exemptions. Unfortunately, data are not available for all EU countries. However, Figure 1.10 shows some massive reductions in a number of EU countries, notably Hungary, Poland, Slovakia, Spain, Finland and the UK. The only increases were in Italy, Latvia and Estonia, the last two from exceptionally low initial levels.

The downward trend can be attributed, to some extent, to the differences in tax rates. These differences put pressure on individual countries to cut their effective rates of business taxation. As capital enjoys considerable mobility in the EU, states find themselves competing to keep, or attract, investment and to discourage companies from recording profits from their home activities in foreign jurisdictions.

Many multinational companies, however, record much lower rates of taxation on profits from their European operations than suggested by respective implicit or average tax rates. Various loopholes sustained by tax policies pursued by some member states, most notably Ireland, Luxembourg, and the Netherlands, have allowed multinational companies to enjoy tax reductions as high as 95%. The Irish government is to close down by 2020 the notorious Double-Irish-Dutch

Sandwich, a mechanism allowing companies to reduce their tax burdens, but current regulations allow a number of other tax avoidance schemes, such as that based on intra-company lending through Swiss-based branches.

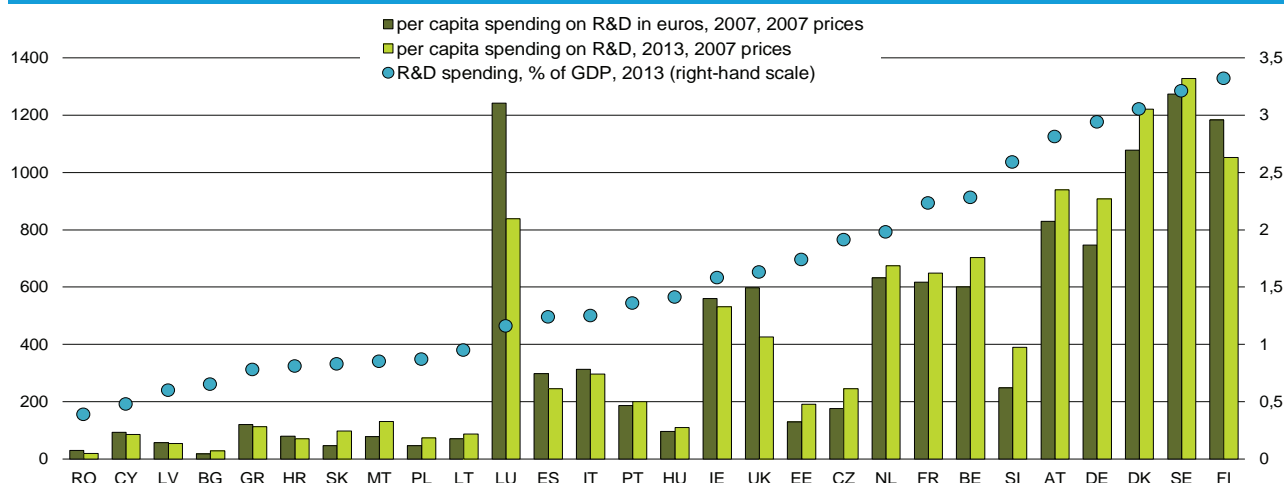
State capacity to collect taxes from business is also undermined by undeclared economic activities. The shadow economy is estimated at around 18-19% of GDP in Europe, but estimates vary between 8% in Austria and 32% in Bulgaria.¹ Tax evasion through undeclared activities is particularly rife in the New Member states (including Malta and Cyprus) and in southern Europe (i.e. Greece, Italy, and Portugal).

There needs also to be a much more ambitious approach to tax coordination on the EU level. An ETUC draft resolution on taxation includes a mandatory common consolidated corporate tax rate base and a minimum tax rate of 25%. An EU-wide tax rate would be an important step towards addressing the problem of tax-related capital mobility.

1. http://ec.europa.eu/taxation_customs/resources/documents/common/publications/com_reports/taxation/com%282012%29351_en.pdf

Missing the targets

Figure 1.11. Research and Development spending per capita, 2007 and 2013, and as % of GDP, 2013



Source: Eurostat.

Mixed progress on research and development

Figure 1.11 shows spending on Research and Development in member states using two measures. The measure of total spending as a percentage of GDP relates to the target set in the Europe 2020 agenda of reaching a level of 3% of GDP. That benchmark had been passed by only a very small number of countries by 2014.

R&D therefore remains an area of great and persistent inequality across the EU. The extent of the differences is shown even more clearly by figures for R&D per capita. Lower-income countries spend much less on research. In some cases, the per capita level even fell between 2007 and 2013. There were particularly large declines in Romania, by 34%, and Spain, by 17%, and reductions also in Greece, Italy, Finland and the UK. Elsewhere, including in a number of lower-income countries, there were substantial increases.

Research is important as a key input to innovation and to production of high-quality goods and services, these being the main determinants of international competitiveness. Its concentration also follows from differences in income

levels, as research workers are generally highly mobile and can move to the country where pay is best. Public spending and support for research and higher education institutions are also crucial and the weakness or absence of this infrastructure places lower-income countries at a massive disadvantage.

Overcoming these obstacles depends on action at the EU level. Structural Funds and EIB investment were essential in practically all public sector development of research infrastructure in central and eastern Europe in the 2007-14 period and hence in improving – sometimes very significantly – the position of a number of those countries.

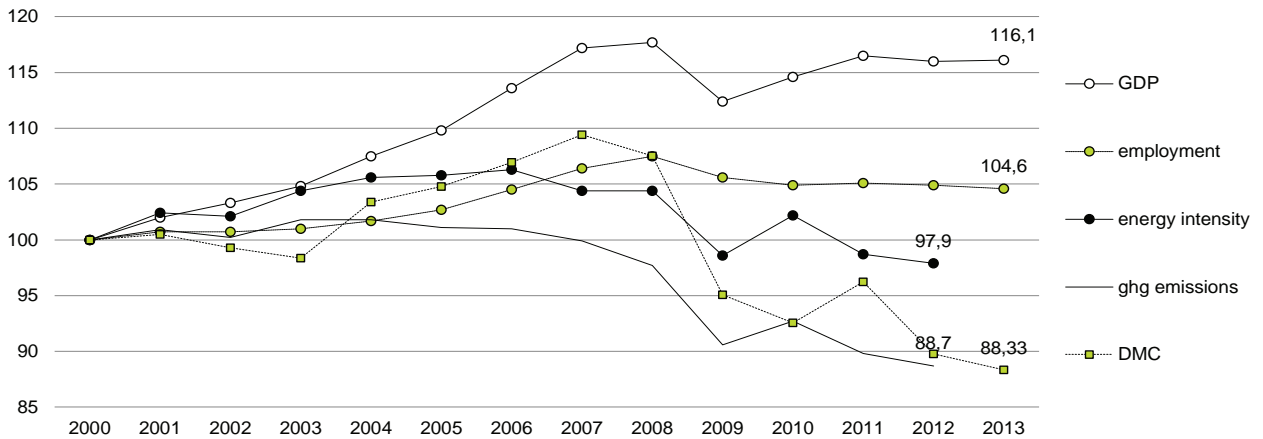
The investment programme proposed by the European Commission for the 2015-8 period could make a significant further contribution. However, that depends on the criteria set for judging investment. Research and higher education have been major areas for EIB investment in higher-income countries, notably the UK where university incomes are guaranteed by high levels of fees for domestic and overseas students. Allowing lenders to select the projects they will finance is likely to mean a continuing bias away from investing in similar facilities in lower-income countries. The successful development of research across the EU would depend on making investment resources available and also on making current spending available to attract and

retain educators and researchers. Such developments are obstructed by strict application of budget rules, leading to the declining levels of research spending in a number of countries, as shown in Figure 1.11.

Research spending alone does not guarantee economic competitiveness, as illustrated by the problems for Finland where innovation was heavily concentrated within one firm. The results of research need to be convertible, and also converted, into activities, and that depends on complex relationships within so-called innovation systems. Private- and public-sector users of research results need to have contacts, knowledge, incentives and sources of finance. The distribution of these factors accentuates the inequalities between countries, encouraging a continued concentration of innovation. A wider strategy for improving competitiveness across the EU therefore needs to include means to bring expertise and capital to those who can develop innovative ideas in all countries. The Juncker investment plan has included references to helping countries find appropriate and viable projects. Encouragement of more substantial changes, including an infrastructure of investment banks and public advisory services, will be necessary if innovative and knowledge-based economies are to develop beyond the established core of the EU.

Decoupling economic growth from material and energy use

Figure 1.12. Development of GDP, employment, energy intensity, ghg emissions and domestic material consumption for the EU28 (index, 2000=100)



Source: Eurostat, 2015. Note: DMC is domestic material consumption.

Most greening is due to the recession

There is a broad consensus that in the current economic environment the viable way of setting our production and consumption model on a sustainable basis is to decouple economic growth from pollution and resource use (energy and material). Economic growth, and in particular employment growth, is still seen as essential for wellbeing, for full employment and for social justice. There is also a widespread expectation that the green transformation process will create jobs, the overall aim being to create more wealth while exerting less impact on the environment and the planet. Climate-change policies for developed countries (under the Kyoto Protocol) set the target of an 85% reduction for greenhouse gas (GHG) emissions by 2050 compared to 1990 levels (assuming that economic growth will continue). A Factor Five, or 80 per cent, reduction of environmental impacts per unit of economic output is necessary and achievable (UNEP 2011). At this point we will take a look at Europe's performance according to the main indicators.

By 2012 total GHG emissions in the EU28 had decreased by 19.2% since 1990, while EU15 emissions were 15.1% below the base year under the Kyoto Protocol. Accordingly, the 2020 target had almost been reached in 2012. As EU28 GDP in this period had grown by 45%, the 19% GHG reduction (EEA 2014) meant not only an early fulfilment of the EU 2020 target but also provided evidence of a considerable decoupling from GDP growth.

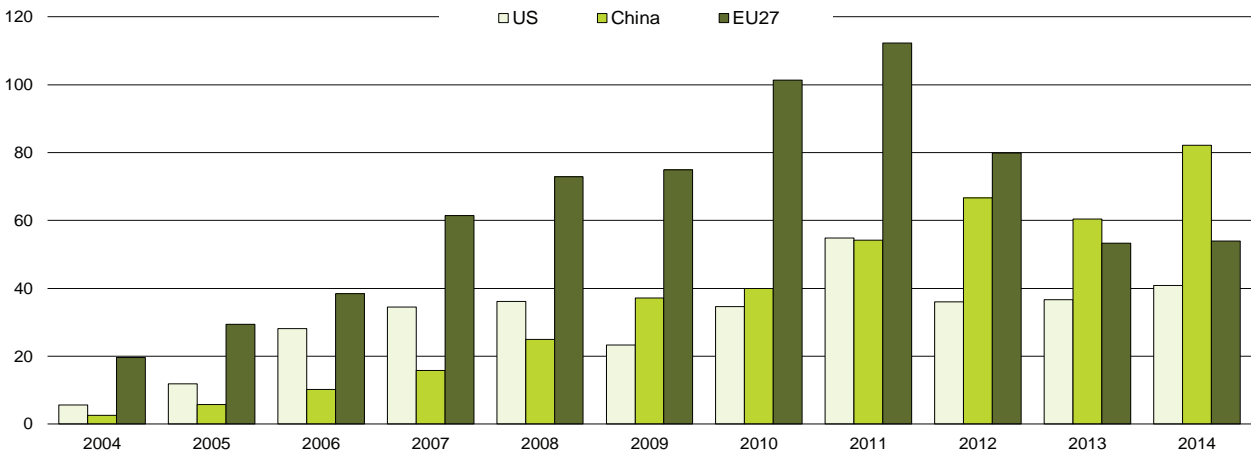
So everything is fine, we could say? Not entirely. Figure 1.12 provides an overview of major sustainable development indicators as they developed in the period 2000-2013 in the EU28 (this is the period for which all these data are available, encompassing times of both boom and crisis). GDP over this period showed a 16.1% increase (with a peak of 17.7% in 2008), signifying a meagre yearly average of 1.23%. Employment performance was even weaker – a mere 4.6% increase in 13 years (with a peak of 7.5% in 2008), corresponding to a yearly increase of 0.35%.

Greenhouse gas emission reductions showed a very mixed performance over the period. While there is an 11.3% drop over twelve years (the latest data available are for 2012), the two sides of the economic cycle show entirely different results. During the period of economic boom GHG emissions were not decreasing (the decrease in 2007 compared to 2000 was 0.01%). The difficulty of decoupling economic growth (while

it existed) from pollution, resource and energy use is apparent from the performance in domestic material consumption and primary energy consumption. Between 2000 and 2007 domestic material consumption grew by 9.4% (more than employment), while primary energy consumption grew by 4.4%. It is primarily the economic recession that brought a reduction in both domestic material consumption and final energy use. Although we see some degree of decoupling for the period taken as a whole, as with the 16.1% overall GDP increase we have an 11.7% decrease in domestic material consumption and a 12.1% decrease in final energy consumption (based, in the latter case, on data from 2000 to 2012). These developments fail to provide convincing evidence that a policy-driven transformation process towards a more sustainable economy is underway and even less indication that the more ambitious 2050 targets are likely to be reached. Moreover, the objective was to decouple economic growth from resource and energy use and not from employment. The disappointing employment performance is also undermining confidence that a greening of the economy will deliver jobs – for, after all the talk of green jobs, where are they? Unless massive investment is forthcoming, we simply will not get there.

Clean energy investment in the EU, US and China

Figure 1.13. New investments in renewable energy (USD bn)



Source: Mills (2015).

Europe falls behind both the US and China

Europe is losing momentum in greening its economy, and its former leadership in the world is eroding rapidly. The case of clean energy investment is the most glaring example in this respect.

As Figure 1.13 shows, in the period 2004-2011 the EU had been the unquestionable leader in this field with a spectacular increase in its investment levels. In that period clean energy investment in Europe increased six-fold compared to the base value in 2004, with the EU outperforming China and the US combined.

A spectacular collapse followed: in 2013 clean energy investment in Europe had fallen by 53% compared to the investment peak in 2011 (Figure 1.13). Data for the first three quarters of 2014 (not shown here) reveal that the falling trend for Europe continued unabated: in the third quarter of 2014 clean energy investment in Europe tumbled to USD 9.2 billion, the lowest level in more than eight years, as spending under this heading fell in the UK, Italy and Germany (Mills 2014).

It was only the 2014 fourth quarter investment value of USD 17.8 billion

that saved Europe from another year of diminishing clean energy investment. Although the USD 54bn total investment value in 2014 is slightly higher than the 53.3 billion in 2013, it falls very far short of China (USD 82.2 bn).

This happened in a year when 310 billion USD was spent globally on renewable energy projects (a 16% increase over 2013) and when China's solar investment hit a historic record. In 2014 Europe provided 17% of the global investment, its share back in 2010 having been still as high as 37%. It thus took only three years for Europe to change from global fore-runner to global laggard in terms of clean energy investment.

As Europe's performance in most sustainable development indicators – shown in Figure 1.13 – illustrates, its recent greening trajectory is based more on a recessionary environment than on investment or the implementation of policy targets. In order to turn around this unfavourable and unsustainable trend more investment, particularly into clean energy, is necessary.

Conclusions

Austerity and growth do not mix

The European economy has gone through two recessions since 2008. The first policy reactions to the crisis in 2008 suggested that the EU was on the right track. The fall in private sector activity was to be countered by a stimulus from the public sector. The second recession, after 2010, followed after the reversal of that early approach. The European Commission predicted at the time a fairly quick recovery. Instead, the small subsequent recovery has been uneven, slow and insecure. By 2014 the European Commission was prudently predicting only modest growth for the next few years.

The dominant rhetoric and the accompanying policy measures have pointed in two opposing directions. On the one hand there has been a verbal recognition that past policies had failed and that a big change is needed if GDP and employment growth are to be restored. However, this coexists with an insistence that there can be no substantial change to the central principles governing past policies, most notably the adherence to the recently tightened fiscal rules. As a consequence, austerity must continue. However, unless there is a major change in policy thinking, as well as general rhetoric, the EU economies face the prospect of an agonisingly slow recovery with dampened prospects in several 'core' as well as 'periphery' countries.

It should not be difficult to find a better way forward for the European Union, but the new measures in EU policymaking will make only a small contribution to this. Two are important here. The first is the investment plan proposed by European Commission President Jean-Claude Juncker. It will not restore investment to its pre-crisis level and minimal concessions on budget rules mean that it will be concentrated towards countries in the least need of an EU programme. It is far short of what Europe could afford and also far short of what Europe needs.

The second important new element is the European Central Bank's policy of quantitative easing announced in January 2015. The ECB will extend its asset purchase programme to securities issued by euro-area governments and institutions for at least 18 months or until there are indications that inflation rate is on track to returning to its target. This follows similar programmes in the UK and USA, albeit with some controversy over their precise effects. The ECB programme reflects political compromises: most of the risk of buying government bonds will not be shared but will instead remain with national central banks.

Despite these new elements, much of policy thinking remains unchanged. The emphasis continues to be on 'fiscal responsibility' which has meant too tight a fiscal stance across the Eurozone, as well as the EU, as a whole. The measure of the budget balance that shows the discretionary fiscal policy of governments, that is, the structural balance excluding unavoidable interest payments on debt, has increased since 2008 across the EU by almost 3 percentage points of GDP, with the figure touching 10 percentage points for Greece. Even within existing eurozone rules, a number of countries could comfortably and substantially increase spending to provide a stimulus to demand. However, the fiscal rules only impose actions following too high deficits, not too small ones or too high surpluses. At a time of prolonged recession, 'responsibility' should mean pursuing policies that can restore recovery, but the only effective insistence from EU level has been on the continuation of adherence to the fiscal rules in countries that are already pursuing severely contractionary policies, for fear of otherwise losing credibility with the financial markets.

Continuing in this policy direction does not offer a solution to the problem of high levels of public debt as share of GDP. Indeed, these have grown as a result of contractionary policies. With the exception of Greece, they were not the trigger of the crises that certain member states faced and will not decline as a proportion of GDP as long as growth remains subdued. This is an absolutely basic proposition in macroeconomic theory

and is confirmed by Europe's post-2008 experience. Gross debt as a proportion of GDP has increased across the EU and, with only a couple of exceptions, in every country and every year since 2008. Reversing that trend requires renewed growth, providing the growth in tax revenues which can reduce budget deficits.

Continuing austerity has also brought the increasingly real danger of deflation, meaning a continuously falling price level that, unless tackled, risks becoming self-perpetuating. Combined with nominal interest rates virtually at zero, this renders monetary policy even less effective than it has been so far. It would also make it more difficult to reduce both public and private debt levels, thus adding to the difficulties of banks to lend. The ECB policy of quantitative easing is intended to counter deflation, but its effectiveness is greatly restricted by the absence of an accompanying fiscal expansion.

Continuing tight fiscal policies also greatly limits the effectiveness of Juncker's investment plan. This is under-financed because no new public resources are available within existing rules. Its effectiveness is limited because member states have limited means to afford necessary co-financing, to cope with needs for current spending to make use of the results of investment, and to repay credits.

Other policy areas essential for long-term growth are also hit by fiscal rules. Target levels of R&D spending will not be met, with very significant reductions in some countries where the level was already low. Targets for reducing carbon emissions are threatened by cuts in public spending such that much of the apparent recent progress in this area has come as a result of economic depression.

It is not difficult to find alternative policies for Europe that could restore growth and employment. Europe, after all, has been performing exceptionally badly in comparison with the rest of the world. The modest ideas currently proposed for restoring growth are inadequate to counter the deflationary effects of continuing contractionary fiscal policies.

Labour market and social developments

Introduction

The labour market and social situation has on average deteriorated in the EU as a whole as well as in the euro area since 2008 and especially since 2010. In certain member states, unemployment and the risk of poverty have risen to alarming levels. These developments, along with the appointment of a new Commission last autumn, have led to some renewed policy initiatives, in the EU and the euro area, that seek – at a rhetorical level at least – to restore growth as a means of addressing the situation. The most notable of these initiatives is the Annual Growth Survey with its three pillars: the Investment Plan, fiscal responsibility and structural reforms.

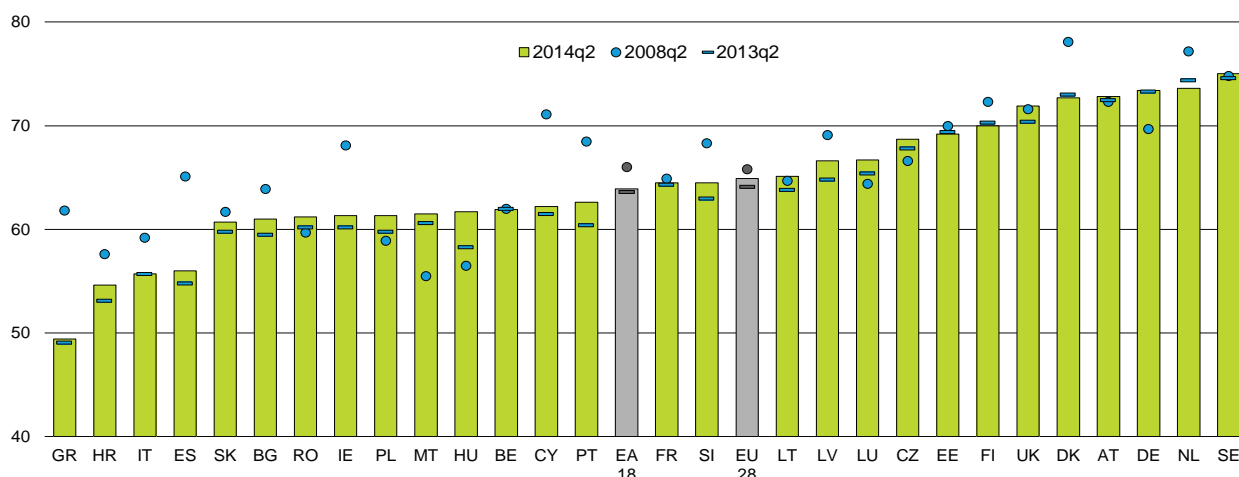
In this chapter, we provide a snapshot of the labour market and social developments in the EU, highlighting important dimensions such as job quality (which has been, in the current discourse, largely neglected or pursued by the wrong means), facets of the youth labour market situation, labour mobility, and in-work poverty. We also challenge a basic premise of the EU policy approaches, namely that the key to labour market recovery lies not so much in stimulating aggregate demand as in pushing through structural reforms. Finally, we show that public social spending has failed to respond adequately to deteriorating social conditions, particularly in those member states most severely affected by the crisis.

Topics

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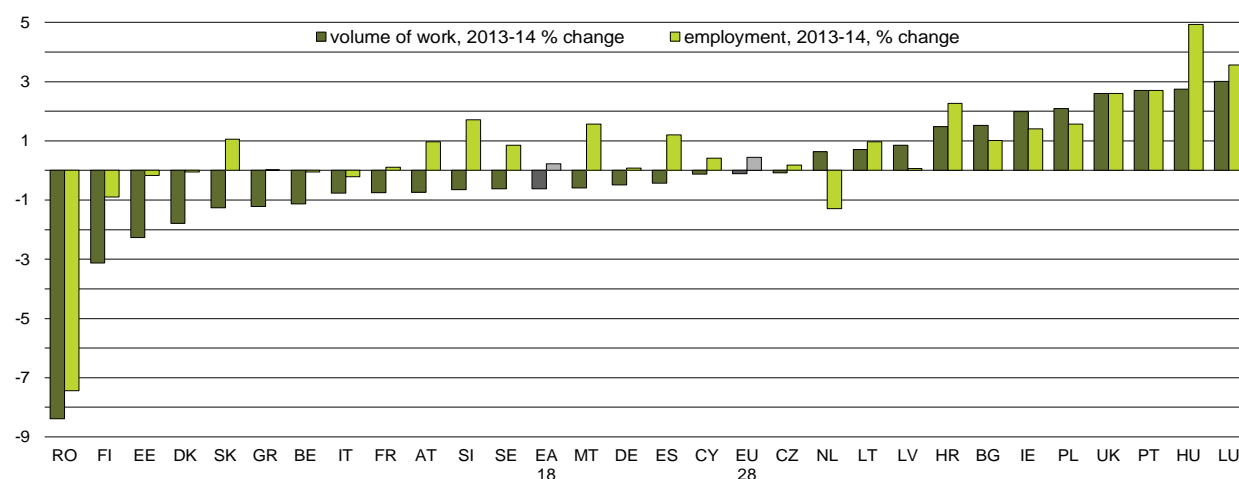
Overview of labour market developments

Figure 2.1. Employment rates (age 15-64)



Source: Eurostat [lfsq_organ].

Figure 2.2. Work redistribution (age 15-64)



Source: Eurostat [lfsq_organ].

Labour input still declining

In 2014q2, 64.9% of the population aged 15-64 in the EU28 was employed. While this figure represents a slight increase on the previous year (64.1%), it remains below pre-crisis levels (65.8% in 2008q2). Considerable divergence across the EU persists, so that there is, for example, a

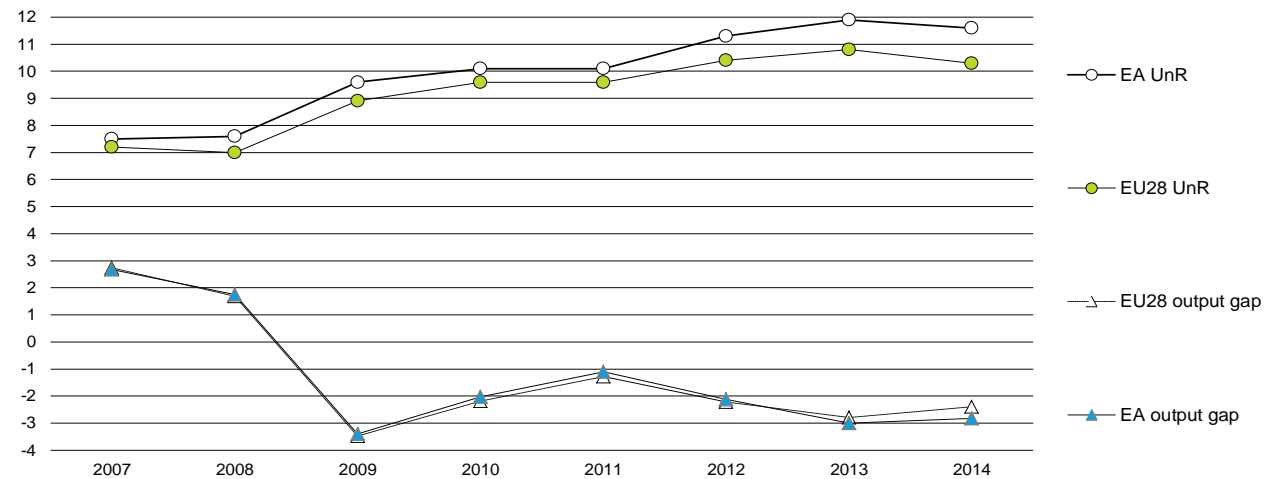
25.6 percentage-point gap in employment-rate levels between Sweden (75%) and Greece (49.4%). Moreover, 17 EU countries currently have a lower share of population in employment than in 2008; it is in Greece, Spain and Cyprus that this decrease has been most striking.

Five EU countries saw a further decline in the employment rate in the last year (2013q2 - 2014q2), while others saw growth or stability. These latter features have, however, been largely driven by a continuing redistribution of work (see ETUI and ETUC 2014). Despite a

0.4% increase in the employment rate in the EU28, the volume of work has actually shrunk by 0.1% over the last year (Figure 2.2) and in 10 EU member states (e.g. Germany, Austria, Spain or Sweden) increases in the employment rate in the past year occurred in parallel with a decline in the volume of work. Accordingly, the supposed 'increase' reflects the spread of involuntary part-time jobs (see also Figure 2.9), mini-jobs or zero-hours contracts, rather than an increase in the demand for labour (reflected in total working hours) in the EU.

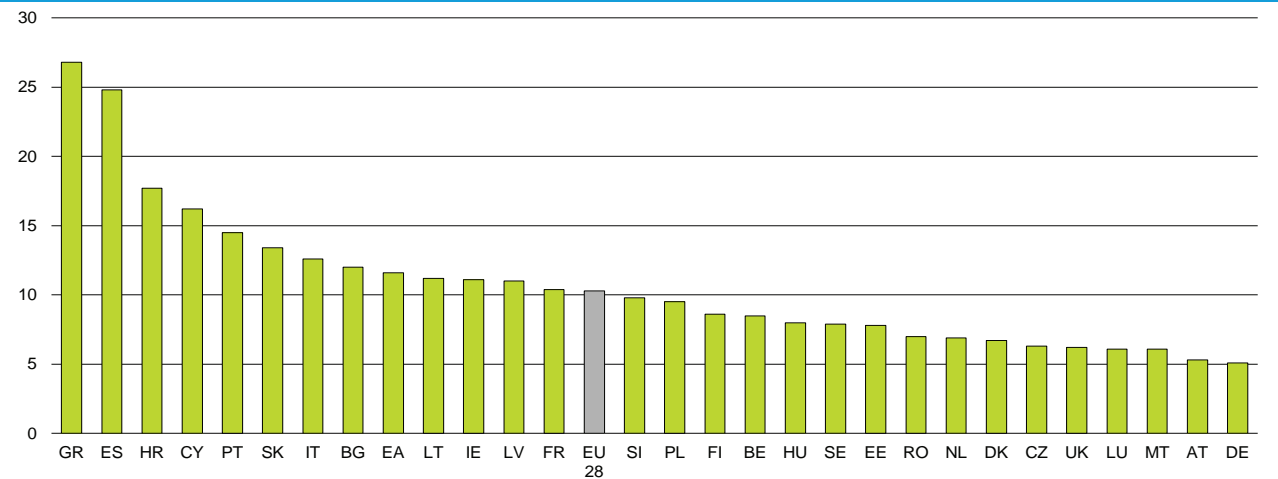
Overview of labour market developments

Figure 2.3. Unemployment rate and output gap in the EU28 and EA



Source: AMECO, ZUTN, AVGDGP.

Figure 2.4. Unemployment rates in EU28 member states, 2014



Source: AMECO ZUTN.

Output gap driving unemployment

The unemployment rate peaked at 10.3% in the EU28 and 11.6% in the euro area in 2014. As Figure 2.3 shows, the unemployment rate had started to rise in 2008; in 2014 it declined but only slightly. The unemployment rate in Europe followed closely the evolution in the output gap,

that is, the difference between how much the EU28/euro area *could* produce and how much it *actually* produced. A negative output gap means that actual demand is below potential output. As Figure 2.3 illustrates, there has been a negative output gap in Europe since 2008 and the fact that its evolution mirrors that of unemployment suggests that the evolution of the unemployment rate has been driven by low demand. This is confirmed by the unemployment figures of different member states. Unemployment rates have varied substantially, from

26.8% in Greece and 24.8% in Spain to just 5.1 and 5.3% in Germany and Austria respectively. The sharp contrast is related to the extent to which countries were affected by the sovereign-debt and current-account crises and more especially to the policies that were used (or not used) for adjustment (see Chapter 1).

Overview of labour market developments

Figure 2.5. Labour market policies and institutions in member states with highest and lowest unemployment rates, 2008-2013

			AT	DE	GR	ES
Employment Protection Legislation ¹	Protection of permanent workers against individual and collective dismissals (0-6) 0=least restrictive	2008	2.44	2.98	2.85	2.66
		2013	2.44	2.98	2.41	2.28
	Regulation on temporary forms of employment (0-6) 0=least restrictive	2008	2.17	1.54	3.17	3.50
		2013	2.17	1.75	2.92	3.17
Unemployment Benefits Generosity ² (Average of net replacement rates over 60 months of unemployment)	excl. social assistance benefits	2008	60	46	11	36
		2012	59	41	11	36
	incl. social assistance benefits	2008	64	65	21	47
		2012	69	60	11	47
Collective wage bargaining ³	Coordination of wage-setting (1-5, 1=fragmented confined largely to individual firms or plants)	2008	4	4	2	4
		2013	4	4	5	4
Labour market reforms	Number of labour market reforms ⁴	2000-2008	83	93	75	132
		2009-2013	59	40	117	121
		2000-2013	142	133	192	253

Sources: 1: OECD, 2: OECD, Benefits and Wages statistics database 3: Visser, J., (2013), ICTWSS: Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts in 34 countries between 1960 and 2012, v.4, 4: own calculations using data from the LABREF database-DG Ecfm.

Labour market institutions do not explain the divergence in unemployment rates

As in previous times of high unemployment rates in Europe (cf. OECD 1994), there have been persistent calls for labour market reforms as a remedy for high unemployment, especially as the most affected member states have been members of the eurozone where it is impossible to use the nominal exchange rate to help an economy adjust to adverse shocks (Canton *et al.* 2014). Indeed, structural reforms, of which labour market reforms always form a large chunk, are – together with the investment plan and fiscal ‘responsibility’ – one of the three pillars of this year’s Annual Growth Survey (European Commission 2014a).

The argument has been twofold. First, that, faced with an adverse shock such as a drop in demand, more flexible wages would reduce the impact on employment and unemployment rates.

Secondly, and more controversially, that more flexible wages will stimulate a recovery that will lead to lower unemployment. Drawing largely on the success of the US economy in reducing its unemployment rates in the 1980s and 1990s by contrast with Europe, the argument was that less generous unemployment benefits, less protective employment protection legislation and decentralised collective wage bargaining are more conducive to low unemployment (OECD 1994).

Empirical research conducted before the global crisis broke out (for example, Baker *et al.* 2005; Theodoropoulou 2008) showed that the relationship between unemployment and the aforementioned labour market policies/institutions is anything but straightforward and that it depends on the broader political economy context, most notably the macroeconomic policies pursued in a country. More importantly, it was shown that economies with more regulated markets may not only enjoy low unemployment/high employment rates but also perform better in terms of combating poverty and inequality (Bassanini and Duval 2006).

In spite of these findings, the idea of labour market deregulation as a solution to the EU’s unemployment crisis re-emerged and gained traction. Figure 2.5 above provides some very simple but telling evidence of why this policy is misguided.

The Figure shows the measures of the generosity/restrictiveness of unemployment benefit systems and employment protection legislation (EPL), as well as the structure (coordination) of collective wage bargaining institutions in the two member states with the highest unemployment, Spain and Greece, and those with the lowest, Germany and Austria. All these policies have been actively targeted by adjustment programmes in the eurozone.

We see either that the difference between the best and the worst performers runs in the opposite direction to that argued by advocates of labour market reform or that it is non-existent.

Moreover, looking into the LABREF database (European Commission 2015) we see that between 2000 and 2013 there were in total 141 reforms conducted in Austria, 133 in Germany, 182 in Greece and 249 in Spain. In fact, during the 2009-2013 period, Greece and Portugal undertook approximately twice as many reforms as Austria and Germany.

The above table provides the following clear message: labour market institutions are not at the root of the current divergence in unemployment rates in the EU and can therefore not be at the heart of the solution. The difference between the two pairs of countries lies in their output growth rates in the last five years, and these are the outcome of the macroeconomic policies pursued.

Overview of labour market developments

Figure 2.6. Gender differences on selected employment indicators and change over time, EU28



Source: Eurostat [lfsq_ergan; lfsq_urgan; lfsq_esgaed; lfsq_eppga; lfsa_eppgai; lfsq_etpga; lfsa_etgar]. Notes: Involuntary part-time and involuntary temporary employment data for 2008 and 2013 (annual).

Gender gaps narrowed by levelling down

While many of the gender gaps in the labour market have narrowed since the onset of the crisis in 2008, this can hardly be defined as progress, for a closer look reveals that the closing of gender gaps is mostly driven by worsening conditions for men. Between 2008 and 2014 (comparison of second quarters), the employment rate for men aged 15-64 in the EU28 dropped by 2.7 percentage points (from 72.8% to 70.1%), while for women it increased by 0.7 pp. (from 58.9% to 59.6%). The increase in female employment rates picked up again in 2010, after the post-2008 drop, yet it remains well below the pre-crisis upward trend trajectory. While in the period 2005-2008 the female employment rate in the EU28 rose by an annual average of 0.9 pp., in the period 2010-2013 this increase fell to 0.2 pp.

The gender gap in unemployment rates in the EU28 closed completely in 2014 (at 10.2% for both men and women in the 15-64 age group), the increase for men (by 3.8 pp.) having exceeded that for women (by 2.8 pp.). Though men remain

about twice as likely as women to be self-employed in the EU28, this gap narrowed slightly in 2014 as the self-employment rate for women grew by 0.2 pp. A more pronounced change occurred in the share of own-account self-employment, which in many cases can be characterised as a form of precarious work that is used by employers as a means of evading taxes or employment rights (EurWORK 2014). Own-account share in self-employment increased by 2.7 pp. for men (from 66.2% to 68.9%) and by 1.4 pp. for women (from 75.3% to 76.6%), thus reducing the gender gap.

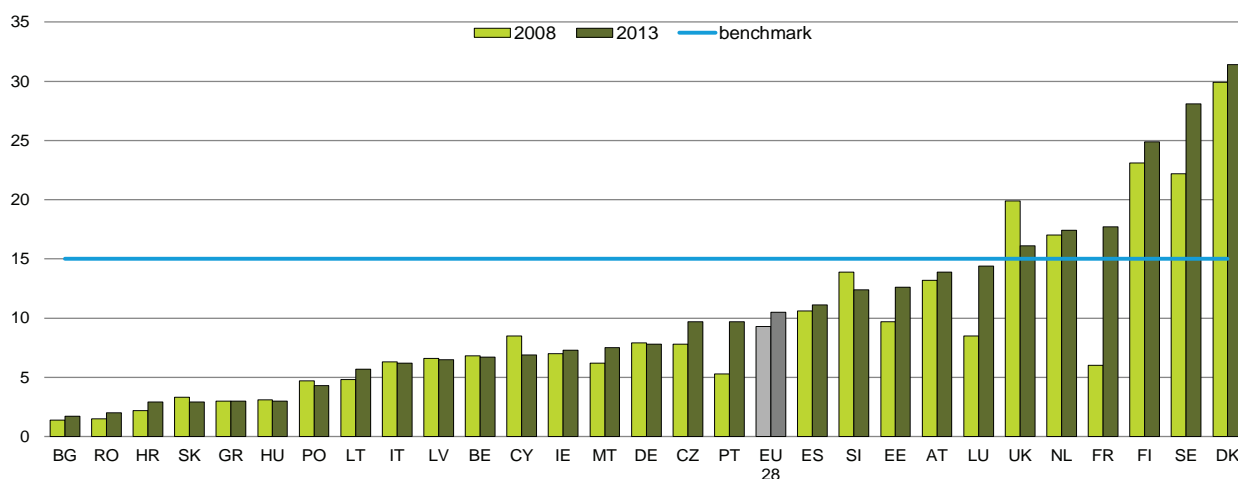
The gender difference in the part-time rate remained stable over the crisis despite unprecedented increases in male part-time employment. In the EU28, between 2008 and 2013, the number of part-time jobs increased more for men (by 1.61 million) than for women (1.46 million). That this development reflects, rather than men's lifestyle choices (for instance to combine paid work and family care responsibilities), a decline in the available work outstripping the decline in employment (see Figure 2.2) is illustrated in the substantial increase in the share of part-time work that is involuntary among men (from 32.4% in 2008 to 40.1% in 2013) and that has served to widen the gender gap on this dimension (for women 23.3% in 2008 and 26.3% in 2013).

The developments in temporary employment rates have been more

favourable for women, with the incidence of fixed-term contracts dropping from 15.2% to 14.6% (while increasing from 13.4% to 13.6% among men). However, for both men and women the incidence of involuntary temporary employment increased, reaching 60.2% for men and 63.2% for women in 2013. A somewhat steeper increase for men contributed to a narrowing of the gender gap, yet another example of why the reduction in the gap can hardly be regarded as progress.

Between education and the labour market

Figure 2.7. Participation rate in education and training (last 4 weeks) by sex and age [trng_lfse_01]



Source: Labour Force Survey. Note: France and EU28 break in series for 2013.

Lagging behind on human capital investment

The development of a knowledge-based economy at the global level has made skills one of the most important assets on which individuals and the economy at large can rely.

At the individual level, skills development has a positive impact on earnings and on the likelihood of being (re-) employed (OECD 2013). Moreover, investing in skills translates into social benefits insofar as individuals with high skills tend to report, compared with the low-skilled, better health and higher social engagement (OECD 2013). At the macro level, skills development fosters growth because it increases the competitiveness and labour productivity of workplaces and transforms technological advances into jobs (OECD 2013); moreover, it has proved to be the most effective way of reducing inequality by favouring a fairer redistribution of economic gains (Cingano 2014). In times of crisis and high unemployment, investing in human capital is crucial, as individuals have fewer opportunities and resources for training to enhance their skills.

Moreover, recent findings show that the level of key information-processing skills (literacy, numeracy and problem-solving in a rich technology environment) is strictly linked with the training received both within and outside the workplace (OECD 2013). Keeping skills updated and making the best use of them is also served through participation in lifelong learning.

In 2009, formal cooperation in education and training across the European member states was renewed and its strategic framework benchmarks included a target for the share of the adult population aged between 25 and 64 years old participating in education and training. The EU benchmark was set at 15% (ETUI and ETUC 2011).

Figure 2.7 shows that progress towards this benchmark between 2008 and 2013 was hardly rapid and that the 15% benchmark is unlikely to be achieved by 2020.

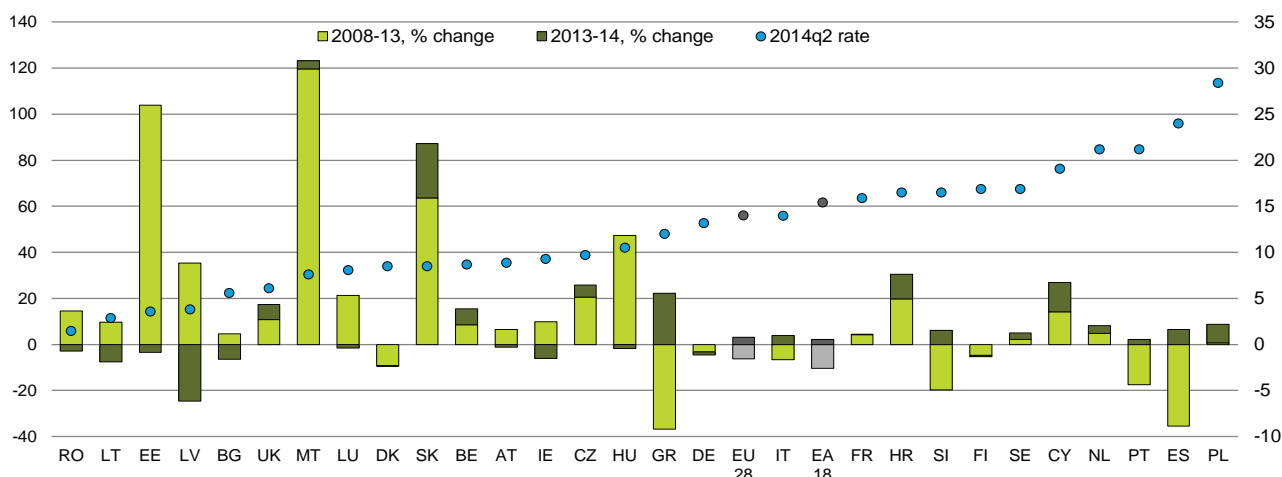
At the EU level, 10.5% of adults took part in education and training in the month prior to the survey. There are striking differences across countries: in 2013, in Bulgaria, only 1.7% of the adult population took part in education and training while for Denmark the share of participation was around 30%. The Nordic countries, France, and the Netherlands largely contribute to raising the EU average, as in more than half (17) of the EU countries the rate of participation

is below 10%. Countries also differ very considerably as regards the share of employed, unemployed and inactive persons participating in lifelong learning. Eurostat data on adult participation in education and training by employment status show that in Denmark, Sweden and Finland between 27 and 32% of the employed participated in education and training. By contrast, in 2013, in Bulgaria, Romania, Slovakia, Croatia, Hungary and Greece the share of employed who received training in the month preceding the survey represented less than 5% (Eurostat 2014).

Between 2008 and 2013, in spite of an increasing number of unemployed in need of training, the share of unemployed taking part in training decreased in some countries such as Malta (-3 percentage points), Greece (-2.2pp) and Italy (-1.3pp) (Eurostat 2014). Moreover, the latest OECD data on expenditure on education as a percentage of GDP (all levels, 2011) confirms important divergence across EU countries with, at the top, Denmark spending 7.9% and, at the bottom, Slovakia spending 4.4%, compared to an EU21 average of 5.8% (OECD 2014).

Job quality

Figure 2.8. Temporary employment (changes since 2008 and rate in 2014q2, age 15-64)



Source: Eurostat [lfsq_etgan2].

Temporary employment on the rise with high turnover and volatility

In 2008 (second quarter) 14.2% of employees in the EU28 worked on temporary contracts. Their share slightly declined after the onset of the crisis and in 2013 stood at 13.7%, corresponding to a net loss of nearly 1.7 million temporary jobs compared to 2008. This was driven mainly by huge job losses among temporary workers in countries hardest hit by the crisis and characterised by a high share of temporary employment (e.g. Spain, Portugal, Greece), for the majority of the EU member states (20 out of 28) recorded some increase in the number of temporary jobs between 2008 and 2013.

Over the last year (2013q2 – 2014q2), the incidence of temporary employment rose to 14% in the EU28. The number of temporary jobs increased in 16 and decreased in 12 EU countries. In consequence, the temporary employment rate was higher in 2014 compared to 2008 in 22 EU countries, despite the

slight overall decline at the EU28 level over the same period. Only in Denmark, Germany, Slovenia, Portugal and Spain is the incidence of temporary employment currently lower than in 2008, while in Finland it is the same.

Despite the changes, an enormous divergence in non-standard employment persists among the EU countries. While in Romania and the Baltic countries less than 5% of employees have contracts of limited duration, in the Netherlands, Portugal, Spain and Poland the level exceeds 20% (Poland has the highest share of temporary employment in the EU amounting to 28.4% in 2014q2).

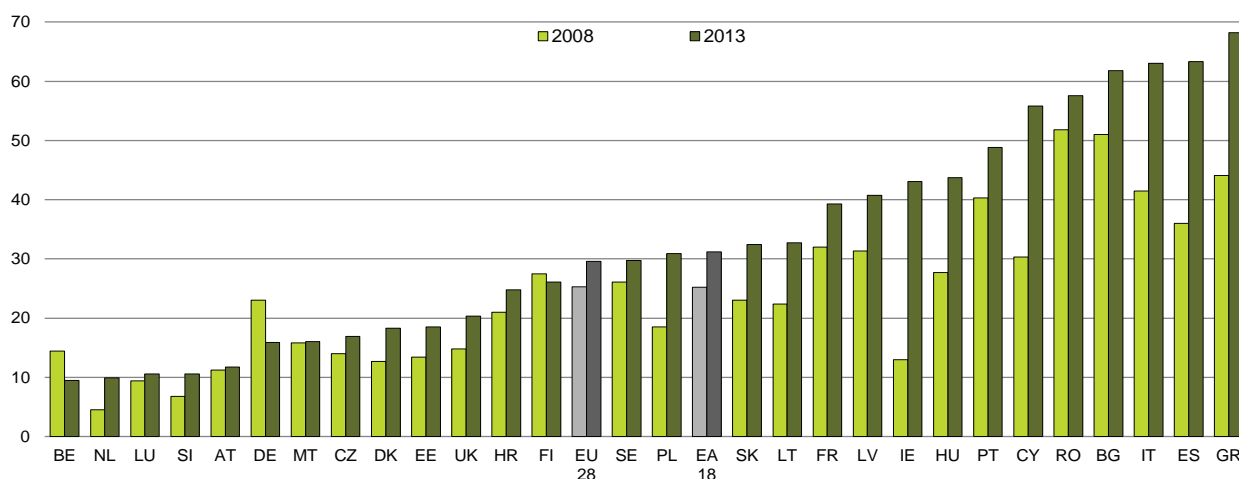
The growth of temporary jobs in the past year (2013q2 – 2014q2) has been unequally distributed across sectors of economic activity (not shown). It was concentrated in manufacturing, retail, accommodation and food, as well as in the public sector (i.e. public administration, education and health). By far the largest net creation of permanent jobs was noted in the health sector, followed by administration and support services, professional, scientific and technical activities, manufacturing, and also education.

It is sometimes argued (e.g. European Commission 2014b) that temporary jobs, together with part-time employment, play a positive role in contributing to job creation. At a first glance, the data on hiring rates may appear to support this

claim. For instance, in the EU27 (excluding France due to lack of data) in 2012, 58% of all hiring was through temporary contracts, while in Spain the proportion was nearly 90% (European Commission 2014c). However, over the same period in the EU27 (excl. France) permanent contracts remained at a stable level and temporary contracts shrunk by 3%, while in Spain permanent contracts shrunk by 3% (0.37 million jobs) and temporary employment shrunk by nearly 12% (a loss of 0.46 million jobs). Thus, if compared with changes in the volume of jobs, the hiring rates seem to reflect high turnover rates and high volatility of non-standard employment, rather than any genuine employment growth.

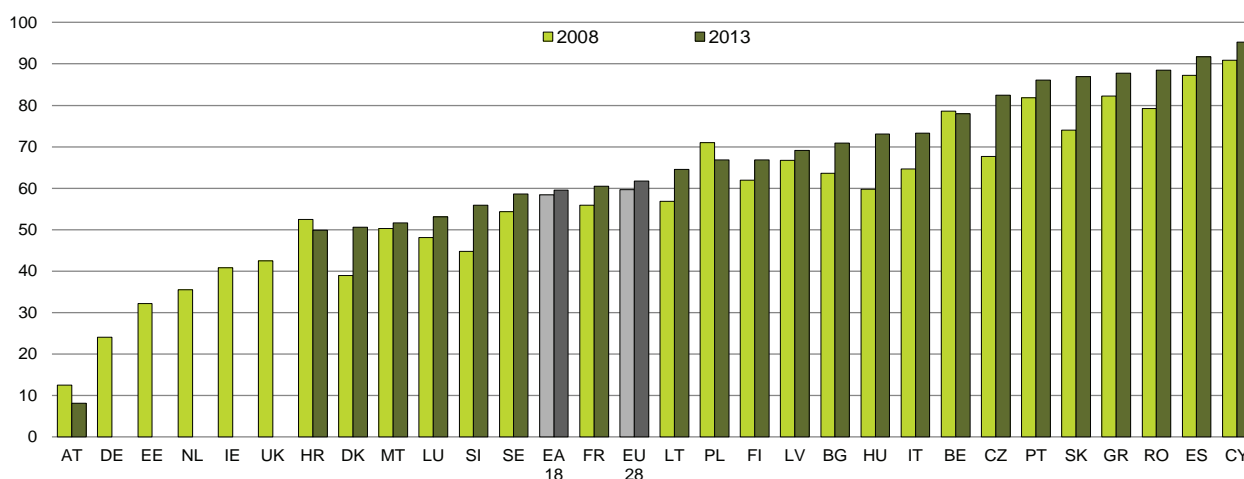
Job quality

Figure 2.9. Involuntary part-time employment as % of total part-time employment, 2008, 2013, age 15-64



Source: Eurostat [lfsa_eppgai]. Notes: UK data for 2009 (not 2008).

Figure 2.10. Involuntary temporary employment as % of total temporary employment, 2008, 2013, age 15-64



Source: Eurostat [lfsa_etgar]. Notes: EA18 data for 2012 (not 2013); DE, EE, NL, IE and UK missing for 2013.

Non-standard jobs increasingly involuntary

Forms of non-standard employment account for a substantial and growing part of the European workforce. While temporary and part-time work have been linked to lower job quality than standard

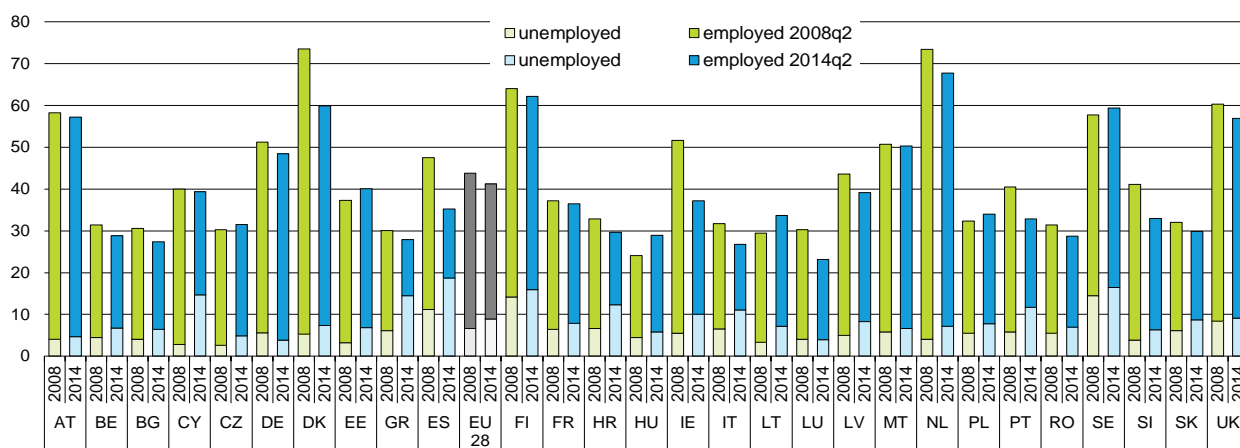
employment (e.g. Anxo *et al.* 2012; Boeri and van Ours 2008; Green and Mostafa 2012; Rubery 1998; Rubery *et al.* 1998), an additional worrying development is their increasingly involuntary character. In the EU28, 29.6% of part-time work was involuntary in 2013 (compared to 25.3% in 2008). The increases have been most pronounced in Ireland (by 30.1 pp.), Spain, Cyprus, Greece and Italy, while in three countries (Belgium, Germany and Finland) the incidence of involuntary part-time employment decreased between 2008 and 2013. In 2013, nearly

70% of part-time work in Greece and over 60% in Spain, Italy and Bulgaria was involuntary.

Even more worryingly, in 2013, 61.7% of workers in the EU28 remained in temporary employment because they were unable to find a permanent job. The incidence of involuntary fixed-term jobs increased in nearly all EU countries for which data for 2008 and 2013 are available. Over 90% of temporary work in Cyprus and Spain, and over 80% in Romania, Greece, Slovakia, Portugal and the Czech Republic, was involuntary in 2013.

Youth

Figure 2.11. Activity rates for young people aged 15-24 by employment and unemployment (unemployment ratio) – 2008q2 and 2014q2



Source: Eurostat, Labour Force Survey.

Out of the labour market but back to education?

The 2014 edition of *Benchmarking Working Europe* took stock of developments in youth unemployment (aged 15-24 years) rates across the EU in the first (2008-2010) and second (2010-2013) phases of the recession. It highlighted the divergent unemployment trends across the EU: some countries kept low levels (Germany, Austria, the Netherlands); others reduced their rates in the second phase of the recession (Baltic countries); yet others experienced a second increase between 2010-2013 (Spain, Greece, Italy and the UK).

Figure 2.11 provides an alternative yet complementary picture of the participation of young people in the labour market. In Europe there are different education systems and school-to-work transition arrangements (Pohl and Walther 2007; Eurofound 2014). These have important implications in terms of youth activity rates, for instance low activity rates among youth are often associated with a high participation in education and, as a result, the level of activity might inflate the unemployment

rate. For this reason, Figure 2.11 shows the share of young people employed and unemployed out of the whole population in percentage points (i.e. employment rate and the so-called unemployment ratio) for 2008 and 2014 (second quarter). The sum of the young employed and unemployed gives the overall activity rates.

The Figure shows substantial differences in the activity rates and in the share of young people employed and unemployed across the board and over the years.

Data for 2008q2 and 2014q2 highlight a substantial increase in the unemployment ratio of some countries (Spain, Cyprus, Croatia, Italy); but also important drops in the activity rate in others (Denmark, Spain, Slovenia, Ireland).

Some of the differences in activity and employment rates are explained by a strong participation in full-time education (low activity rates) or, for instance, by a large share of training in the workplace (e.g. Austria) or a combination of work and education (Nordic countries) (i.e. high rates of activity).

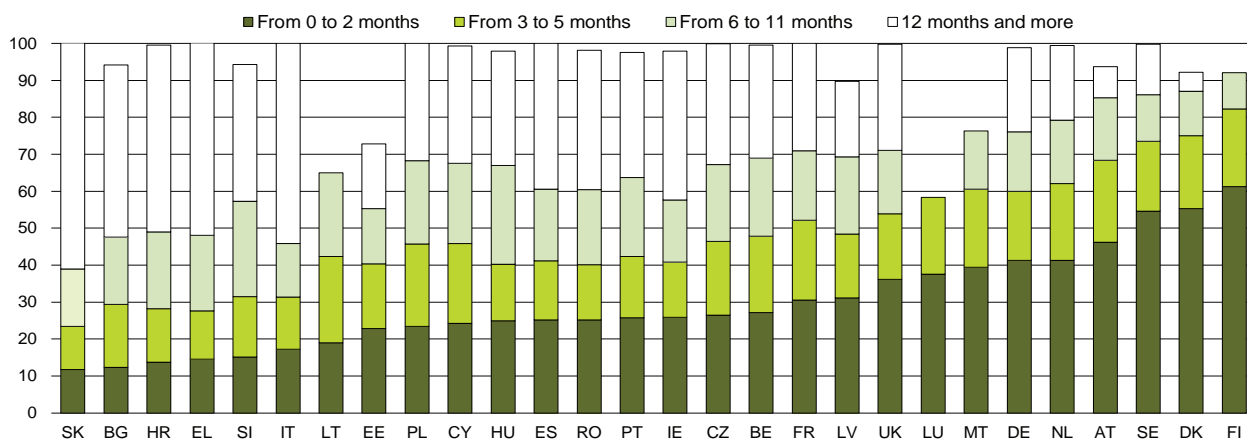
Between 2008 and 2013, Eurostat data show that those countries which had the most important drops in activity rates – such as Denmark, Spain, Ireland, Slovenia and Portugal – also had the highest increase (between 8.6 and 14.9 pp) in young people attending formal and non-formal education (not shown).

This suggests that one effect of the crisis has been to push more young people into formal and non-formal education. There are, however, exceptions, like Hungary which had the highest increase in activity rates (4.8 pp) (2008q2-2014q2), even while its ratio of young people in education decreased by 3.6 pp between 2008 and 2013.

While these data tell little about the transitions from one labour market position to another, they suggest that it is crucial to understand the directions in which young people move in order to design the right policies. As with incentives to work, policies promoting training and education can help young unemployed people invest in personal skills formation, thus contributing to the overall increase of skills in the workforce and preventing skills deterioration. Policy can also be designed to favour a better combination of training/education and work, so as to provide a first working experience for young people, which is a good predictor of subsequent successful labour market integration (Eurofound 2014).

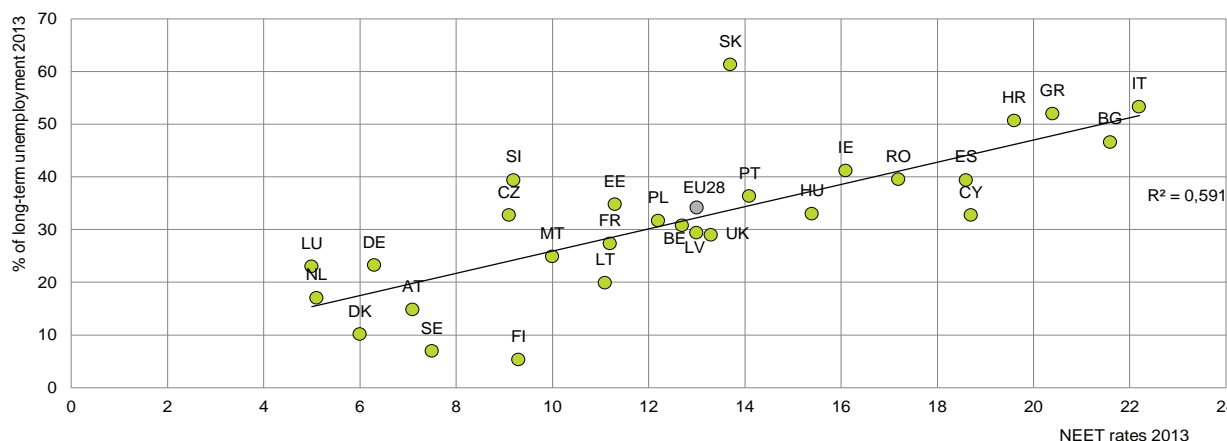
Youth

Figure 2.12. Long-term unemployment by duration young people 15-24 - 2013



Source: LFS. Notes: data do not sum up to 100 for some countries because of missing data. The category 12 months and more also include 'no response'; the category from 0 to 2 also include the 'not started' category.

Figure 2.13. Correlation between the percentage of long-term unemployment as a percentage of youth unemployment and the share of NEETs, 2013



Source: Eurostat, Education and Training and Labour Force Survey.

Unemployed for how long?

Prolonged crisis and lack of jobs have also reduced exit rates from unemployment and increased long-term unemployment for young people (ETUI and ETUC 2014). In 2013, in the EU28, more than 30% of young unemployed were out of the labour market for 12 months or more (Figure 2.13).

Figure 2.11 shows that Finland and Sweden have high activity rates but also high unemployment ratios (equal, for instance, to that of Spain). Figure 2.12 explains that, in these countries, young people do not stay long unemployed as more than half of them leave unemployment within less than three months.

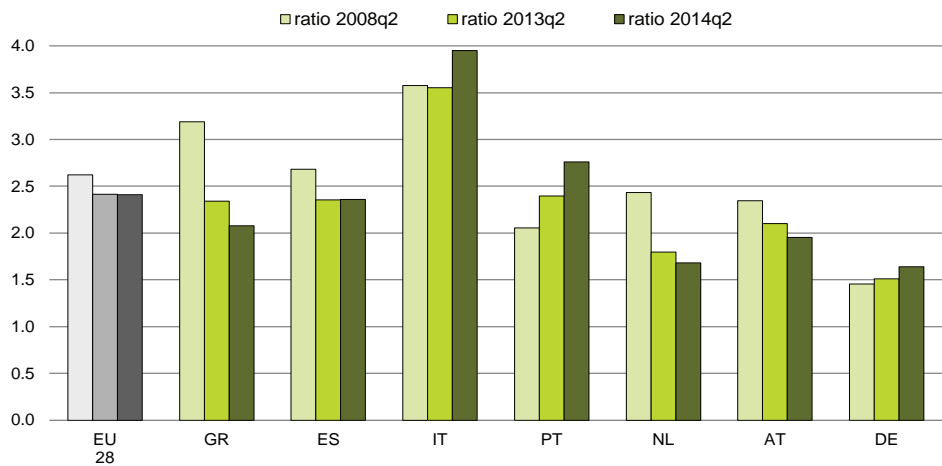
Identifying the type of unemployment and young people at risk of long-term unemployment is at the core of active labour market policies such as the Youth Guarantee (European Commission 2012). While recognising this risk at an early

stage remains crucial, a high reliance on limited socio-economic background variables and statistical profiling methods might overlook the multiple causes behind unemployment.

Figure 2.13 shows that countries with high rates of young people Not in Employment, Education or Training (NEET) also face high shares of long-term unemployment among youth, confirming the need to develop a multi-pronged approach to youth unemployment and inactivity.

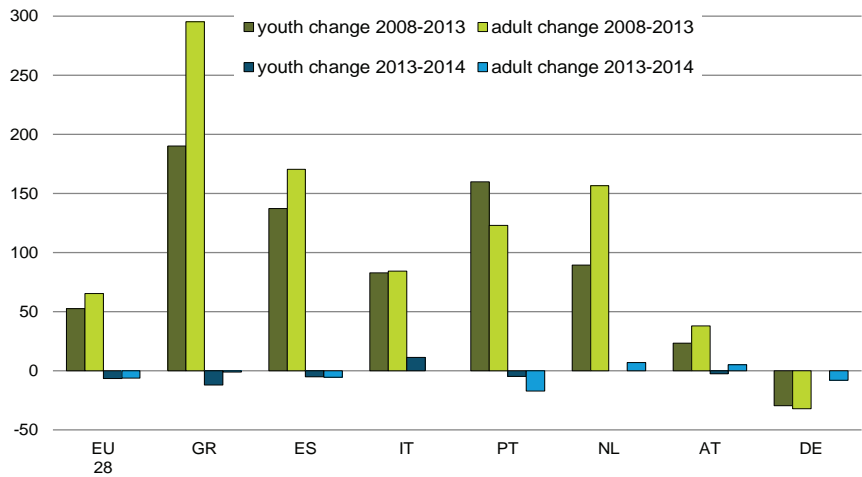
Youth

Figure 2.14. Youth and adult employment ratio, 2008q2 – 2013q2 – 2014q2



Source: Eurostat, Labour Force Survey.

Figure 2.15. Change in youth and adult unemployment, 2008q2 – 2013q2 – 2014q2



Source: Eurostat, Labour Force Survey. Note: a missing bar means 0 % change.

Comparing youths and adults

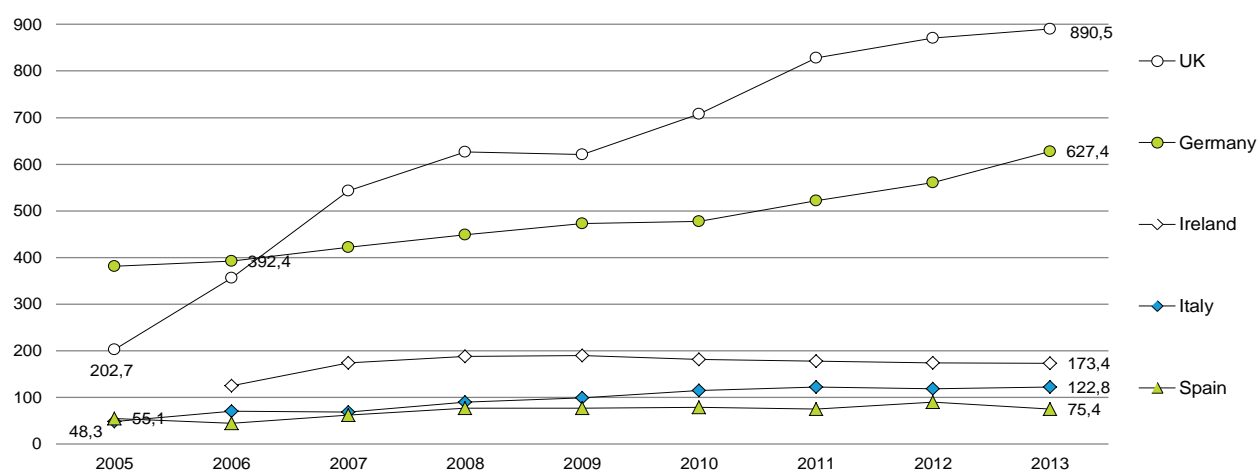
One way of comparing unemployment rates among young people (aged 15-24) and adults (aged 25-64) is to look at changes over time in the youth/adult unemployment ratio (Figure 2.14) as well as at the underlying changes in unemployment rates (Figure 2.15). We can see

from these Figures that young people are on average 2.6 times more likely to be unemployed than are adults (i.e. youth/adult unemployment ratio higher than 1). More surprisingly, however, adults experienced a relatively higher increase in unemployment between 2008(q2) and 2013(q2), with the notable exception of Germany where unemployment decreased among both youth and adults. In other words, adults were hit by the crisis at least as much as were young people, but the latter started out from unemployment levels that were already double

those for adults and this ratio persisted during the crisis. During the last year (2013/2014q2) no clear-cut trends were apparent. In some countries (the Netherlands and Austria) adult unemployment is still rising while in others severely affected by the crisis there has recently been some lowering of adult unemployment rates. Youth unemployment, meanwhile, appears to be either stable or falling slightly in all selected countries and in the EU28 on average, with the single exception of Italy where the youth unemployment rate continues to rise.

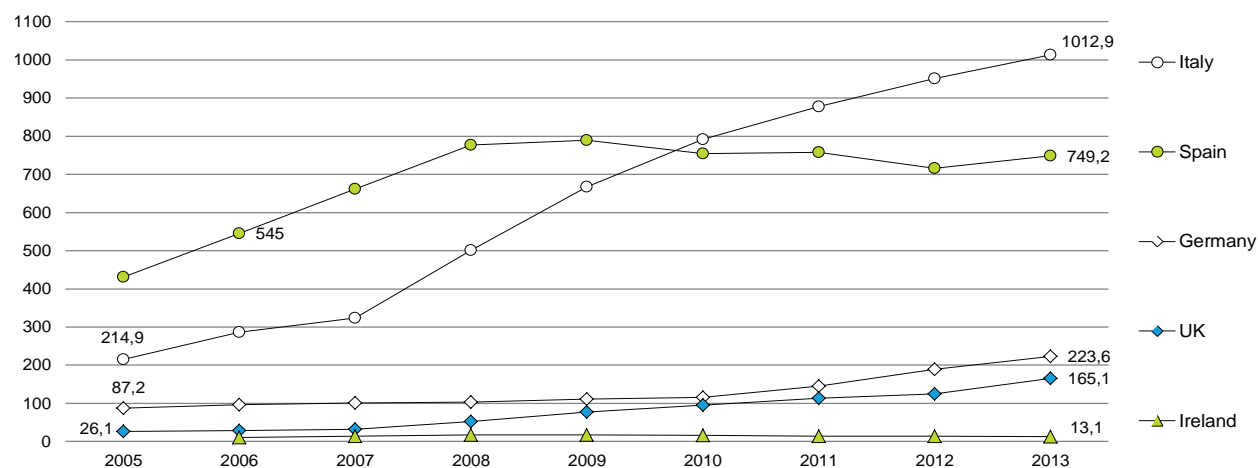
Intra-EU labour mobility

Figure 2.16. EU8 population in major EU15 receiving countries, 2005–2013 ('000s; stocks)



Source: Eurostat 2014. Note: MT and CY included in EU8 but small numbers.

Figure 2.17. EU2 population in receiving countries, 2005–2013 ('000; stocks)



Source: Eurostat, 2014. Note: 2005 and 2006 figures from original graphs - data no longer available in latest Eurostat retrievals.

Floodgates and tides

Intra-EU labour mobility has been hugely affected by the crisis with impacts on both sending and receiving country labour markets. Figure 2.16 shows an initial marked increase of the EU8 (2004 CEE accession countries) migrant population in the two EU15 receiving countries (UK and Ireland)

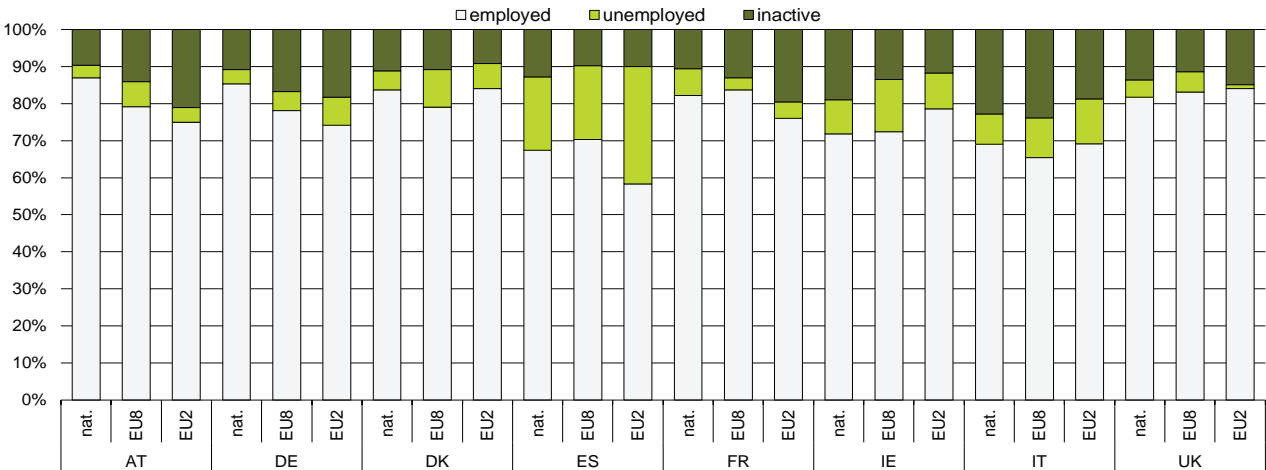
that opened up their labour market from the outset. The negative impact of the crisis, however, is visible particularly in Ireland which was especially hard hit. In the UK, EU8 population stocks flattened out between 2008 and 2009 but continued to go up again from 2009 onwards. Germany made use of transitional measures up until May 2011 and shows a steady but moderate growth in its EU8 population.

There was also a growing intensity of population flows from Bulgaria and Romania (EU2) with Spain and particularly Italy being the most popular

destinations (Figure 2.17). Interestingly Germany and the UK play a secondary role in terms of EU2 migration even if immigration flows are growing. The impact of the crisis on the Italian labour market has not put a hold on the steeply increasing EU2 migrant population stocks. On the other hand, the initial steep increase in EU2 population stocks in Spain flattened out and decreased after 2009 with very recent slight recovery. The large stocks of EU2 population in a number of EU15 countries is also due to the enormous economic (e.g. wages) and social differences.

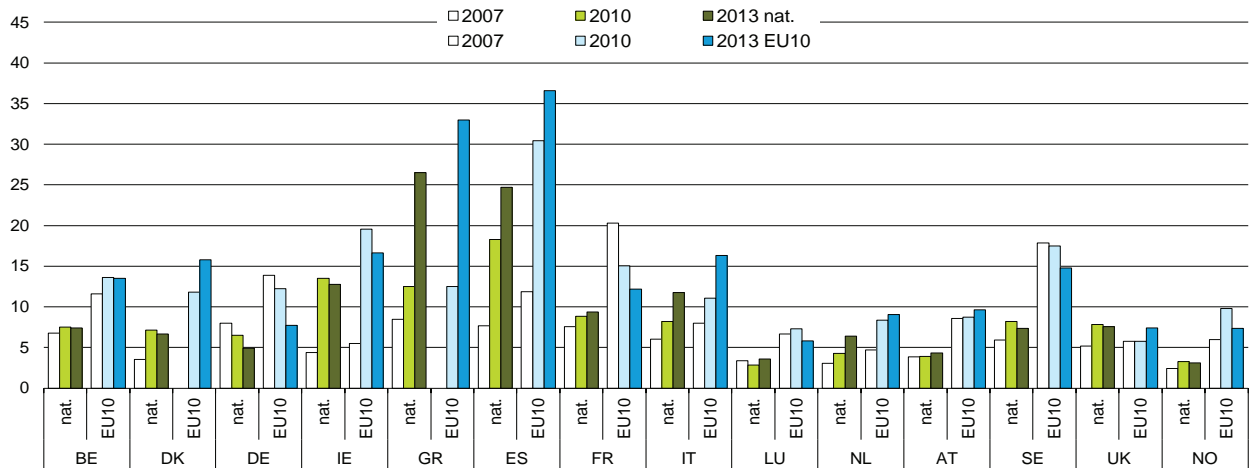
Intra-EU labour mobility

Figure 2.18. Employment status of nationals, EU8 and EU2 for the age group 25-54, 2013 (%)



Source: Eurostat special data extraction, 2014. Note: UK, EU2 unemployment is based on low case numbers

Figure 2.19. Development of unemployment rates of nationals and of EU10 citizens: 2007, 2010, 2013 (in %)



Source: Eurostat special data extraction (2014).

EU10 migrants in a more vulnerable situation

Figure 2.18 shows the employment status of nationals, EU8 and EU2 workers in the main EU15 destination countries for 2013. Employment rates of EU8 and EU2 workers tend to be comparable with those

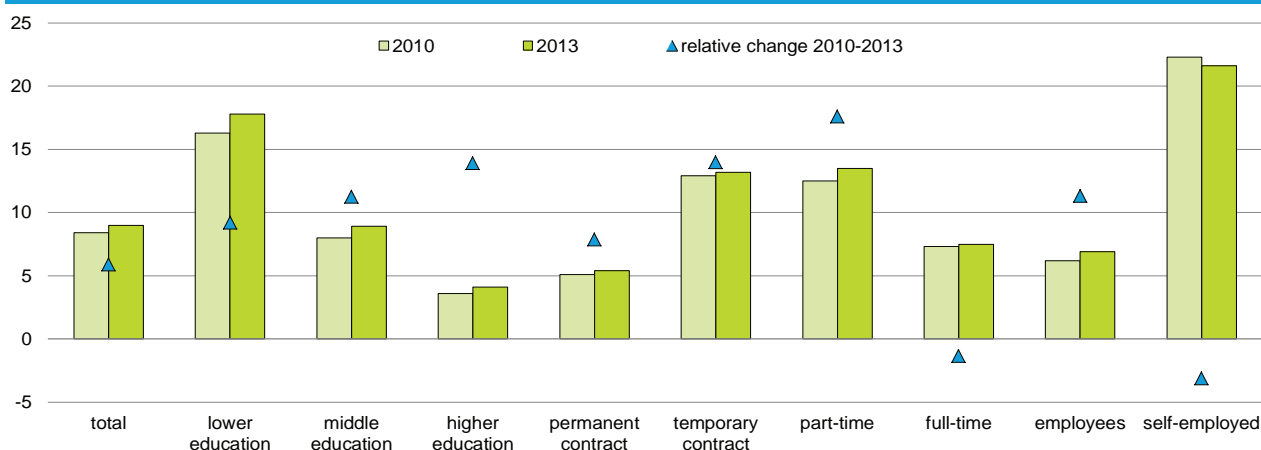
of nationals in most receiving countries, with the exceptions of Germany and Austria and/or EU2 workers in Spain among whom rates are lower. Figure 2.19 shows that unemployment, which tends to be higher among the EU10 (EU8+EU2) migrant population in almost all EU15 countries, increased disproportionately for EU10 migrant workers as compared to the national population during the crisis particularly in Ireland, Greece and Spain. The greater vulnerability of EU10 workers in the crisis reflects their higher concentration in sectors disproportionately

affected by the recession, as was the case of construction.

The fact that EU10 unemployment rates follow the national labour market trend (often with an amplification effect) and that employment rates remain high and comparable with those of nationals suggests that recent EU cross-border labour mobility – dominated by relatively young migrants – is employment- and not benefit-focused. The greater affectedness of EU10 migrants by the crisis is a sign of a higher vulnerability rather than of ‘welfare tourism’.

Social protection and inequality

Figure 2.20. In-work risk of poverty by employment contract, working-time arrangement and qualifications level in the EU28, 2010-2013



Source: own calculations using Eurostat data.

In-work risk of poverty high and rising

The in-work risk of poverty measures the incidence of what is commonly called ‘working poor’. The measure is defined as the share of population in employment whose household income falls below 60 percent of the median average household income. This indicator combines individual activity characteristics (income from labour) with a measure of income that is calculated at the household level (the poverty line). For this reason, interpretation of its evolution over time and across countries cannot point unequivocally to the causes of this evolution, which could be developments in the labour market, structure of households, social and fiscal policies or some combination of these factors (Pontieux 2010: 28). To counter this difficulty, the data presented here refer to the EU28 average for different categories of employment contract. The implicit assumption is that across the EU and over the course of a relatively short period of six years, household structures did not change substantially and that any changes cancelled each other out on average, so that the question is whether

we can observe any indications of shifts in the in-work poverty rate that may suggest labour market, social and fiscal policy changes.

Figure 2.20 shows that the highest risk of in-work poverty in both 2010 and 2013 was faced by persons with only lower (that is, pre-primary, primary and lower secondary) education, temporarily employed, part-time employed and self-employed. While the in-work risk of poverty among self-employed people fell slightly, this is the category among all those considered where this risk is highest; among employees the risk rose by 11.3 per cent.

People with low educational attainment faced the highest in-work risk of poverty across levels of educational attainment both at the beginning of the crisis in 2010 and still in 2013. Other things being equal, higher educational attainment has thus been associated with a lower risk of in-work poverty, though this risk did increase across groups of educational attainment between 2010 and 2013. However, the risk of in-work poverty for those with highest qualifications rose by relatively more than in all other qualification-level groups.

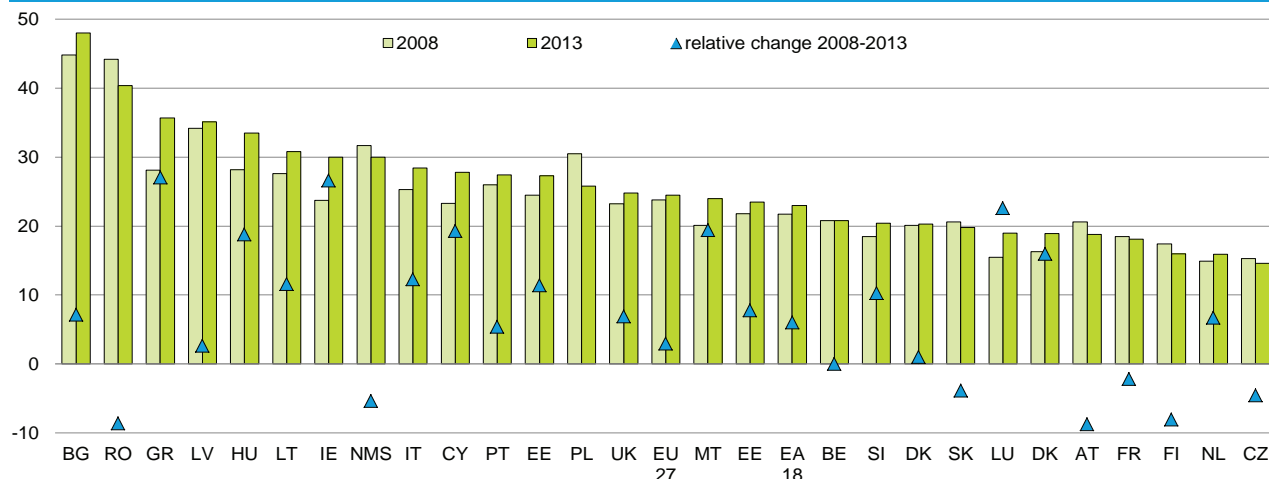
Among the different types of employment contract and working-time arrangements, the share of ‘employed at-risk-of-poverty’ increased relatively more among those employed in temporary jobs and those working part-time. In 2013 the

share of those at risk of poverty among employees on temporary contract was more than twice as high as among those with permanent contracts. The relative increase in the poverty rate between 2010 and 2013 was much higher (14 percent) among the temporarily employed than among the permanently employed (7.8 percent).

In other words, and assuming no substantial changes in the structure of households, the strength of association between work and its role for helping households escape poverty weakened between 2010 and 2013. While the difference in the risk of in-work poverty across groups of population with different levels of qualification is still substantial, this last observation constitutes a development giving cause for concern. Investment in skills has been central to the EU’s growth strategies for inclusive growth, and for good reason given the substantial difference in in-work risk of poverty between those with higher and those with lower educational qualifications. However, the consequences of the crisis seem to have been associated with a lower effectiveness of higher skills in shielding people from the in-work risk of poverty, most likely because of developments on the labour market.

Social protection and inequality

Figure 2.21. People at risk of poverty or social exclusion, EU27 member states, 2008-2013 (% of population)



Source: own calculations using Eurostat data.

Rising risk of poverty

As Figure 2.21 illustrates, in 2013, the share of population at risk of poverty or social exclusion, that is, the share of the EU27 population either with income below 60 percent of the median average household income or facing severe material deprivation or living in a low-work-intensity household, stood at 24.5%, having risen by 0.7 percentage points (p.p.) or 2.9% in relative terms, since 2008. In the euro area, the share was 23% in 2013, having increased by 1.3 p.p. or 6% since 2008. This indicator is the one used in the context of the Europe 2020 strategy and does not, for that reason, focus on money-defined poverty alone.

Bulgaria, Romania, Greece, Latvia, Hungary, Lithuania, and Ireland were the member states with the highest shares of population at risk of poverty or social exclusion in 2013 (2012 for Ireland), all ranging from 30 to almost 50. Greece, Hungary and Ireland saw an increase in the share of their population at risk of poverty or social exclusion between 2010 and 2013 (2012 for Ireland). At the other end of the distribution the Czech Republic, the Netherlands and Finland had the lowest at-risk-of-poverty-rates in

2013, ranging between 14.6% (the Czech Republic) and 16% (Finland). By far the largest increase between 2008 and 2013 in the share of population at risk of poverty or social exclusion was observed in Greece (7.6 p.p.), followed by Ireland (6.3 p.p.) and Hungary (5.3 p.p.), while Romania, the member state with the second highest poverty rate in 2013, registered the second greatest reduction in its rate, amounting to 3.8 p.p. (8.6% in relative terms).

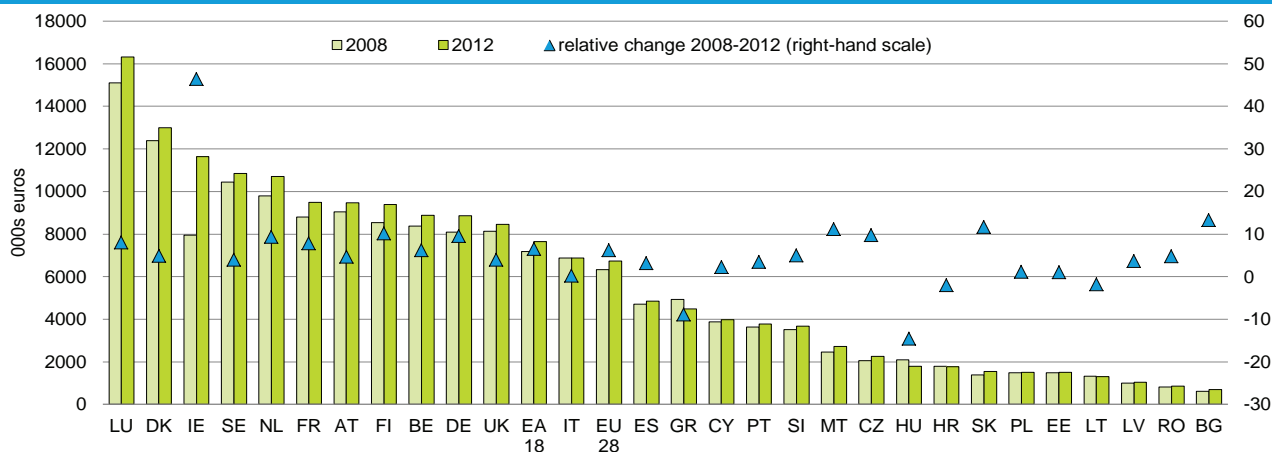
However, given the devastating effects of the crisis on several member states' output (see Chapter 1) and, thereby, on the level of income that defines the poverty threshold, it would be useful, in order to gain a more accurate sense of how the risk of poverty has evolved, to consider an indicator that uses 2008 incomes to define the poverty threshold. If we consider the risk-of-poverty indicator calculated on what would have been the median average household income in 2008, before the crisis started, the picture becomes more dramatic. In the EU27 the share of population at risk of poverty had risen in 2012 by an average of 10.8% (1.8 p.p.) and in the euro area (EA17) by 18% (2.9 p.p.) (Eurostat 2015). On the basis of the same indicator, the ranking of countries whose population faced the highest risks changes somewhat. Thus, in 2013, above-EU27-average risk was faced by populations in Greece, the Baltics, Ireland, Italy, Cyprus, Portugal, Spain, the

UK, Romania and Luxembourg. Greece, Ireland, Cyprus, Italy, Slovenia, Portugal, Lithuania, Latvia and Hungary, but also Luxembourg, saw the greatest relative increases in risk of (monetary) poverty according to this 'anchored' indicator. Most of these countries had found themselves in the eye of the crisis storm since 2008.

These figures suggest, therefore, that the crisis has had proportionately stronger effects on poverty in most of the member states that were hardest-hit by it.

Social protection and inequality

Figure 2.22. Public social expenditure per inhabitant (at constant 2005 prices) 2008, 2012, EU



Source: own calculations using Eurostat data.

Social policy spending per inhabitant rising unequally

Figure 2.22 shows the evolution of public social spending per inhabitant expressed in Purchasing Power Standards (PPS) for the EU28 member states in 2008 and 2012. On average, in both the EU28 and the euro area this spending increased, by 6.2 and 6.5% respectively. Behind these averages, there was, however, a wide variation. Public social expenditure per inhabitant rose everywhere except in Hungary, Greece, Croatia and Lithuania, where it fell. These are all member states with well below average public social spending per capita as well as countries that have been particularly hard hit by the crisis since 2008. More generally, in most member states that were most ill-affected by the crisis, the increase in public social spending per capita was below the EU average, with the exception of Ireland where the largest increase – of 46% – took place.

However, these figures seem to suggest that there has been a divergence in social protection provision among

members where there was in fact the most need for it and those where economic conditions did not deteriorate as much. In Greece, for example, not only was public social expenditure per inhabitant relatively low in 2008 and still in 2012 but it also registered the second highest drop in the EU28, in spite of the massive contraction in Greek output and the increase in unemployment. Similarly in Spain, public social expenditure per capita rose by less than average even though unemployment in Spain had reached 25% in 2014 after soaring way above the average increase in the EU during the 2008 to 2012 period.

Conclusions

EU labour markets on a wrong track for sustainable recovery and quality job creation

An overview of key developments in labour market developments and policies more than six years after the outbreak of global economic and financial crisis demonstrates that a path to sustainable job creation and recovery is far from having been identified. Labour markets in the EU remain severely affected by the economic downturn and unemployment has on average risen persistently since 2008 driven by lower than potential output growth. The projected output growth of 1.5% for 2015 provides no reason for optimism, the downside risks to this forecast notwithstanding. If labour productivity per worker were to increase at 1.2% and working age (15-64) population at 0.5%, that is, their average values in the ten years prior to the crisis, there would not be enough employment created to even begin reversing the losses of the last few years. Headline employment and unemployment rates have varied substantially across member states. Our evidence shows clearly that protective labour market policies and institutions and their reforms since the beginning of the crisis cannot explain this variation and cannot, therefore, be at the heart of the solution. The growth in employment rates that has been observed in the majority of member states reflects, for the most part, a process of ongoing work redistribution rather than any increase in the amount of available work (as measured by total hours worked).

In contrast to the weak recovery in activity rates in the recent period, the quality of jobs continues to deteriorate. Non-standard employment, largely involuntary, is on the rise, with negative consequences for labour market attachment, income, and career development, but

also for productivity in the long run. The high volatility of temporary jobs points to an increasing risk of segmentation of the labour force, with low transition rates into permanent jobs and weak contribution to the net growth in employment. The findings point to the urgent need to redirect European-level policies and strategies by putting job quality firmly back on the EU policy agenda and at the same time ensuring its high profile and application. The objective for the future and for the revised Europe 2020 Strategy is to redefine employment recommendations and targets so that not only the number of persons in employment but also the quality of newly created jobs is monitored and assessed.

The risk of in-work poverty has risen since 2010 when the shift to austerity policies took place in Europe. Those with the lowest educational qualifications and the self-employed are the two groups of employed people with the highest risk. Those employed on temporary and part-time contracts saw the highest relative increases in in-work poverty risk between 2010 and 2013, suggesting a strong link between precarious work and poverty. Equally worrying, however, is the relative rise – by 14% – of the in-work poverty risk among those with the highest educational qualifications, suggesting that the returns on investment in education as a strategy for avoiding poverty may be diminishing due to labour market developments during the Great Recession. Moreover, public social spending per capita does not seem to have developed in keeping with deteriorating social and labour market conditions in Europe.

In the last years youth unemployment has received significant political attention and several policy measures, such as the Youth Guarantee, have been implemented at the European and national levels. Data show that activity rates for youth in several European countries decreased between 2008 and 2014, and for some member states this trend has been accompanied by higher levels of participation in education. While investment in education and training is central for labour market measures targeting young people, data on lifelong learning show that in very few countries

is investment in continuing education actually valued and rewarded. In fact, since 2008, little improvement has been achieved in reaching the 15% target set at the European level for adult population participating in lifelong learning.

The data also reveal important differences in youth unemployment duration across Europe. Moreover, a rough correlation shows that countries with a high level of long-term youth unemployment suffer also from high levels of NEETs. The high levels of medium- to long-term unemployment and NEETs call for preventative policies but for also appropriate measures to reach out to young people who are already experiencing long spells of inactivity. Moreover, data for some selected countries show that the youth/adult unemployment ratio is still high but that its increase is due not only to an increase in youth unemployment but also to the vulnerability of adults on the labour market. Because of the heterogeneity of unemployed and inactive young people as well as the protracted nature of their inactivity, it seems highly unlikely that short-term and/or piecemeal active labour market policy measures could ever succeed in reducing unemployment. It is essential therefore that the focus be placed on the long-term sustainability and appropriate design of labour market policies.

Intra-EU labour mobility has been subject to a series of shocks in the last seven years in both economic and regulatory terms. Transitional restrictions and their consecutive lifting for EU10 citizens on the one hand and the effects of the crisis on both sending and receiving countries on the other have created a dynamic and fast changing environment within which labour mobility took place. Migration flows from east to west kept on growing, although the effects of the crisis were more severe on the EU10 population than on nationals. As we have shown, higher unemployment rates for EU10 population are in large measure due to their high concentration in economic sectors most severely hit by the crisis.

More of the same: wages and collective bargaining still under pressure

Introduction

Even as the danger of deflation looms large, the strategy of internal devaluation continues to dominate EU crisis management. In the field of wages and collective bargaining this strategy entails constant pressure on wages and the relentless pursuit of further ‘structural reforms’ aimed primarily at increasing the downward flexibility of wages. This strategy is applied, what is more, not to the ‘crisis countries’ alone but also to the rest of Europe in the context of the country-specific recommendations adopted in the framework of the European Semester (Schulten and Müller 2015).

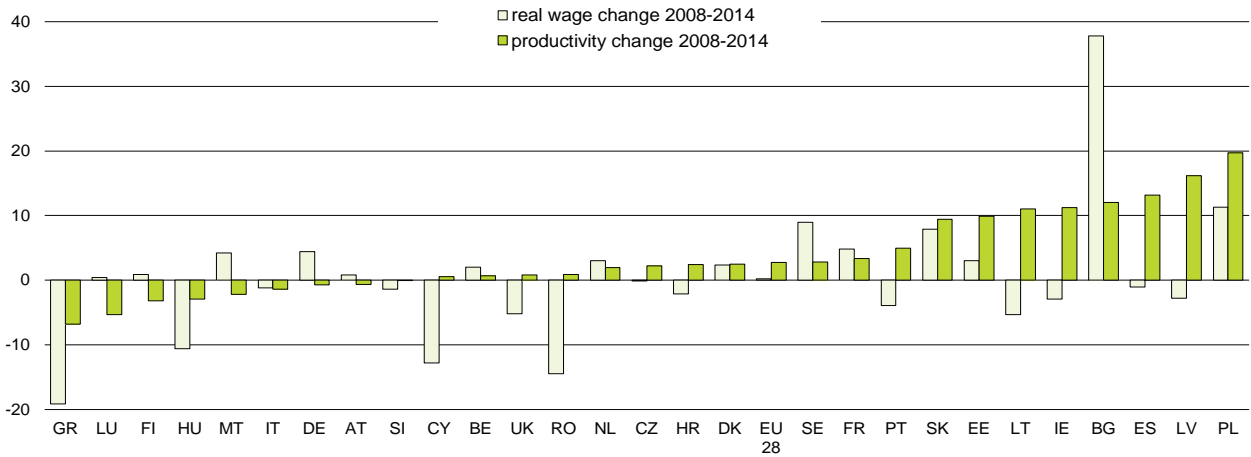
This chapter sets out to achieve two aims, the first being to critically review some of the arguments used by advocates of the current form of crisis management to justify the strategy of internal devaluation; the key focus here will be on the relationship between wages and productivity and the debate about the relationship between public and private sector wage developments. The second aim is to illustrate and describe the implications of the internal devaluation approach in the field of wages and collective bargaining. One key issue dealt with in this connection is recent developments in minimum wages in the wake of the explicit call by new European Commission president Jean-Claude Juncker, in an address to the EU Parliament in July 2014, for a minimum wage in all EU countries. A second key issue will be the implications for national collective bargaining systems in terms of changes in bargaining levels, bargaining coverage and union density. The chapter concludes with an analysis of different forms of action – such as strikes and litigation – used by trade unions to counter the attacks on basic trade union rights.

Topics

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> Development of collective bargaining institutions	48
> Collective organisation and action of workers	51
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Wage developments

Figure 3.1. Development of real wages and productivity 2008-2014



Source: own calculations based on AMECO.

Real wage developments lagging behind productivity growth

One central argument used by European and national policy-makers to justify the strategy of internal devaluation was that nominal wages must remain in line with productivity as a means of reducing unit labour costs, a condition that was in turn seen as an essential prerequisite for the improvement of cost competitiveness (ETUI and ETUC 2014: 82).

At first sight, therefore, the European Commission's most recent Annual Growth Survey contains good news for trade unions since the Commission here acknowledges that 'a high level of employment requires real wages to move in line with productivity developments' (European Commission 2014a: 12). It thus seems that the Commission has finally acknowledged the important role of wages and aggregate demand for growth and employment; at the same time, however, it calls for a 'certain degree of flexibility for differentiated wage increases

across sectors and within sectors' (European Commission 2014a: 12). This means that sectoral or even firm-level productivity should, rather than national productivity, be the benchmark for real wage developments, and this is a recipe for further widening wage inequalities between workers in high-productivity and those in low-productivity sectors. Accordingly, in view of the negative effects of rising wage inequalities for growth and employment – which have been widely documented in most recent publications by the OECD and the ILO (Cingano 2014; ILO 2015) – differentiated wage increases counteract, to a certain extent, the Commission's original purpose of creating 'a high level of employment'.

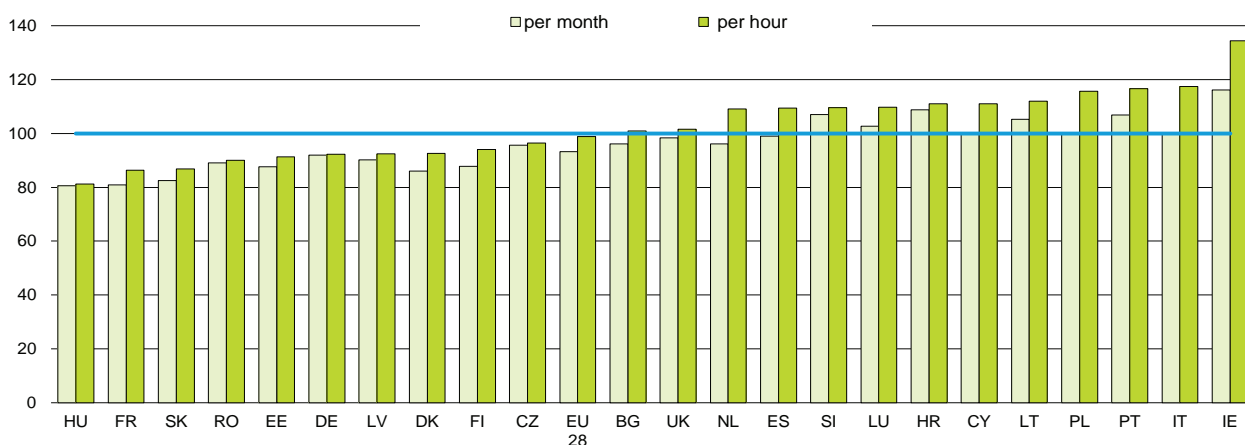
DG ECFIN's most recent Economic Forecast contains similarly mixed messages (European Commission 2015). As Ronald Janssen (2015) has pointed out, on the one hand the Commission is concerned that low inflation would further depress nominal wages leading eventually to chronic economic stagnation and deflation while, on the other hand, it continues to press for further structural reforms via an agenda of decentralising collective bargaining arrangements that counteracts attempts to ensure that real wages stay in line with productivity through, for instance, more coordinated wage bargaining. Despite the concern about the recent deflationary tendencies, the Commission insists that 'decentralised

wage bargaining and more flexible wage arrangements ... will also support job creation' (European Commission 2015: 5). The Annual Growth Survey moves in the same direction by stating that 'some Member States still need to complete the correction of pre-crisis trends, with wages outpacing productivity gains' (European Commission 2014a: 12).

All these recommendations are essentially based on the assumption that growth in real wages outpaced productivity. Yet the ILO's most recent Global Wage Report shows that between 1999 and 2013 the opposite was actually the case with productivity growth outstripping real wage growth in developed countries (ILO 2015: 8-12) – accompanied by all the familiar potential side-effects such as decreasing household incomes and consumption leading in turn to shrinking aggregate demand and economic growth. Figure 3.1, by comparing changes in real wages and productivity in the crisis period 2008-2014, confirms this finding. It shows that since the beginning of the crisis in 2008, real wage growth has remained behind productivity growth in the majority of EU countries (18 out of 28). Since in the eurozone as a whole internal demand is more important than exports for generating economic growth and employment (Feigl and Zuckerstätter 2012: 8), it is no surprise that the European economy is not recovering but is instead moving ever closer to depression.

Wage developments

Figure 3.2. Public sector wages as % of private sector wages, 2012



Source: Müller and Schulten (2015) based on Eurostat Labour Force Survey 2012. Note: Private Sector: NACE Code B-N (Business economy). Public Sector: NACE Code O-S (Public administration and defence; compulsory social security; education; human health and social work activities; arts, entertainment and recreation, other services).

Is there a public-private sector wage gap?

One of the arguments most frequently used by European and national policy-makers to justify public sector pay cuts and freezes in the context of the current EU crisis management refers to the need to reduce public sector pay in order to improve private sector competitiveness. This argument rests on the assumption that 'excessive' wage developments in the (sheltered) public sector will drive up wages in the (exposed) private sector, a state of affairs that will in turn undermine the cost competitiveness of the export-oriented industry (Müller and Schulten 2015).

According to the literature, there are essentially three different mechanisms whereby 'excessive' public sector wage developments may affect private sector wages and competitiveness. The first mechanism is seen to act more directly through established practices of public sector wage leadership. According to this logic, public sector wage growth may have a 'signalling effect', exerting pressure on private sector negotiators to follow developments in the public

sector (Afonso and Gomes 2008: 27). The second mechanism is related to the labour market, because 'unjustified' public sector wage premiums may lead to a persistently sub-optimal supply of skilled labour to the private sector, thereby pushing up the equilibrium wage and hence negatively affecting national competitiveness and growth potentials (European Commission 2014b: 3). The third channel is related to a price effect, because 'excessive' wage developments in the public sector drive up aggregate national inflation with negative consequences for relative price competitiveness and export performance (Johnston *et al.* 2013: 17).

All three arguments – and the resulting recommendation to cut or freeze public sector pay – are based on the assertion that there actually is an 'unjustified' public sector wage premium, i.e. a wage premium that cannot be explained by individual or occupational characteristics such as higher educational attainment, skills levels and age/seniority of public sector workers.

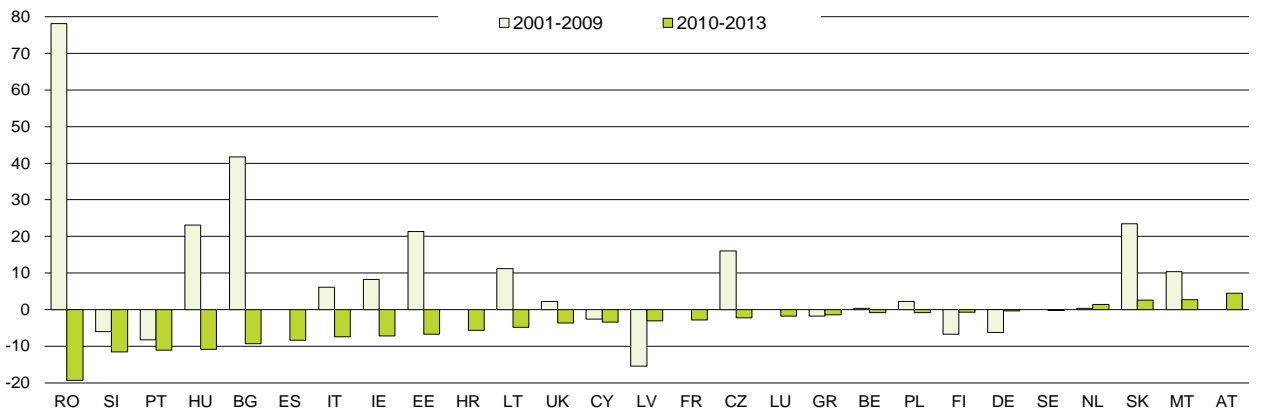
The findings of comparative studies analysing the so-called 'public-private sector pay gap', which also control for individual and occupational characteristics, are rather diverse and do not support the widespread view that there *generally* exists an unjustified public sector pay premium (see Müller and Schulten 2015 for a more detailed discussion).

Figure 3.2, which compares average wage levels in the public and private sectors confirms the diverse results of previous studies (Giordano *et al.* 2011; Grimshaw *et al.* 2012; De Castro *et al.* 2013; European Commission 2014b). It shows that according to data from Eurostat's Labour Cost Survey – even without taking into account individual and occupational characteristics – average wage levels in the public sector were lower than in the private sector in 13 EU countries. In only 10 EU countries for which Eurostat data was available was the opposite the case. The Figure shows also that both groups cover countries from almost all European regions – with the exception of those southern European countries for which data is available, all of which fall into the first group of countries with a higher average wage level in the public sector.

The public-private sector pay gap is usually diminished when monthly rather than hourly wages are considered. This might reflect the fact that in the private sector employees often work more overtime and receive more extra payments and bonuses. When considering monthly wages, average wage levels in the public sector are higher than in the private sector only in a minority of eight out of 23 EU countries.

Wage developments

Figure 3.3. Differences in public and private sector wage growth (in percentage points)



Source: Müller and Schulten (2015) based on Eurostat. Note: Private Sector: NACE Code B-N (Business economy). Public Sector: NACE Code O-S (Public administration and defence; compulsory social security; education; human health and social work activities; arts, entertainment and recreation, other services).

Mixed picture on public and private sector pay developments

The analysis of public and private sector pay developments between 2001 and 2013 yields a similarly differentiated result as does the analysis of average public and private sector wage levels. Figure 3.3 shows the difference in public and private sector wage growth for the pre-crisis period 2001-2009 and for the crisis period 2010-2013.

Figure 3.3 shows that in the pre-crisis period, out of the 22 EU countries for which Eurostat data was available, there are only eight in which public sector wages grew much faster – i.e. with a difference of more than 10 percentage points – than in the private sector. However, with the exception of Malta, all of these countries are from central and eastern Europe where public sector wages have usually been – and in many cases still are – lower than in the private sector.

As such, the more dynamic development of public sector pay in these countries in the pre-crisis period can

be interpreted as a catching-up process (Müller and Schulten 2015: 17).

For the rest, in only two further countries did public sector wages grow significantly faster than private sector wages. These countries were Ireland and Italy, with a difference of eight and six percentage points respectively. While in Poland and the UK wages in the public sector grew only marginally faster than wages in the private sector, in the Benelux countries, public and private sector wages grew almost in line with each other. Finally, public sector wage growth lagged behind that of the private sector in seven countries; these constituted a rather ill-assorted group consisting of Greece, Cyprus and Portugal, Germany and Finland as well as Slovenia and Latvia. Particularly striking here is the inclusion of Portugal and Cyprus in this group of countries insofar as this contradicts the widespread claim that ‘excessive’ public sector wage developments in the run-up to the crisis undermined the competitiveness of the private sector in the ‘crisis countries’.

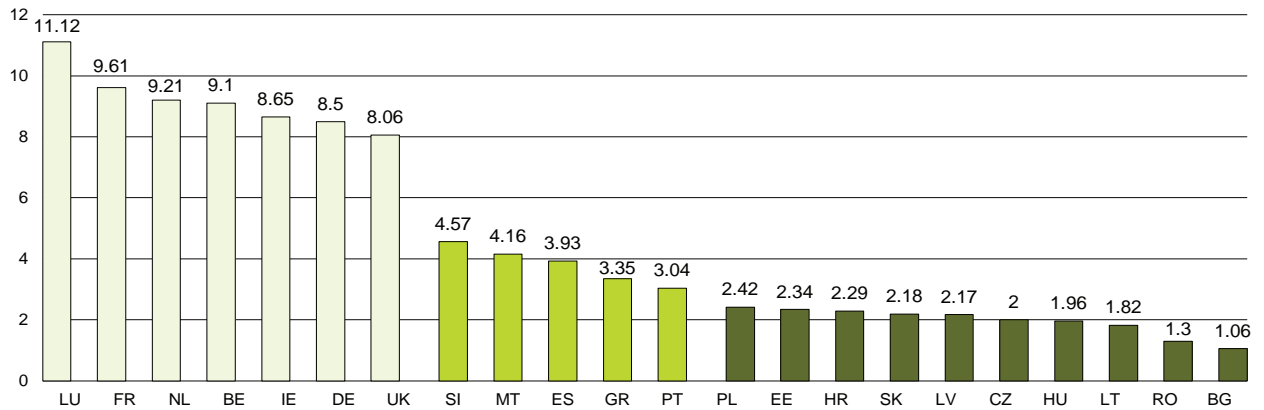
Greece, by contrast, seems to confirm the picture of strong public sector wage leadership since public sector wages grew much faster during the period 2001 to 2008. However, the sharp cuts in public sector wages in 2009 have more than offset the strong growth between 2001 and 2008, which is why for the whole pre-crisis period public sector pay in

Greece lagged behind that of the private sector.

For the crisis period 2010-2013, the picture changes dramatically. During this period, there were only four – Austria, Malta, Slovakia and the Netherlands – out of 27 countries (i.e. those for which Eurostat data was available) where public sector wages grew faster than wages in the private sector. In the great majority of 23 EU countries, public sector wage growth lagged considerably behind that of the private sector. In most of these cases, the negative public-private sector wage growth gap between 2010 and 2013 more than offset the stronger public sector wage dynamic during the pre-crisis period so that for the whole period 2001-2013 there are only eight countries where public sector wages grew faster than wages in the private sector: Slovakia, Bulgaria, Malta, Czech Republic, Estonia, Netherlands, Lithuania and Poland (Müller and Schulten 2015: 18).

Wage developments

Figure 3.4. National minimum wages per hour 2015* (in euros)



Source: WSI minimum wage database 2015. (WSI 2015) *effective 1 January 2015.

Still great diversity in absolute minimum wage levels

In 2014, an important development in the field of minimum wages was the introduction of a statutory minimum wage in Germany. The implementing act, adopted by the German parliament in August 2014, stipulated that from 1 January 2015 there would be a national minimum wage of 8.50 euros. The German minimum wage model can be criticised on many counts, for instance the various exceptions for young workers below the age of 18 and for the long-term unemployed (for a brief summary of the key features of German minimum wage law see DGB 2015; for a more detailed discussion see Bosch and Weinkopf 2014; Eldring and Alsos 2014; Schulten and Bispinck 2014a, b). Whatever its shortcomings, however, the adoption of the statutory minimum wage in Germany was important also from a broader European perspective, for it provided new impetus to the more general debate about minimum wages in Europe as a tool to increase domestic demand and to

strengthen social cohesion. The renewed interest in the issue is illustrated by the fact that Jean-Claude Juncker, in his speech to the European Parliament on 15 July 2014, explicitly called for a minimum wage in all EU countries (Euractiv 2014). The idea of a European minimum wage policy also found its way into the discussions of all major political parties in the recent European Parliament election campaigns (Sanial 2014).

With the introduction of a statutory national minimum wage, Germany joined the 21 EU countries which already had a universal minimum wage regime with a general wage floor that, generally speaking, applies to all employees. This leaves only six countries – Austria, Cyprus, Denmark, Finland, Italy and Sweden – with a sectoral minimum wage regime in which, as a rule, minimum wages are set by collective agreements for particular sectors and/or occupational groups (Schulten 2014a; Schulten and Müller 2014a).

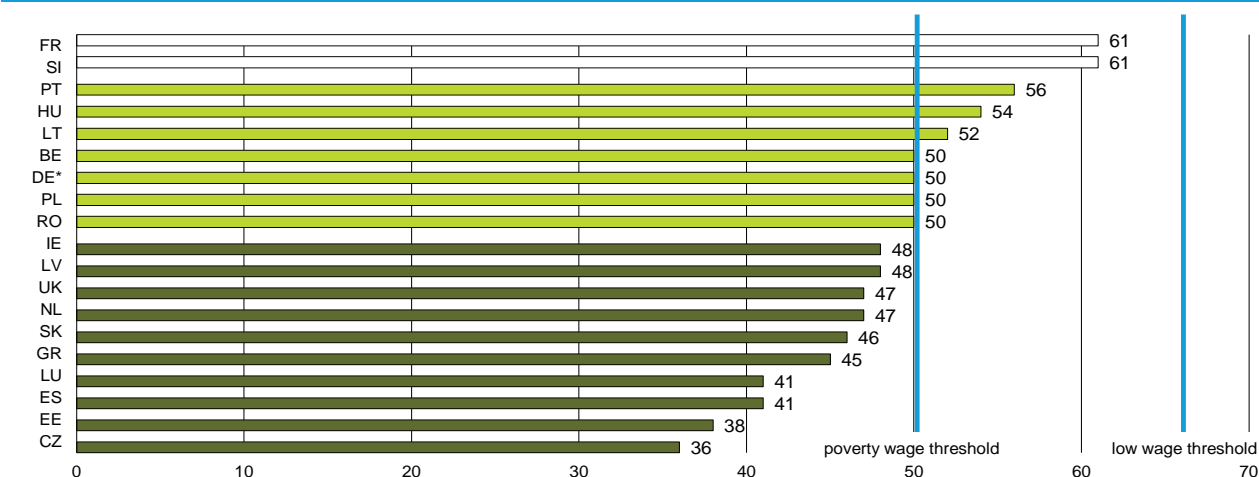
Concerning the absolute level of the national hourly minimum wage in 2015, it is possible to distinguish three groups of countries within the EU (see Figure 3.4). The first group, with relatively high minimum wages, includes seven western European countries, ranging from Great Britain with 8.06 euros per hour to Luxembourg with 11.12 euros per hour. However, without the 30% devaluation of the British pound against the euro in recent

years, the minimum wage for the UK would today be well above 9 euros, which would place the UK right in the middle of this first group of countries (Schulten 2015). The second group, with minimum wages of between 3 and 7 euros, is made up of five countries: Slovenia (4.57 euros), Malta (4.16 euros), Spain (3.93 euros), Greece (where the minimum wage was cut by 20% in February 2012 bringing it down to 3.35 euros), and finally Portugal (3.04 euros). The third group, with minimum wages of below 3 euros, is exclusively comprised of central and eastern European countries ranging from Poland (2.42 euros) to Bulgaria (1.06 euros).

In the absence of a national minimum wage in countries with a sectoral minimum wage regime, the absolute level of minimum wages can be determined only by looking at the lowest collectively agreed wage group. Recent studies demonstrate that two groups of countries can be distinguished. The first group comprises the Nordic countries and Italy, where the absolute level of collectively agreed minimum wages is considerably higher than in the rest of the EU (Eldring and Alsos 2012; Kampelmann *et al.* 2013). The second group consists of Austria (and, hitherto, Germany), whose sometimes extremely low collectively agreed minimum wages are substantially below minimum wages in comparable western European countries.

Wage developments

Figure 3.5. Minimum wage as % of national full-time median wages (2013)



Source: OECD, for Germany: calculations done by WSI based on employment statistics provided for by the Federal Employment Agency. * Based on fictitious minimum wage of 8.5€ per hour in 2013.

Most national minimum wages below poverty threshold

Due to the different economic and social framework conditions, it is difficult to compare absolute minimum wage levels across Europe. A more telling indicator is the so-called 'Kaitz Index', which sets minimum wages in relation to the overall wage structure by measuring the minimum wage as a percentage of the national median wage. 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. Figure 3.5, which is based on the OECD Income Database, shows the national minimum wage as a percentage of the national median wage. The most recent data of the OECD Income Database was available for the year 2013.

With respect to the relative level of statutory minimum wages, three groups of EU countries can be distinguished. The first group with more than 60% of the national median wage comprises only France and Slovenia. These two

countries come closest to the low wage threshold, which according to the OECD and other international organizations is set at two thirds of the national median wage (Grimshaw 2011). The second group comprises seven countries with a relative minimum wage level of between 50 and 59% of the national median wage. However, as Figure 3.5 illustrates, in the vast majority of EU countries the relative minimum wage level does not even top the 50% threshold which in analogy to international poverty research – which sets the poverty threshold at 50% of the median household income – can be defined as the poverty wage threshold (Schulten and Müller 2014a). This third group of ten EU countries ranges from the Czech Republic with only 36% of the national median wage to Ireland and Latvia with 48% of the national median wage.

In the Nordic countries, which at least in the past were marked by a long tradition of solidaristic wage policy placing major emphasis on supporting lower wage groups, the Kaitz Index of collectively agreed minimum wages is as a rule between 60 and 70%, and therefore significantly higher than in the rest of the EU countries (Eldring and Alsos 2012).

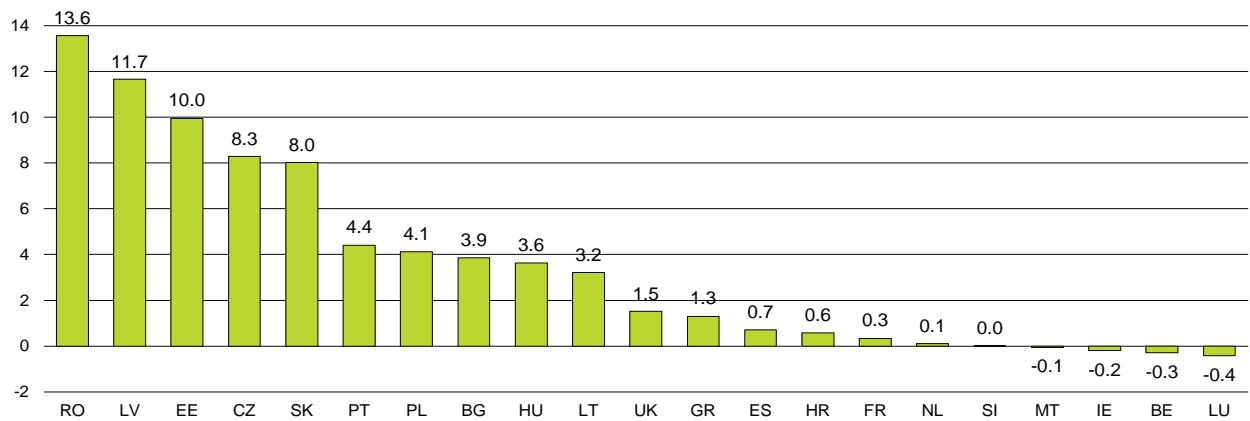
In the light of the low relative level of minimum wages in Europe, a study carried out by Eurofound calculated the potential impact of a hypothetical European minimum wage rule of 60% of the

national median wage (Aumayr-Pintar *et al.* 2014: 82ff). According to this study, in 2010 a substantial 16% of all employees in the EU would have benefitted from such a European minimum wage rule. In absolute figures, this amounts to more than 28 million workers. It should be added, however, that these figures assume full compliance with a European minimum wage rule of 60% of the national median wage and do not take into account potential exceptions such as exist in many countries today, for instance for young workers. Even subject to this caveat, the number of workers that would benefit from such a European minimum wage rule is very substantial.

The predicted impact of such a European minimum wage rule would vary considerably from country to country, depending on the size of the respective low wage sector. The impact ranges from merely 7% in Finland and Sweden to a staggering 24% of affected workers in Germany and Lithuania (Schulten and Müller 2014a: 6). Despite this country-specific variation, the study by Aumayr-Pintar *et al.* (2014) shows that a gradual increase of national minimum wages up to a level of 60% of the national median wage would make a substantial contribution to reducing (income) poverty and (income) inequality.

Wage developments

Figure 3.6. Development of real hourly minimum wages in EU28 (2014)*



Source: WSI minimum wage database (2015). (WSI 2015) *development from 1 January 2014 to 1 January 2015. Nominal increase deflated by increase of national consumer prices 2014.

The end of minimum wage restraint?

After years of declining real hourly minimum wages during the crisis (ETUI / ETUC 2014: 73), in 2014 there seemed to be some light at the end of the tunnel. In 2014, real hourly minimum wages increased in the majority of countries. Only Malta, Ireland, Belgium and Luxembourg reported a (marginal) decrease. Obviously, the very low inflation rate across the EU was an important factor leading to this positive development (Schulten 2015).

A closer look at Figure 3.6 shows that the most significant increases in real hourly minimum wages of more than 3% were seen almost exclusively in central and eastern European countries, where minimum wages traditionally are very low. The only exception is Portugal with an increase of 4.4%. However, since Portugal is the country with the lowest absolute minimum wage of all the western European countries, the substantial increases in the real hourly minimum wage can be interpreted as being part of a general catching-up process. The increase of real hourly minimum wages

in the rest of the western European countries was actually quite modest, ranging from 1.5% in the UK to 0.1% in the Netherlands. Thus, even though the figures for 2014 seem to suggest a reversal of the previous trend of falling real hourly minimum wages, the overall level of minimum wages still remains at a fairly modest level (Schulten 2015) – too modest to have a serious impact on the current trend of rising income and wage inequality in many EU countries (for a more detailed discussion see Cingano 2014 and ILO 2015).

Against this background, there is a renewed debate in many European countries about the need for a stronger increase in minimum wages. The arguments in favour of a stronger increase in minimum wages comprise a normative and an economic perspective. The normative line of argument refers to the fact that every worker has the right to a decent wage from which he or she can make a living – a right which was already enshrined as a fundamental social right in the United Nations’ 1948 Universal Declaration of Human Rights (ETUC 2014: 8). This normative argument is also the basis of the recently highly successful ‘living wage campaigns’ in the US and the UK, the purpose of which was to enable the individual to meet basic needs so as to maintain a safe and decent standard of living and to participate in the social and cultural life of the community (Living Wage Foundation 2015).

However, with the danger of deflation and economic stagnation looming large, the Keynesian economic line of argument for higher minimum wages has of late become increasingly important. The advocates of this line of argument stress the important role of minimum wages as one of the central building blocks of a macro-economic reorientation towards a demand- and wage-led model of growth (Lavoie and Stockhammer 2012). According to this view, minimum wages foster aggregate demand by their signalling function for the overall development of wages and by ensuring a more egalitarian wage structure. The latter fosters aggregate demand because of the greater propensity of low-wage-earners to spend a larger proportion of their additional income (Schulten 2014b).

Development of collective bargaining institutions

Figure 3.7. Levels of collective bargaining in the EU (2003 and 2013)

	Intersectoral	Sectoral	Company	Predominance			Intersectoral	Sectoral	Company	Predominance	
				MEB ^a	SEB ^b					MEB ^a	SEB ^b
Austria		•••	•	MEB		Italy		•••	••	MEB	
Belgium	•••	••	•	MEB		Latvia		•	•••		SEB
Bulgaria		(••)	(••)		SEB	Lithuania		•	•••		SEB
Croatia		••	•••	MEB		Luxembourg		••	••	MEB	
Cyprus		(•••)	(•)	MEB		Malta		•	•••		SEB
Czech Republic		•	•••		SEB	Netherlands	(•)	•••	•	MEB	
Denmark	•	•••	••	MEB		Poland		•	•••		SEB
Estonia		•	•••		SEB	Portugal	(•)	•••	(•)	MEB	
France		••	•••	MEB		Romania	(•••)	•	•••		SEB
Finland	•••	••	•	MEB				(••)	(••)	(MEB)	
Germany		•••	•	MEB		Slovakia		•	••		SEB
Greece	•	••	•	MEB		Slovenia	••	••	•	MEB	
Hungary		•	•••		SEB	Spain	(•)	•••	••	MEB	
Ireland	(•••)		(•)		SEB (MEB)	Sweden		•••	•	MEB	
						United Kingdom		(-)	•••		SEB

Source: European Commission (2004: 39) and Schulten and Müller (2014: 99). Note: ••• = most important level, •• = important level, • = existing but marginal level; 'blank' = level is non-existent. Red: 2003; Black 2013. a= Multi-employer bargaining. b= Single-employer bargaining.

Intensified decentralisation of collective bargaining

An important trend in the field of collective bargaining since the start of the crisis in 2008 was the increased decentralisation of collective bargaining and wage-setting mechanisms in many EU countries (for a more detailed discussion see Marginson and Welz 2014; Schulten and Müller 2014b). The decentralisation of collective bargaining is not a new phenomenon. It can be traced back in different guises to the early 1980s (Baccaro and Howell 2011). However, the recent crisis – and in particular the crisis management pursued by national and European policy-makers – provided new impetus to this process. The more or less open intervention in the bargaining autonomy of trade unions and employers played a pivotal role in this context.

Figure 3.7, which compares the significance of different bargaining levels in the EU countries in 2003 and 2013, shows how in different countries the importance of the intersectoral and sectoral level decreased while at the same

time bargaining activities at the company level took on increasing significance. However, decentralisation can mean different things in different contexts. The most dramatic decentralisation took place in Ireland and Romania both of which, prior to the crisis, had been characterised by a comparatively high level of bargaining centralisation involving national cross-sectoral agreements that defined the terms of reference for lower-level negotiations (Visser 2011: 41). As a consequence of the crisis-induced reforms, multi-employer bargaining in both countries completely collapsed so that currently collective bargaining activities have become largely restricted to the company level.

However, processes of organised decentralisation (Traxler 1995) took place also in countries such as Austria, Germany, Italy and Sweden which formally display a high degree of structural continuity. While in these cases the sector still remains the most important level for collective bargaining, the selective use of opening and opt-out clauses extended the scope for company-level negotiation and derogations from the wage standards specified in higher-level agreements (Marginson and Welz 2014: 8). The important point in these cases is, however, that in these processes of organised decentralisation the conditions under which regulatory competences are delegated to the lower level

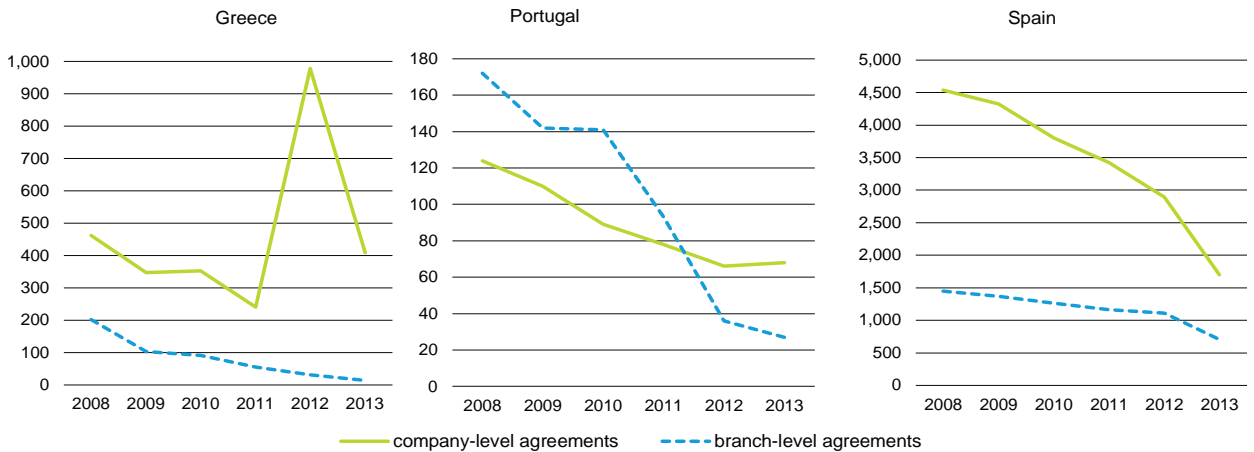
are clearly defined in higher-level agreements so that central-level actors retain a certain degree of control over bargaining processes taking place at lower levels.

This is in stark contrast to the processes of disorganised decentralisation (Traxler 1995) seen in the southern European countries Greece, Spain and Portugal. Even though the well-established multi-employer bargaining structures in these countries remained formally intact, their scope and regulatory capacity was increasingly undermined by the various legal changes that have been introduced in response to the demands placed upon these countries by the Troika (Schulten and Müller 2015: 347).

The de facto decentralisation of collective bargaining was essentially based on the following three elements: first, giving company agreements priority over sectoral agreements – for instance by abolishing or reversing the favourability principle – so that company agreements can in practice undermine standards defined by sectoral agreements; secondly, the far-reaching withdrawal or dismantling of legal support for collective bargaining, for instance through more restrictive criteria for the extension or after-effect of collective agreements; and thirdly, by creating more wide-ranging possibilities for non-union groups of employees to negotiate and conclude company-level agreements (Schulten and Müller 2015: 347).

Development of collective bargaining institutions

Figure 3.8. Collective agreements in Greece, Portugal and Spain (2009-2013)



Source: Schulten and Müller (2014b: 349); based on data provided by the Ministry of Labour in Greece, Portugal and Spain.

De-collectivisation of labour relations in the south

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. Even though, formally speaking, the multi-employer bargaining structures are still in place, in practice the collective bargaining systems in these countries now increasingly resemble the highly decentralised systems typical of the UK and many central and eastern European countries (Meardi 2014).

However, as Figure 3.8 illustrates, the number of collective agreements in Greece, Portugal and Spain decreased not only at sectoral but also at company level. The far-reaching changes in the law that were imposed by the Troika therefore not only stepped up the decentralisation of collective bargaining but led also to a de-collectivisation of labour relations more generally. The data presented in Figure 3.8 shows that in Spain, for instance, the number of sectoral collective agreements

was just about halved between 2008 and 2013 from 1,448 to 706. However, company-level agreements declined even more, by roughly two thirds from 4,539 in 2008 to 1,702 in 2013. As a consequence, between 2008 and 2013, the number of workers covered by collective agreements decreased in this country from 12 million in 2008 to just 7 million in 2013 (Schulten and Müller 2015: 349). In Portugal the decline in the number of collective agreements was even more dramatic. Here, the total number of registered agreements dropped from 296 in 2008 to 95 in 2013 when there remained no more than 27 sectoral agreements.

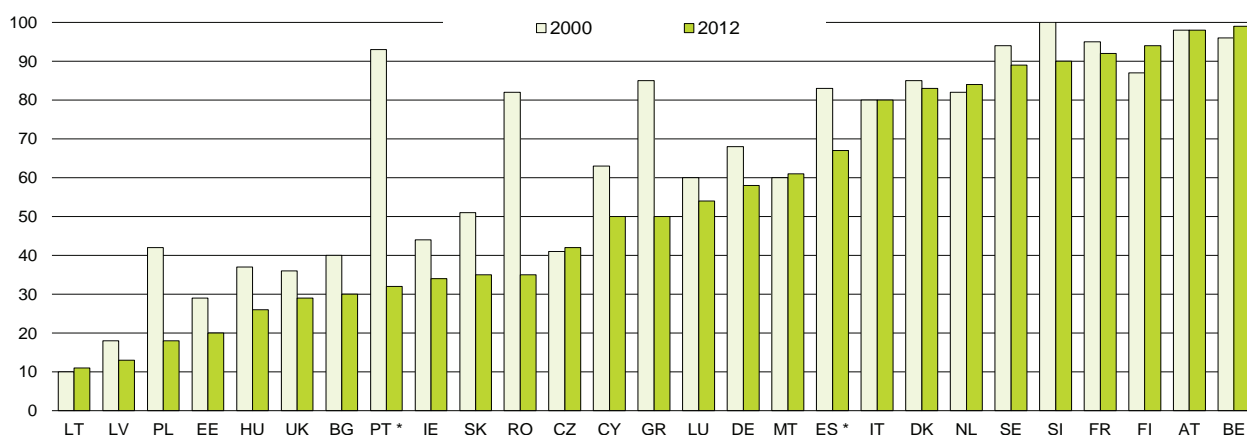
Since at the same time the number of extended collective agreements dropped from 131 in 2008 to only 9 in 2013, the number of workers covered by collective agreements virtually collapsed, from 1.7 million in 2008 to 200,000 in 2013 (Schulten and Müller 2015: 349). In Greece, the number of newly concluded branch-level collective agreements decreased from 202 in 2008 to just 14 in 2013. Between 2008 and 2011, the number of company-level agreements almost halved from 462 to 241. The – at first glance surprisingly strong – increase in company-level agreements in 2012 is principally attributable to the fact that many companies used the new rules introduced in October 2011 to negotiate company-level wages that fell below the existing sectoral wage level (Daouli *et al.*

2013). In 2013, accordingly, the number fell back down to 408.

Though the drop in collective bargaining activity was most pronounced in the southern European 'Troika countries', the number of collective agreements decreased in other countries too. Marginson and Welz (2014: 17) show that during the last five years the number of sectoral agreements has dropped also in Belgium, Bulgaria, Cyprus, Germany and Slovakia. Furthermore, in all the Baltic countries as well as in Poland, the number of company-level agreements has decreased since 2008. While in Estonia, for instance, the number of agreements fell from 88 in 2007 to 50 in 2012, Poland experienced a decline from 154 agreements in 2008 to 92 in 2013 (Marginson and Welz 2014: 17). All of this shows how the declining significance of collective bargaining as a tool to regulate the employment relationship intensified across the whole of Europe during the crisis.

Development of collective bargaining institutions

Figure 3.9. Collective bargaining coverage



Source: Visser (2013) ICTWSS Database. BG: data 2000 is from 2003; CY: data 2000 is from 2002, data 2012 is from 2011; EE, LV and PL: data 2000 is from 2001; MT: data 2000 is from 2002 and data 2012 is from 2011. *according to figures provided for by the national Ministry of Labour for 2013.

Significant decline in collective bargaining coverage

The increasing decentralisation of collective bargaining across Europe obviously has far-reaching implications for collective bargaining coverage since this coverage is usually much higher in countries with multi-employer bargaining arrangements than in those where bargaining takes place predominantly at company level. Figure 3.9 shows that, with the exception of Malta, all the countries with collective bargaining coverage of 50% or more are countries with multi-employer bargaining arrangements. By the same token, all the countries at the bottom end of the scale are countries with single-employer bargaining systems. The exceptions to this observation are Portugal, Cyprus and Greece – where multi-employer bargaining formally still exists but where the Troika-imposed ‘structural reforms’ have undermined its operation in practice. Figure 3.9 illustrates the dramatic decline in collective bargaining coverage in these countries. In Portugal, for instance, collective bargaining

coverage dropped from 93% in 2000 to 32% in 2013. A sharp decrease in bargaining coverage can also be observed in Greece from 85% in 2000 to 50% in 2013. Spain and Cyprus also experienced a significant drop in bargaining coverage from 83% in 2002 to 67% in 2013 in the former and from 63% in 2002 to 50% in 2011 in the latter.

However, Figure 3.9 also shows that the ‘Troika countries’ represented only the most dramatic cases of declining collective bargaining coverage. As a matter of fact, between 2000 and 2012, collective bargaining coverage decreased in a majority of 19 out of the 27 EU countries for which data was available. Significant drops of 10% or more also took place in the following countries: Romania (-47%), Poland (-24%), Slovakia (-16%), Hungary (-11%), Bulgaria (-10%), Germany (-10%) and Ireland (-10%).

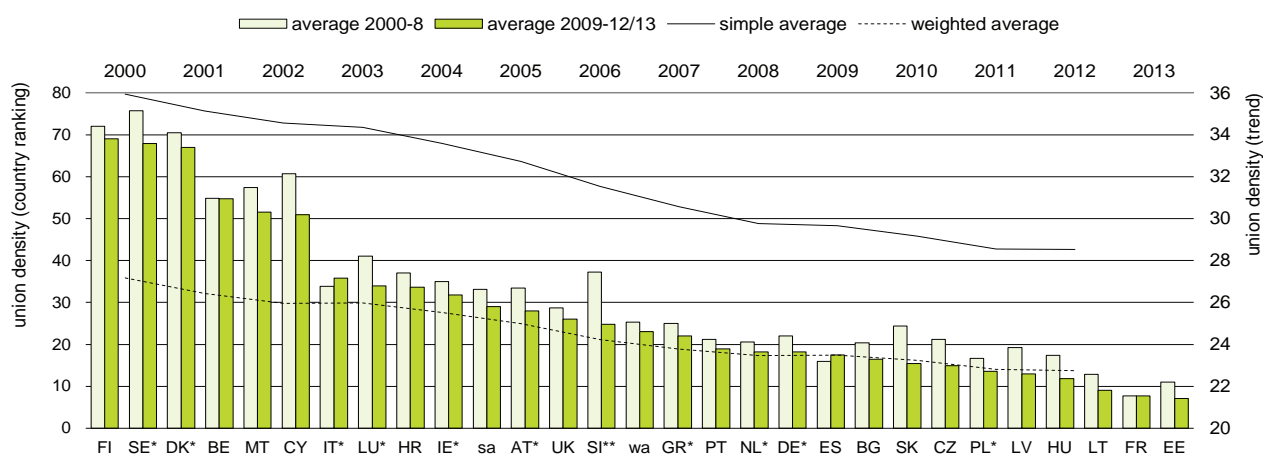
The factors that influence collective bargaining coverage are manifold (for more detailed discussions see Traxler *et al.* 2001; European Commission 2011). One crucial factor, however, is the existence of national extension procedures (or functional equivalents thereof) that ensure high and stable coverage rates. Figure 3.9 shows that all the countries with a high coverage of 70% or more have some kind of mechanism to extend collective agreements to all workplaces and employees in a certain region and/or sector. The two exceptions to this rule are

Sweden and Denmark whose high collective bargaining coverage rests solely on the organisational strength of both trade unions and employers’ federations (Schulten 2012: 491).

The most common method of extending collective agreements used in the EU is a ‘declaration of general applicability (DGA)’, i.e. a state legislative act which extends the scope of a collective agreement beyond those workplaces that are directly covered by the agreement in question (Schulten 2012: 486). The widespread use of DGAs traditionally ensured high collective bargaining coverage in Belgium, Finland, France, The Netherlands and also – before the Troika-induced changes to their collective bargaining systems – in Portugal and Greece. The functional equivalents to DGAs that exist in other countries include the following: first, *erga omnes* provisions – as in Spain – which automatically extend collective agreements to non-organised workplaces without a specific legislative act; secondly, the requirement for employers to belong to ‘economic chambers’ which negotiate collective agreements with trade unions – as in Austria; and thirdly, the ‘indirect *erga omnes*’ arrangement practised in Italy and based on the constitutional right to fair remuneration and the fact that in the case of a dispute the labour courts usually refer to the rate stipulated in the relevant collective agreement (Schulten 2012: 489).

Collective organisation and action of workers

Figure 3.10. Trade union density: country comparisons (2000-8 compared with 2009-12/13) and the trend since 2000



Source: OECD and Visser (2013). Notes: *Until 2013; **Until 2011: No data Romania (2000-1 and 2009-13); Countries ranked by 2009-12/13-average. sa: simple average, wa: weighted average.

Continuing de-unionisation

Effective collective bargaining depends on, among other factors, the organisational rate of workers' and employers' organisations (Traxler *et al.* 2001). Figure 3.10 provides an overview of the development of trade union density in 28 EU member states based on administrative or survey data. The line graphs (right-hand scale) depict the annual development of the simple and weighted EU28 average union density in the last decade. The bar graphs (left-hand scale) compare the average trade union density for two periods, firstly 2000-8 and secondly the period since the Great Recession starting in 2009 (until 2011 in the case of Slovenia and either 2012 or 2013 in other cases). For Romania the comparison could not be made due to limited data.

Both line graphs show a continuing and unequivocal trend towards de-unionisation. Based on the weighted average, in 2000, more than one in four workers in the EU28 was unionised. By 2012 this ratio had decreased to 23 per cent, although considerable variation in unionisation rates between occupations and economic sectors remained prevalent (cf. Scheuer 2011). On the basis of

a comparison between the two periods (2000-8 and 2009-12/13), trade union density is seen to have declined in the vast majority of countries, while there remain a few exceptions.

Alongside Norway (not depicted here), both Belgium and France (the latter at a much lower level) show noteworthy stability. In all three countries, trade unions have managed to keep their membership levels in line with the rise in the number of wage- and salary-earners, although this observation might not necessarily be the reflection of a vibrant labour movement (Bergene and Mamelund 2015). Two crisis-hit southern countries, Italy and Spain, have even seen an increase in union density since the beginning of the crisis. In the Spanish case, however, this is solely as a result of a shrinking denominator, i.e. a reduction in overall numbers of wage- and salary-earners (mainly as a result of emigration), for the trade unions have in actual fact continued to lose members since the beginning of the crisis.

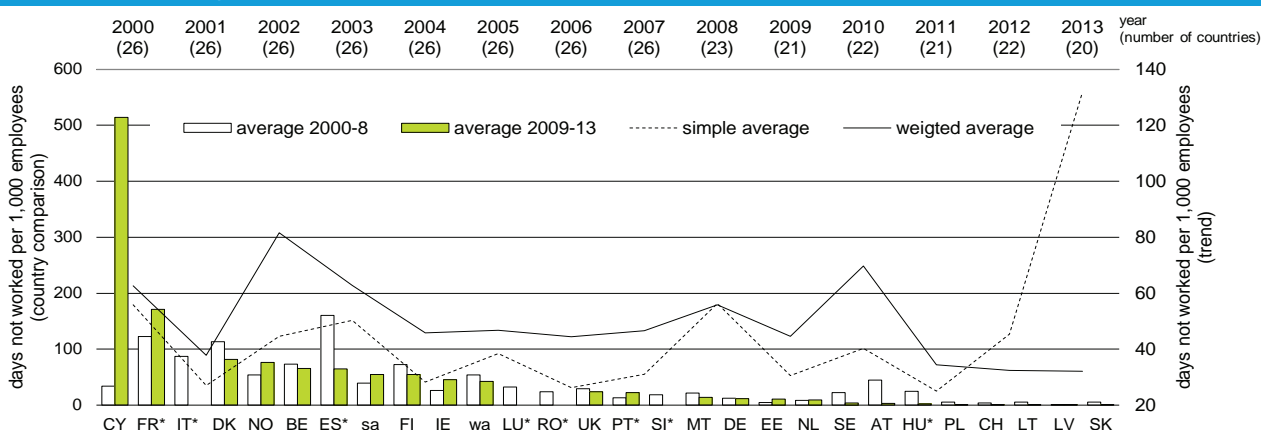
In all other EU28 countries, union density has declined, although considerable divergence in unionisation rates remains, with all Nordic countries still recording the highest union density rates. Like the trade unions in Belgium, Cyprus and Malta, the Nordic unions are able to attract into membership more than half of the wage- and salary-earning population. Even so, in recent times, some

Nordic unions have – as trade unions in high-union density countries – taken increasing inspiration from other unions' experiences with the 'organising model' in low-density countries (e.g. Arnholtz *et al.* 2014).

Furthermore, the de-unionisation trend in most of the EU28 member states does not mean that unions are unable to attract new members; it means that they have difficulties in retaining their (new) members (Waddington 2014) and fail in their efforts to ensure that their membership keeps pace with – increasing – labour market participation. All in all, the continued de-unionisation trend makes it necessary for trade unions to rethink their priorities and requires a shift in their power resources in order to narrow the growing demographic gap in union membership between young and older workers, to empower precarious workers in particular, and to revitalise the union movement in general.

Collective organisation and action of workers

Figure 3.11. Days not worked per 1,000 employees due to industrial action: country comparisons (2000-8 compared with 2009-13) and the trend since 2000



Source: ETUI Strikes in Europe (dataset, version 2.1, January 2015). Notes: *No data for BG, HR, CZ, FR (2012), GR, HU (2011 and 2013), IT (2009-13), LU (2008-12), PT (2008-9), RO (2009-13) and SI (2008-13); strikes in public administration are excluded for Portugal and general strikes and some public sector strikes are excluded for Spain. sa: simple average, wa: weighted average.

Strikes: stability at a low level after the 2010 peak

Social protest has been on the rise in Europe since the beginning of the crisis and is levelled particularly at governments' austerity drives. Whereas trade unions have generally been the main vehicles for organising mass demonstrations and general strikes, other forms of protest have been more ephemeral, often with only weak trade union involvement and in some cases active hostility towards the unions. As in any surge of social protest, the repertoire of collective action has been enriched with new forms of expression and, in some cases, the rediscovery of old ones. Although reliably convincing data in relation to such innovative forms of protest is unlikely to be available on a longitudinal and comparative basis, strike data has, generally speaking, been available in the past. Yet this too has, to some extent, changed today.

For some crisis-hit southern European countries, accordingly, recent national statistics are missing for some years (in the case of Portugal for 2008-9) or are not available at all (Greece since 1999 and Italy since 2009). For several

other countries too, recent data are lacking or no official figures are collected at all, although alternative sources are sometimes available.

Finally, it is clear also that the strike volume, the most reliable indicator for comparing countries over time, is usually underestimated by the authorities insofar as strike action in the public sector or general strikes are often excluded from the official data. Data is missing, for example, for government workers in Portugal. In Spain meanwhile, general strikes in 2010 and 2012 have deliberately been left out of the strike statistics, as have also certain public sector strikes in 2013.

Previous research has shown that the relative strike volume or the average days not worked due to industrial action per 1000 employees has generally declined in Europe since the year 2000, although considerable cross-country differences in strike levels appear much as before (Vandaele 2011). Figure 3.11 shows the development of the simple and weighted average of the strike volume in Europe (line graphs at right-hand scale) and compares the average volume in two periods (2000-8 and 2009-12) in 22 countries (bar graphs at left-hand scale). While it is certain that strike activity is underestimated for the period since the beginning of the crisis, it would appear, on the basis of the weighted average, that the volume in Europe (excluding partly

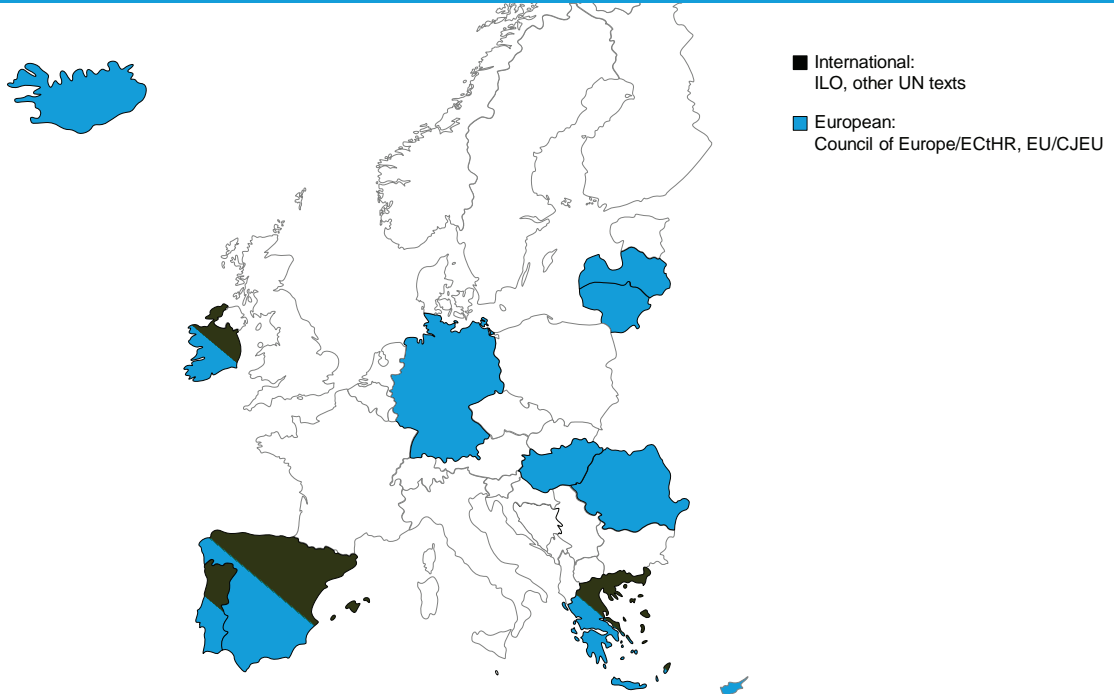
or wholly southern European countries) has not risen inordinately, with the exception of a one-off peak in 2010 which demonstrates that strikes tend to occur in waves.

Even so, in six countries with differing strike levels – Cyprus, Estonia, France, Ireland, Norway, and Portugal – the volume has increased since the Recession, although the relationship between austerity policies and strike action is not always direct or clear. Based on the 2009-13 average, Cyprus is currently top of the league due to an open-ended conflict that erupted in the construction industry in 2013 and which is regarded as the longest strike on this Mediterranean island since 1948. Undoubtedly, political mass strikes in Greece and Italy and probably also Spain have affected the respective volume to such an extent that they can be added to this group of countries with a rising strike volume. Taking into account these and other omissions, the position of a number of countries near the top of the European 'strike league' would need to be downgraded.

All other countries for which sufficient data is available appear to have seen a decline in average strike volume in the period since the Recession compared to the 2000-8 period. Details of these observations are bound to shift when the 2014 data become available as social protest is notoriously volatile from one year to the next.

Collective organisation and action of workers

Figure 3.12. Litigation actions at international/European level



Source: ETUI own research; the countries coloured concern cases brought against austerity measures not necessarily limited to cases related to changes to IR/CB and wage-setting systems.

Protecting trade union rights via litigation at international level

As reported in the 2014 edition of *Benchmarking Working Europe*, individual citizens, political parties – particularly opposition parties – as well as trade unions increasingly have recourse to litigation at the international, European and national levels as a means of contesting anti-crisis measures (ETUI and ETUC 2014: 65-67).

Alongside attacks on institutional frameworks and actors (such as the Troika, the ESM Treaty, etc. see e.g. CJEU C-62/14 and cases before constitutional courts in Austria, Germany Estonia, Spain, The Netherlands and Poland), not surprisingly, given the drastic and far-reaching measures enacted in several

countries, many of these cases/complaints relate also to alleged infringements of international, European and national law regulating industrial relations and collective bargaining systems as well as to interference in wage-setting systems.

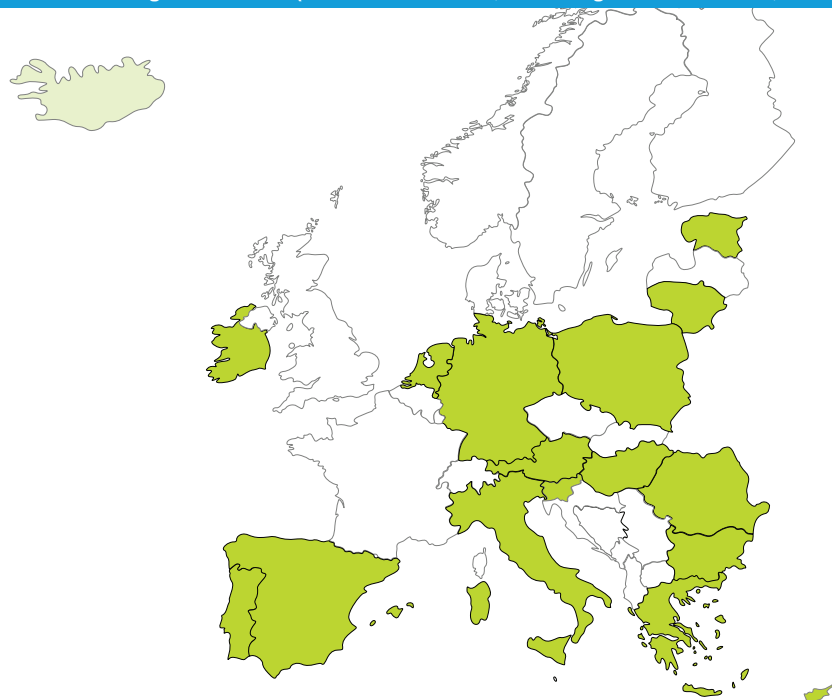
At the international level, several national trade unions, in particular from Greece and Spain, successfully filed complaints between 2010 and 2014 before various ILO supervisory committees including the Committee of Freedom of Association (ILO CFA), the ILO Committee of Experts on Application of Conventions and Recommendations (ILO CEACR) and the ILO Conference Committee on the Application of Standards (ILO CCAS). The committees in question ruled that a number of repeated and far-reaching instances of interference in free collective bargaining (such as allowing for suspension of, or derogations to, collective agreements and further decentralisation of collective bargaining towards the company level), as well as other forms of intervention leading to a social dialogue deficit, indeed constituted clear-cut violations of the fundamental

ILO conventions 87 and 98 on freedom of association and collective bargaining (ILO CFA 2012; ILO CEACR 2013 and 2014; ILO CCAS 2011, 2012 and 2013).

At the European level, and within the EU context, reference can be made in the first instance to some – unfortunately less successful – cases brought by trade unions before the Court of Justice of the European Union (CJEU). For example, the two cases brought by the Greek public service trade union ADEDY on different measures introduced by the Greek government to combat the excessive budget deficit were dismissed because the trade union was considered to be ‘not directly concerned’ by the actions it was challenging (CJEU Cases T-541/10 and T-215/11). A case brought by a Portuguese union in the banking sector suffered a similar fate. The Sindicato dos Bancários do Norte, alleging that pay losses suffered by its members represented an infringement of Article 31 of the EU Charter of Fundamental Rights on fair and just working conditions, sought to bring proceedings against the – since nationalised – bank BNP that had disregarded the terms of

Collective organisation and action of workers

Figure 3.13. National litigation actions (constitutional court, human rights commissions, ombudsmen, referenda, etc.)



Source: ETUI own research; the countries coloured concern cases brought against austerity measures not necessarily limited to cases related to changes to IR/CB and wage-setting systems.

Protecting trade union rights via litigation – the national dimension

the collective agreement in force and inflicted considerable wage cuts which it justified with reference to the 2010 Portuguese Budget Act. The CJEU declined to take up this case on grounds of lack of jurisdiction insofar as the proposed case failed to establish an adequate link between a relevant EU source and a member state action (even though the latter had been taken in the framework of the memorandum of understanding signed between Portugal and the Troika as a condition for the provision of financial assistance under the European Financial Stability Mechanism (EFSM) and the Europe Financial Stability Facility (EFSF) (CJEU C-128/12). A similar

conclusion was reached in another 'Portuguese case' (CJEU C-264/12) as well as in three other Romanian 'wage-related cases' (CJEU C-462/11, C-134/12 and C-369/12).

Again at European level, but this time within the framework of the Council of Europe's European Social Charter (ESC), trade unions proved more successful. In five complaints (Complaints 76-80/2012, Council of Europe 2012 b-f) submitted by Greek pensioners' trade unions, the main supervisory body, the European Committee of Social Rights (ECSR), ruled that austerity measures introduced in 2010 and 2011 reducing additional premiums such as Christmas, Easter and vacation bonuses constituted a violation of the ESC.

In an earlier complaint also against Greece (Complaint 65/2011; Council of Europe 2012a) alleging violations of the ESC by new laws allowing for derogation by means of a collective agreement concluded at company level from the provisions set out in a collective agreement concluded at sectoral level, or for the conclusion, in a situation where there is no

trade union in the workplace, of a company-level collective agreement by trade unions of a different level, the ECSR found no violation of the ESC but ruled solely on the grounds that Greece had not ratified the relevant articles of the ESC.

A new complaint was lodged at the end of 2014 by the GSEE alleging violations of the ESC in particular by new laws introduced – under the pressure of the Troika in the framework of the Memorandum of Understanding – from 2011 onwards and also by interference in collective bargaining and wage-setting systems (Complaint 111/2014; Council of Europe 2014). In addition to these cases, the ECSR, in the framework of the normal reporting system, published its so-called 'Conclusions 2014' in January 2015 (Council of Europe 2015). It found several countries to be in breach of Article 4§1 (decent remuneration) as, due to austerity measures among other things, governments did not guarantee a (statutory) (national) minimum wage able to ensure a decent standard of living for workers and their families. Countries mentioned in this connection included

Collective organisation and action of workers

Belgium, Germany, Spain, Greece, Ireland, Lithuania, Luxembourg, Portugal, Romania, Slovakia, Slovenia and the UK.

In that same context, and following a successful earlier collective complaint against Greece on allocating lower wages to young workers (Complaint 65/2011, Council of Europe 2012a), the ECSR now also found other countries to be in violation of Article 4§1 (e.g. Belgium, Ireland and The Netherlands). Furthermore, several countries were found to be in violation of Article 6§2 (promotion of a machinery for voluntary negotiations) due to austerity measures leading to the decentralisation of collective bargaining (e.g. Bulgaria, Estonia, Spain, Hungary, Latvia, Lithuania, Romania, Slovakia).

Finally, on the national level, several constitutional courts have condemned interventions in wage cuts/freezes. For example, the Greek Constitutional Court (Case Areios Pagos, 7 Nov 2012) unanimously ruled that the latest cuts in judges' and prosecutors' wages violated the Greek Constitution. In Portugal, the Constitutional Court rejected, by a decision of 5 April 2013, austerity measures drawn up by the government, based on the adjustment programme Portugal had agreed with the European Union (EU) and the IMF in May 2011, including, amongst other things, cuts in public sector employment; again, on 30 May 2014, the Court struck at austerity measures by ruling that cuts in public employees' wages in the absence of changes to the wages of other categories of worker represented a violation of the constitutional principle of equality.

It thus appears that the increasing numbers of cases brought – whether by individuals, political parties or, in particular, trade unions – before different courts or institutional bodies on the international, European and national level have begun to bear some fruit. In this respect, the CJEU represents, however, an unfortunate exception insofar as it continues to hide behind a 'lack of jurisdiction' rather than condemn structures, policies and measures that clearly have their foundation in the European 'treaties', policies and structures set up supposedly to manage and stem the tide of economic crisis.

Now that other international, European and even EU institutions, including

some European Commission DGs, have begun to admit that 'austerity measures' were not the appropriate road to follow and even that they may run counter to fundamental rights obligations which member states have committed to honour, it is surely time for the CJEU to have the courage to act similarly, in particular in relation to the damagingly intrusive stance still adopted by the EU in relation to collective bargaining and wage-setting systems.

Alas, the recent opinion of the CJEU ruling that the agreement on the accession of the EU to the European Convention for the Protection of Human Rights is incompatible with certain EU Treaty provisions signals no improvement; on the contrary, this can be described as nothing short of a disaster for the effective protection of fundamental human and social rights (CJEU Opinion 2/2013).

Conclusions

Call for a more expansive wage policy

As regards the field of wages and collective bargaining, the most recent Annual Growth Survey recognizes – or at least pays lip-service to – the need to change the course of current EU crisis management by embracing a more demand-side-oriented view of wages. Unfortunately, however, this recognition finds no reflection in the policy recommendations actually issued, for these continue to follow the counter-productive strategy of internal devaluation and neoliberal structural reforms.

If the European Commission is serious about the need for real wages to develop in line with productivity, it would do well to change not only its rhetoric but also its course of action, for instance by promoting a more expansive wage policy aimed at higher wage growth and a more equal income distribution (Schulten and Bispinck 2014b). According to the traditional concept of expansive wage policy, nominal wage growth should not only follow the combined growth of inflation and productivity but also include a redistributive component so as to increase the wage share and, in so doing, boost aggregate demand (Agartz 2008). Two central building blocks of such a more expansive wage policy are equitable minimum wages and strong collective bargaining structures.

In this context, recent developments in Germany are very interesting because the law on the ‘strengthening of collective bargaining autonomy’ provides not only for the introduction of a statutory minimum wage but also for stronger political support for sectoral collective bargaining by way of new and less stringent criteria for the extension of collective agreements (Eldring and Alsos 2014; Schulten and Bispinck 2014 a, b). Depending on the manner in which it is implemented, the new legislation has a ‘strong potential to promote a more expansive and more solidaristic wage policy’ (Schulten and Bispinck 2014b: 19).

This is important also from a broader European perspective because, with the adoption of this new piece of legislation, the German government did at home exactly the opposite of what it has been promoting in the European context. At European level the German government was and still is one of the most fervent advocates of the strategy of internal devaluation based on wage restraint and neoliberal ‘structural reforms’ (Merkel 2013). One way of interpreting the recent adoption of the law on the Strengthening of Collective Bargaining Autonomy is that Germany is finally playing its part in a strategy of symmetrical adjustment of the still existing macroeconomic imbalances (De Grauwe 2012). According to this approach, internal devaluation in the deficit countries must be accompanied by a simultaneous process of internal revaluation in the surplus countries; or – to make the same point differently – in order to correct the macroeconomic imbalances, wages and unit labour costs in deficit countries must be reduced, while in surplus countries they need to grow.

However, in the light of the meagre results of the supply-side-oriented crisis management in terms of generating economic growth and employment, particularly in the crisis countries (see Chapters 1 and 2), the need for alternative demand-side-oriented policies across the whole of Europe should be evident – even more so in that, in the eurozone as whole, domestic demand is still the key driver of economic growth. Feigl and Zuckerstätter (2012: 8), for instance, show that in the eurozone exports account for less than one fifth of overall demand; and that even in Germany, which takes great pride in its status as ‘export world champion’, exports account for only one third of the overall demand for goods and services. Thus, alongside increased investments and a departure from contractionary fiscal policies, a more expansive wage policy based on a European minimum wage standard and political support for strong collective bargaining structures could be a key component of a macro-economic reorientation with a stronger focus on internal demand and social cohesion.

At a more practical level, such a more expansive European wage policy should

define an equitable European minimum wage standard which, in order to fulfil its twofold function of combating poverty and fostering internal demand, should ideally be close to two thirds of the national median wage, this being the OECD’s definition of the low-wage threshold. The implementation of a European minimum wage standard should furthermore take account of the fact that statutory and collectively agreed minimum wages are functional equivalents for the purpose of ensuring the comprehensive application of minimum wages; as such, the European minimum wage standard should not only specify a certain relative level but should also incorporate a range of measures to improve collective bargaining coverage. This would, however, require a complete reversal of the neoliberal structural reforms implemented in the context of the crisis management and which have essentially undermined the regulatory function of collective bargaining in many European countries.

A more expansive European wage policy that supports a European minimum wage standard and strong national collective bargaining systems can make an important contribution to the reorientation of the current EU crisis management in three respects: first, from a normative point of view, such a policy would ensure compliance with a number of international and European conventions such as the 1948 UN Declaration of Human Rights, the European Social Charter and the ILO Convention 131 of 1970, all of which stipulate the right to a fair and equitable wage that provides for a decent standard of living. Secondly, from an economic point of view, a more expansive wage policy could counter the current deflationary tendencies by preventing a further decrease of real wages and stabilising aggregate demand as one of the key drivers of economic growth. Last but not least, from a political point of view, support for a more expansive wage policy could represent a concrete political project for reviving the idea of a social Europe, thereby helping to win back EU citizens’ confidence and belief in the value of European integration. In view of the crisis of legitimacy currently affecting the European Union in most EU countries, this political dimension should not be underestimated.

Articulating workers' participation

Introduction

Since the adoption of the Recast European Works Council (EWC) Directive in 2009, a new word has entered the discourse of European industrial relations. The word is ‘articulation’ and it is a term applicable in the fields of both policy-making and practice. ‘Articulation’ refers to what is arguably the most significant innovation in the 2009 Recast EWC Directive, namely, a remarkably consistent recognition throughout the revised text that transnational information and consultation needs to be systematically linked to information and consultation at the local and national levels. While the actual term ‘articulation’ is not to be found in the Recast EWC Directive, it is much used in the ensuing debate to refer to the action or manner of joining or interrelating these complex processes and actors. The implicit metaphor is that of a hinge or a joint, a construction enabling two things to be joined in such a way as to permit movement of each which is nevertheless not entirely independent of the other.

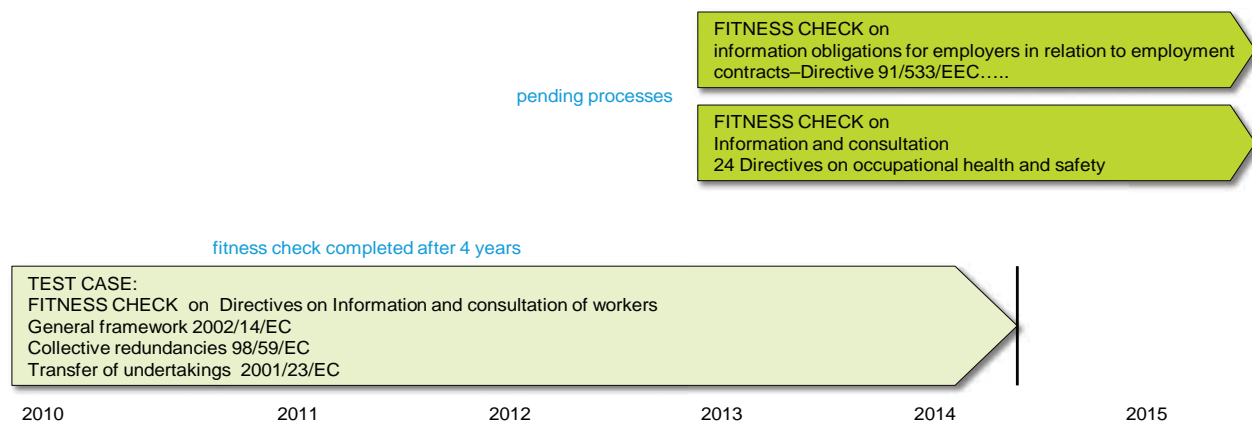
This chapter explores the current state of play of the articulation potential in the field of workers’ participation, from local and transnational information and consultation in the laws and the founding agreements, through board-level employee representation, and health and safety representation, to workers’ rights as enshrined in company law.

Topics

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Refitting information and consultation rights

Figure 4.1. Information and consultation under scrutiny of EU Commission's REFIT



Workers' participation rights under close scrutiny

In its 2010 work programme, the EU Commission launched a pilot exercise called the Fitness Check (see also ETUI and ETUC 2011:90-91), in which three rather different Directives related to information and consultation were examined: the General Framework Directive on information and consultation; the Collective Redundancies Directive; and the Transfer of Undertakings Directive (also known as the Acquired Rights Directive).

The aim of this exercise was to identify any excessive burdens created by the legislation, as well as to pinpoint any overlaps, gaps or inconsistencies which might have emerged since the adoption of these three EU Directives. The Fitness Check also sought to assess the cumulative impact of the legislation, using a highly controversial methodology based on a cost/benefit analysis.

In 2013, after several reports, studies and meetings with stakeholders, these information and consultation Directives were officially found to be 'fit

for purpose'; they are deemed 'generally relevant, effective, coherent and mutually reinforcing'. Furthermore, it is found that 'the benefits they generate are likely to outweigh the costs' (European Commission 2013a).

However, in relation to the scope and application of the Directives a number of weaknesses were identified. In particular, the exclusion of small businesses, of public administration employees, and of seafarers means that a significant share of the European workforce is not covered by their provisions. Furthermore, the final report emphasised the need to promote an 'information and consultation culture' among social partners, in particular via collective agreements, to strengthen institutions, as well as to disseminate good practices and ensure sound enforcement at national level.

In August 2013, the European Commission launched the 'REFIT – Fit For Growth programme' or 'Regulatory Fitness and Performance Programme' (European Commission 2013a). As part of its attempts to boost competitiveness, the European Commission intends to screen, repeal or withdraw legislation that it deems no longer 'fit for purpose'.

Despite the fact that the Fitness Check unequivocally concluded that no legislative action was required on these particular information and consultation Directives, the European Commission intends to further examine and discuss

their scope and operation following a consultation of the European social partners (European Commission 2013a).

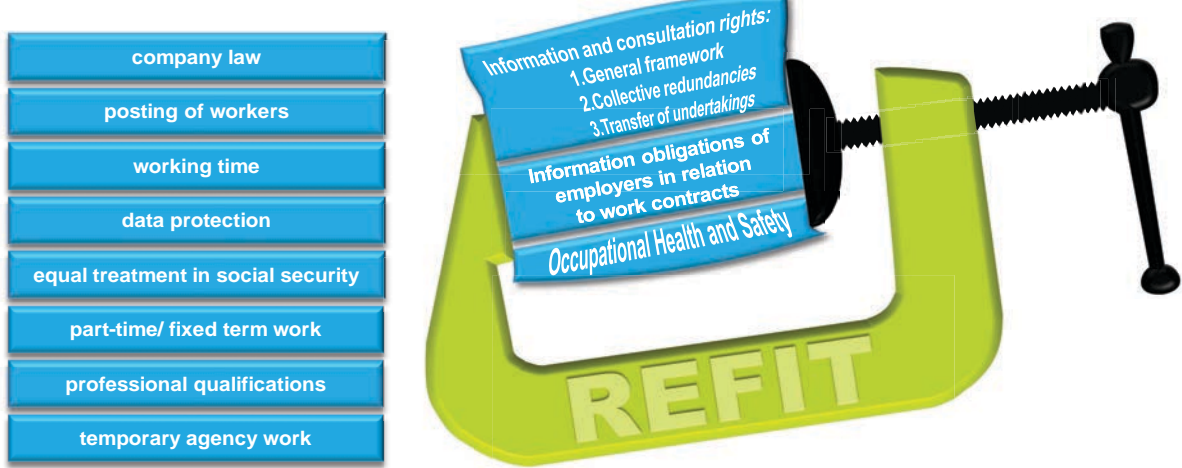
Although the Commission announced that it was considering consolidating these three Directives, it is actually doubtful whether they even lend themselves to such consolidation: not only does each have a different legal basis (and thus different legislative procedures and competences) but each deals, what is more, with a highly specific situation that can hardly be generalised without losing its specificity in terms of definition, scope, and impact.

The requisite Social Partner consultation, which was expected by September 2014, has not yet been launched at the time of writing. It is now expected in Spring 2015, over five years after the launch of the Fitness Check. Little information on the content of the consultation has been divulged so far, leaving minimal scope for trade unions and employers' associations to prepare for formal consultations.

Since 2013, further information and consultation rights have been subjected to Fitness Checks and/or the REFIT programme (see next page), all of which amounts to an unprecedented review of the legal *acquis communautaire* in particular in social matters.

Refitting information and consultation rights

Figure 4.2. Refitting information and consultation rights



Source: ETUI own research.

The social *acquis*: feeling the squeeze of the wrong method

With the aim of eradicating unnecessary administrative and regulatory costs, the Commission has also extended the fitness check approach to other areas; it has launched an evaluation of the framework Directive on occupational health and safety (OHS) and the 24 related individual and specific directives for which it provides a framework. Further information and consultation rights are next in the queue for the REFIT. These include participation rights laid down in company law, as well as employment law directives regarding posting of workers, working time, data protection, equal treatment in social security regimes, part-time, temporary agency and fixed-term work, professional qualifications, and employer obligations relating to employment contracts.

Health and safety experts have already demonstrated the inappropriateness of the methodology of the Standard Cost Model to assess the relevance of OHS legislation (Vogel and Van den Abeele 2010:13-18).

Further, a critical scrutiny of the methodology raises issues that go beyond OHS and indicates inconsistencies inherent in the method 'whenever law-making aims to achieve general objectives by putting in place arrangements for information, analysis or consultation' (Vogel and Van den Abeele 2010:13-18).

Finally, the method, which was originally developed in the US and further adapted in Europe in the late 1980s and 1990s, focuses on a deregulatory approach in which the potential benefits of legislation, in particular its social and environmental impacts, cannot be accurately addressed; it therefore reduces the evaluation of legislation to a simplistic estimation of costs.

Indeed, the lack of a qualitatively accurate social impact assessment remains a major concern, and not for stakeholders alone; the Impact Assessment Board set up by the Commission in 2006 as a quality control and support function has also raised this issue recurrently (European Commission 2013b:4).

Clearly, the understanding or definition of what may indeed be *necessary* regulatory burdens should be addressed in the same manner and should deserve the same attention and weight in decision-making as the current discourse in which all regulation is assumed to amount to an *unnecessary* burden. First Commission Vice-President M. Timmermans, who is also in charge of the Better

Regulation dossier, has not yet clarified how the new Commission intends to address these concerns.

Finally, NGOs and social partners, in particular the ETUC (ETUC 2014), as well as representatives of SMEs, have raised concerns about the most controversial propositions made by the so-called High Level Group on administrative burdens appointed by the Commission in 2006 and 2010 (High level group 2014). Among its conclusions, the group proposed that SMEs should be exempted from legislation on accounting and auditing rules, from the REACH regime and, as far as possible, from other EU obligations. Furthermore, the simplistic 'one in, one out' proposition, according to which, for any piece of legislation adopted, another should be eliminated, finds no sound or scientifically based justification in evaluation projects.

These concerns were vindicated by a dissident position taken by four members of the High Level Group who contend that the official conclusions of the Group fail to reflect the outcomes of compromises reached in the course of its work and that they are clearly deregulatory in purpose. The dissidents' claim is further underscored by the image of the High Level Group's work as non-transparent, non-representative, non-accountable and highly disrespectful of the interests of European civil society

Transnational information and consultation

Figure 4.3. Transposition of key provisions related to articulation in the recast EWC Directive

	Art. 6.2	Rules to apply if agreement is inadequate Art. 12	Sequence of I & C Recital 37	Inform local sites Art.10.2		Art. 6.2	Rules to apply if agreement is inadequate Art. 12	Sequence of I & C Recital 37	Inform local sites Art.10.2	
AT	✓	✗	✗	✓		IE	✓	✓⇌	✓	✗
BE	✓	✓	in the comments ⇌	✗		IT	✓	✓	✓ (in a coordinated manner)	✓
BG	✓	✓	✓⇌	✓		LT	✓	✗	✗	✓
CY	✓	✗	✗	✓		LU[2]	✓	✗	✗	✗
CZ	✓	✓☞	✗	✗		LV	✓	✓☞	✗	✗
DE	✓	✓	✓⇌ (at the latest)	✓		MT	✓	✓☞	✓	✗
DK	✓☞	✗	✗	✓		NL	✓	✓	✓⇌	✓
EE	✓	✓☞	✗	✓		NO	✓	✗	✗	✗
ES	✓	✓	✓⇌	✓		PL	✓	✓☞	✗	✗
FI	✓	✓☞	✗	✓		PT	✓	✓☞	✗	✓
FR	✓	✓☞	✗	✗		RO	✓	✓	✓⇌	✗
GR	✓	?	✗	?		SE	✓	✗	✗	✓
HR[1]	✓	✗	✗	✗		SI	✓	✗	✗	✓
HU	✓	✓	✓⇌	✓		SK	✓	✓ (implicit)	✗	✓
						UK	✓	✓☞	✗	✓ (sanction)

YES (vague)
YES (no specific timing)
YES (simultaneously)

☞☞☞
☞☞
☞

YES
NO

Source: own compilation by R. Jagodzinski, ETUI (2015).
[1] Based on decision promulgating the Law on European Works Councils, adopted by the Croatian Parliament on 15 July 2014 (Class: 011-01/14-01/111; No: 71-05-03/1-14-2); available at the time of writing only in Croatian. [2] Based on the draft Bill 6373/5. 6 July 2012.

EWCs and SE-WCs at the heart of a participation network

2015 will be an important year for European Works Councils (EWC) and, by extension, for SE-Works Councils (SE-WC): the 2009 Recast EWC Directive stipulates that the Commission shall report to the European Parliament, the Council and the European Economic and Social Committee, by June 2016, on the implementation of the Directive, making appropriate proposals where necessary. The main goal of the Recast EWC Directive was to make EWCs more effective (Recitals 7, 9, 14), especially by improving operational and hierarchical links between the national and European levels (Recitals 21 and 37). Clearly, EWCs and SE-WCs are ideally placed to function as centrepieces for information and consultation networks across multinational companies. With the prerogative for transnational information and consultation processes, these bodies have many opportunities to cooperate with the national/local works councils, local trade union organisations, and, where

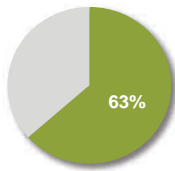
applicable, employee representatives on the supervisory board. Indeed, the Recast EWC Directive recognises the need for the EWC to expand upon its role within a network. Art. 6.2 c) obliges the parties to include in agreements *‘the arrangements for linking information and consultation of the European Works Council and national employee representation bodies’*; in case the parties should fail to do this (adequately), the Member States are obliged to provide for standard provisions (Art. 12) that should prioritise the EWC or at least treat it equally (Recitals 29 and 37). This process is not as straightforward as it might seem. Firstly, transnational decisions are likely to have national consequences and involve both levels of representation. This raises the thorny issue of whether the national-level or European-level employee representation should be consulted first. The Recast Directive does not provide much guidance on this issue: it calls upon the negotiating parties to include arrangements for linking the national and European levels. The Member States are instructed to design fallback provisions on linking the levels of representation that would apply only if the negotiating partners should fail to define this issue adequately. According to the analysis undertaken as part of an ongoing ETUI project on the transposition of the EWC Recast Directive (see Figure 4.4):

- Nine Member States fail to provide any fall-back solutions to be applied should the EWC agreement fail to include arrangements on articulation.
 - Nineteen Member States have implemented some sort of statutory fall-back provisions.
 - However, of these 19, 11 Member States’ transposition laws are silent on the question of the timing or sequence of information and consultation at the transnational vs national/local level.
 - Nineteen Member States make no reference to Recital 37, which reiterates the general principle that the EWC is to be informed and consulted earlier or at the same time as the national levels.
 - Eight Member States have clearly laid down that, in the absence of other arrangements in the agreements, the national and transnational levels are to be informed and consulted at the same time.
- Clearly, the national transposition laws have not merely failed to take up the Commission’s imprecise lead; rather than exercising their competence to develop the most appropriate solutions, they have merely reproduced the uncertainty left by the Recast EWC Directive. As a result, legally at least, national and European procedures are still viewed as independent of each other, rather than iteratively linked and articulated with one another. Corrective actions may have to be taken by the Commission.

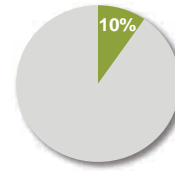
Transnational information and consultation

Figure 4.4. Articulation between processes: examples from the European Works Councils database

63% of EWCs and SE WCs have agreements in which it is laid down that the EWC does not infringe on national rights to I&C (principle of subsidiarity).



10% of EWCs and SE WCs have agreements in which the prioritisation of I&C between EWC and the national level is defined.



Source: ETUI, European Works Councils database (www.ewcdb.eu).

Articulation between processes

Since the entry into force of the Recast EWC Directive, parties to new EWC agreements are required to include arrangements on articulation between the different levels. The absence of such a requirement in the past meant that the work of EWCs has often run the risk of remaining procedurally separate from information and consultation processes at the local and national levels.

While it is clearly too soon to expect to find these developments widely reflected in the EWC and SE-WC agreements in the ETUI's database, it is worth looking to see whether and how agreements have thus far addressed this issue.

Our analysis differentiates between, on the one hand, the opportunities for exchange and collaboration amongst actors, and, on the other, systematic or conceptual links between processes.

Beginning with the articulation between processes, the analysis of agreements in force in 804 EWCs and SE-WCs yields the following findings:

At least 63% of EWC and SE-WC agreements in force contain a standard subsidiarity clause stating that the agreement does not impinge on the existing

rights and procedures of information and consultation in place at the national level. The issue here is one of competence and autonomy. The intention of such provisions is of course to ensure that local autonomy is not ceded to the European level—a common concern amongst members of Special Negotiation Bodies.

When considered alongside provisions that also outline the competence of the European level, however, the effect is less one of defending autonomy than of seeking to establish order.

In this sense, the EWC and SE-WC agreements were already – well before the Recast EWC Directive developed its more sophisticated conception of the specific competence of the European level – seeking solutions to the fundamental questions of allocation of authority over levels.

Another difficulty relates to the question of prioritising the European over the national level or vice versa. The dilemma of sequencing information and consultation between the national and European level has been a balancing act in practice and the subject of several court cases at national level (Alstom and Altadis in 2003, STI Microelectronics in 2006, Alcatel in 2007; see Blanke and Rose 2010: 348 and Brihi 2010).

It was in French case law in particular that the notion of the 'useful effect' of consultation at the one or the other level was developed as the decisive criterion

for determining whether the national or transnational level was to be informed and consulted first; in other words, rather than categorically prioritising one level over the other, the sequence was to be determined on a case-by-case basis. (Blanke and Rose 2010: 348 ff.).

The Recast EWC Directive seeks to resolve this dilemma by explicitly assigning the matter to the negotiating parties, while nonetheless defining a default provision according to which information and consultation is to take place at the same time at the national and transnational levels (see also Figure 4.3).

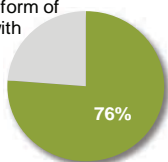
It should therefore come as no surprise that only 10% of the EWC and SE-WC agreements analysed have addressed the question of sequence, timing, or prioritisation of one level over the other, nor that this is more frequently to be found in agreements signed after January 2009.

Transnational information and consultation

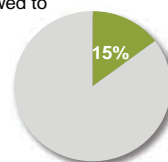
Figure 4.5. Articulation between actors: examples from the European Works Councils database

cooperation / link to national level information & consultation structures

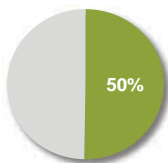
76% of EWCs and SE WCs engage in some form of communication about the work of the EWC with national/local levels.



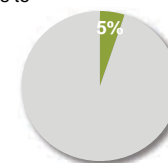
15% of EWCs and SE WCs are explicitly allowed to visit company sites / premises.



50% of EWCs and SE WCs provide for the attendance of external guests at the EWC Meetings.



5% of EWCs and SE WCs have arrangements to cooperate with and/or appoint members of supervisory board.



Source: ETUI, European Works Councils database (www.ewcdb.eu).

Articulation between the actors

When considering the means of articulation amongst the actors involved in information and consultation, it should be noted that the primary agents of articulation amongst the national and transnational level are of course the SE-WC and EWC members themselves; after all, these persons are as a rule members of the local employee representation.

Turning now to the analysis of agreements in force in 804 EWCs and SE-WCs, these yielded the following means of articulation amongst actors.

76% of the currently valid EWC and SE-WC agreements analysed contained provisions for some form of communication about EWC meetings: usually described as a formal report or communiqué. In rare cases, it is the official minutes which are to be disseminated. In some cases, an oral report at workplace assemblies is foreseen.

The target audience may be defined as the entire workforce, the employee representatives and/or trade union representatives across the company, and local management.

Finally, the agreements usually stipulate who is responsible for dissemination:

this may be either the employee representatives or the employer; in some cases, the only communication foreseen is a joint communiqué from management and the employee representatives. Specific reference is sometimes also made to the use of the company's own internal media, such as company newspapers or the intranet.

Agreements are becoming more specific, however: in texts signed after January 2009, the requirement that the EWC shall report back on the 'outcomes of information and consultation' to the national or local level, appears more and more often. It is not surprising that this specific wording, which is close to that of the Recast EWC Directive, began to appear only once the (draft) Recast EWC Directive's provisions were known.

The EWC and SE-WCs may also open their doors to other information and consultation actors: agreements in force and analysed in 50% of currently active EWCs and SE-WCs provide for the attendance of external guests at the EWC meetings. Sometimes these are permanent observer mandates used to include representatives from countries outside the European Economic Area, such as Switzerland or Turkey. Often the identity of the guests is not further defined, and it is often stipulated that management must agree to the presence of the guests. However, these provisions can be and are also used to bring in local staff members, works council members or experts.

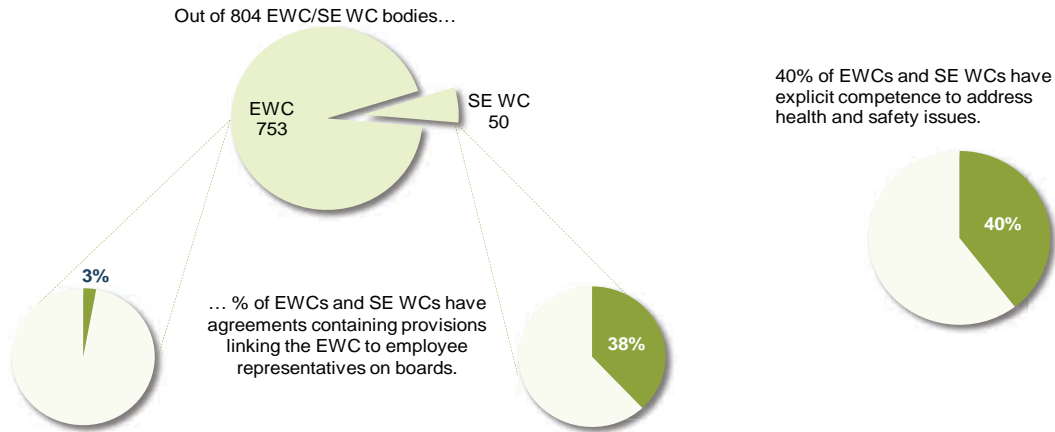
In addition to these more or less standard practice provisions, other forms of horizontal articulation amongst actors can be found in the agreements analysed.

Agreements in 50% of currently active EWCs and SE-WCs specifically provide for the attendance as guests of trade union or local works council members, or other staff members, such as for example when the EWC meets on site. Often this facility is used to ensure the participation of the expert acting on behalf of the employee side.

Agreements in 15% of EWC/SE-WCs provide their members with access to company premises; obviously this can be an important means of engaging at site level with the information and consultation procedures at EWC level, especially where no local employee representation is in place (Picard 2010: 88). Access is provided for the entire EWC or select committee, for individual EWC or select committee members, and most frequently for the EWC member from the particular country in question.

Articulation with other forms of workers' participation

Figure 4.6. EWCs and SE WCs with health and safety competence (% of total)



Source: ETUI, European Works Councils database (www.ewcdb.eu).

Joining forces with other employee representatives

Alongside the vertical dimension of articulation, which refers to the links between national-level and European-level information and consultation, articulation can also have a horizontal dimension: how can and do European Works Councils (EWCs) and SE-Works Councils (SE-WC) cooperate with other forms of worker representation, such as employee representatives sitting on company boards or health and safety representatives?

With regard to links with board-level employee representatives (BLER), some EWC and SE-WCs agreements in force contain provisions linking the EWC to worker representatives on boards. These provisions range from regular exchanges of information between EWCs or Select Committees and employee representatives on the supervisory boards, the participation of board-level employee representatives in EWC/SE-WC meetings, the EWC/SE-WC receiving the agenda and documents provided to supervisory board members, and, in the case of many SEs, to the right of SE-WCs to nominate the employee representatives on the board.

An openness to seeking links between board-level representation and the EWCs is more prevalent in SE-WCs (38% compared to 3% of EWCs), clearly because both forms of representation were the subject of SE negotiations.

On the other hand, a still relatively poorly exploited potential for EWCs is links to the networks of health and safety representatives operating in individual companies.

As will be seen in the next section, occupational health and safety representations (OHS representatives) are actually quite widespread in European workplaces.

Health and safety is also a well-established issue for workers' participation at the European level. At least 44% of the currently active EWCs and SE-WCs whose founding agreements have been analysed by the ETUI specifically include health and safety matters within the remit of the EWC. Whether or not companies launch explicit company-wide policies in this area, the existence of a legal corpus of common European standards (see next section) underscores the feasibility of cross-border cooperation on these issues across the company. Furthermore, whether or not OHS is listed as a topic for which the EWC or SE-WC has the right to information and consultation, the Recast EWC Directive strengthens the basis on which they can demand such involvement in any company policies

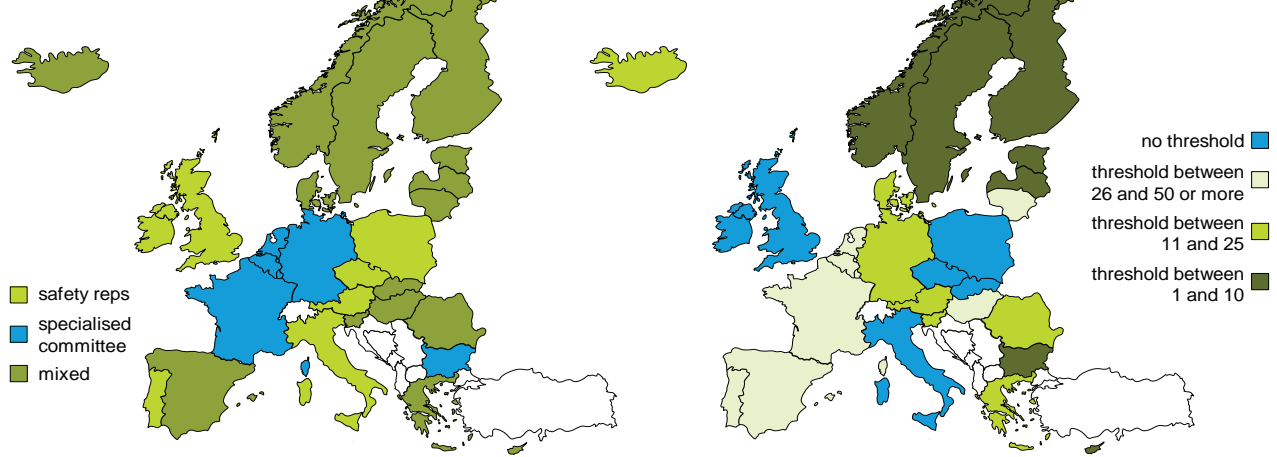
which have their origin at the European management level.

EWCs and SE-WCs can thus serve as a potentially useful and productive nexus between European-level participation and coordination and local action. EWCs can draw upon an additional, independent and institutionalised source of information about local H&S conditions by seeking contacts with statutory health and safety representatives. In this way, real problems, threats to workers' health, as well as ideas for solutions and initiatives can be brought directly to the attention of central management. On the other hand, national health and safety representatives could benefit greatly from information from EWCs/SE-WCs on the transnational dimension of the challenges facing them in their workplaces. These dynamics are just as important in manufacturing or industry, where workers are exposed to serious health and safety challenges, as in retail and services, where psychosocial risks are on the rise.

By seeking information exchange and collaboration with other employee representatives in the company, such as BLER and OHS representatives, EWCs and SE-WCs can strengthen the capacity of all workers' representatives' to build upon the European dimension of their work.

Health and safety representation in European workplaces

Figure 4.7. Forms of specialised health & safety representation



Source: ETUC ETUI Secafi 2014.

A potential European network of health and safety protection

Workers in the EU have long held wide-ranging rights to information and consultation on health and safety issues; indeed, since the adoption of the Community Charter of Fundamental Social Rights for Workers in 1989 (cf. Article 19) these rights form part of the general framework of workers' rights.

Accordingly, the 1989 Framework Directive on health and safety at work requires all Member States to ensure that employees and their representatives are informed and consulted about occupational health and safety (OHS) matters in the workplace. Employees and their representatives can voice their opinion on health and safety issues, and are also entitled to submit their own proposals for improvements and changes. Furthermore, as is essential for any interest representatives, the Directive makes it clear that these representatives must have appropriate rights and safeguards.

The 1989 Framework Directive on Health and Safety at work has provided

the context for 24 more detailed and targeted Directives, in which a specific participative role is foreseen for employee representatives in addressing issues such as handling heavy loads, chemical agents, or drilling equipment, or in improving the situation of specific groups of workers (see also ETUI and ETUC 2014: Chapter 7).

A recent ETUC study (Agostini and Van Crielingen 2014) identified widespread incidence of health and safety representation; despite a great variety of models in practice, there are significant analogous or comparable features across the different systems: as a rule, safety representatives are employed by the company, and legitimated by the workforce and/or the trade union; they are equipped with robust rights of information and consultation on specific issues; they reflect an obvious European consensus on the need to involve employee representatives in rule-making and rule-keeping processes, rather than by unilateral regulation.

According to conservative estimates, there are over one million safety representatives (Menéndez *et al.* 2009). These representative structures are overwhelmingly workplace-based; only seldom are structures in place that cover more than one site. Yet the local safety representatives still represent nodes for a potentially powerful network of cross-site cooperation on issues that are clearly not limited to individual workplaces.

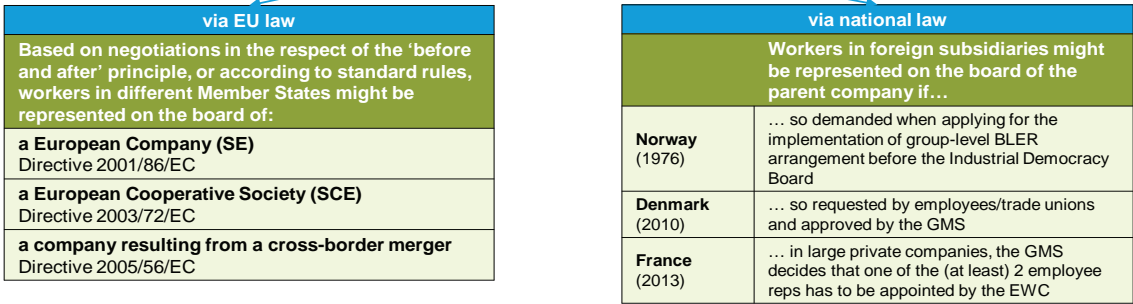
For example, OHS representatives have the right to ask the employer to take appropriate measures and to submit proposals to mitigate hazards for workers. Wherever the same hazards are present on different sites, there is scope for cooperation between the safety representatives. There may also be a strong case in favour of the company developing and implementing one policy for the whole company rather than approaching the issue site by site.

This is where the EWC or SE-WC could play a key role. The EWC or SE-WC could provide a platform or framework within which the local safety representatives could exchange and collaborate in the exercise of their existing (local) information and consultation rights. These local rights are easily complemented by making use of the EWC and SE-WC's rights to transnational information and consultation (see section 4.6, above). As demonstrated in the ETUC study (Agostini and Van Crielingen 2014), there is more commonality than difference in the different systems of health and safety representatives.

More and more areas of company decision-making are centralised across borders yet decentralised in their implementation and occupational health and safety could indeed prove to be a field in which the company's interest in efficiency and the workforce's interest in high standards could fruitfully coincide.

Board-level employee representation

Figure 4.8. Europeanisation of employee representation on company boards



Sources: Conchon (2011), Hagen and Mulder (2013) and author's own research. Notes: BLER: board-level employee representation; GMS: general meeting of shareholders.

The creeping europeanisation of board-level employee representation

The europeanisation of workers' participation via information, consultation and negotiation processes at the European company level is a well-established phenomenon in research and practice.

A less studied aspect has been, however, the gradual europeanisation of employee representation within the governance structures of companies.

European and national laws have combined to open up supervisory or management boards — long a bastion of single-country representation — to representatives of workforces from outside the company's home country. This development not only brings workers' participation into the locus of decision-making in MNCs but also contributes to the diversification of board members' profiles in line with the good corporate governance practices aimed at avoiding the bias of 'groupthink' on strategic decisions.

The European legal instruments which can result in the europeanisation of board-level employee representation are perhaps better-known than are their counterparts in national law: when a company chooses to 'go European' by either merging across borders, or by adopting the European Company (SE) or European Cooperative Society (SCE) legal status, any existing mechanisms for employee involvement should follow suit. The 'before and after' principle applies, whereby board-level employee representation should be maintained if it previously existed in the participating companies. However, such forms of representation must now be opened up to the Europe-wide workforce of the newly established company. This is usually achieved by allocating board seats according to the proportion of workers in each Member State.

In the case of SEs, this europeanisation has led to a diversification of the population of board-level employee representatives, who come from no less than 16 different countries, including countries like Belgium, the United Kingdom, Romania, and Italy where board-level employee representation is unknown at the domestic level (see also ETUI and ETUC 2014: 107). While the uptake of the SCE statute remains limited (European Commission 2012), that of the cross-border merger Directive is, on the contrary, clearly resulting in a further europeanisation of employee representation on company boards (see next page).

Perhaps less well known is the fact that, in at least three countries, the europeanisation of employee representation is allowed for by law. In Norway (since 1976), Denmark (since 2010) and France (since 2013), domestic law enables workers in foreign subsidiaries to be, under certain conditions, directly represented on the board of their parent company.

Furthermore, europeanisation of board-level employee representation might take place not only where the law specifically provides for it, but also in case where the eligibility criteria for individuals or the definitions of the scope of companies covered are so loose that they can be interpreted in a way which allows for the appointment of individuals from outside the home country company's workforce.

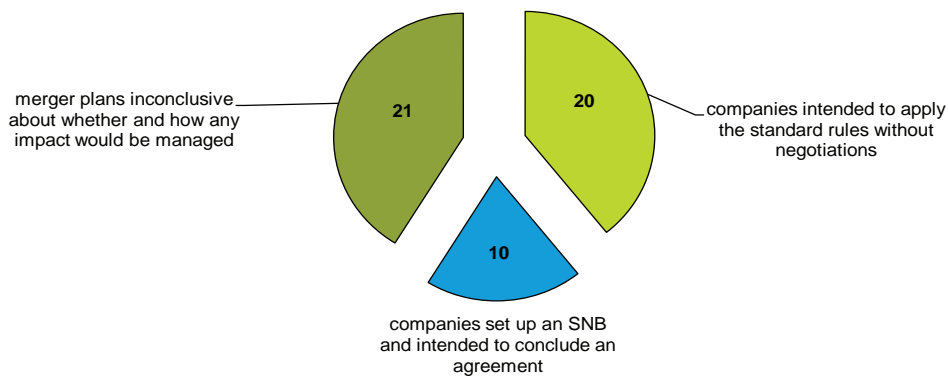
In Germany, for instance, board mandates which are reserved for external trade union officers can and have been taken up by non-German representatives (Krause 2012). In Sweden, meanwhile, the lack of a specific regulation does not in practice prevent employees of non-Swedish subsidiaries from being represented on the board of their (Swedish) parent company (Hagen and Mulder 2013).

Accordingly, the gradual europeanisation of board-level employee representation as described here, particularly if it is marked by close cooperation with other bodies such as EWCs and SE-WCs, can be expected to be a key driver of the europeanisation of industrial relations.

Board-level employee representation

Figure 4.9. The impact of cross-border mergers on board-level employee representation

How was the internationalisation of board-level participation addressed in the course of cross-border mergers?



Source: T. Biermeyer and Lexidale 2014. Data available for 51 out of 51 mergers found in which the CBM could be expected to lead to an internationalisation of board-level employee representation.

It's not just about SEs anymore

The Cross-Border Mergers (CBM) Directive (2005/56/EC) was intended to promote cross-border activity and restructuring in Europe by creating a legal framework allowing companies registered in different Member States to merge. Like the SE and SCE, the CBM Directive allows for the possibility of multinational employee representation on the board of the new company. Yet unlike the SE Directive, there is no provision for an EWC-type body. However, the threshold for the application of the before-and-after rule to safeguard board-level employee participation is higher than in the SE. One of the biggest departures from the SE legislation is that management may apply the 'standard rules' on participation unilaterally without starting a negotiation process. If negotiations are entered into, the procedures for worker participation (SNB, Standard Rules, etc.) draw very heavily on the SE Directive.

In an effort to map the effects of the CBM on the composition of employee representations on the board, the ETUI analysed the official cross-border merger plans submitted to the authorities in fourteen EU Member States.

The analysis identified 51 cases in which the merger could be expected to have an effect on the continued existence and national composition of employee representation on the board.

Of these 51 cases, only 10 companies actually convened or planned to convene a special negotiation body. As many as 21 companies decided unilaterally to forgo negotiations entirely and opted to apply the fallback rules contained in the Directive on board-level employee representation. In the remaining 21 cases, either there are some indications that negotiations could have or should have happened to address the existence and composition of the employee bench on the board, or there is no information provided at all.

The cumulative effect on the europeanisation of industrial relations of two decades of multinational, multicultural EWC negotiations and over a decade of SE negotiations is undeniable. In many cases the European Trade Union Confederations has been thrust into the limelight, at the same time unleashing a new awareness of the European dimension amongst trade unions and their members. The most striking finding of the CBM study is that trade unions and employees were not even given the chance to negotiate. The primacy of negotiations, formerly the linchpin of all EU legislation on workers participation for over a quarter of century, is being eroded.

Furthermore, the short-sighted but heavy reliance of the CBM implementation on the provisions of the previous SE Directive has given rise to several worrying gaps in the legal regulation of board-level employee representation in particular. For example, with respect to the nomination of board-level employee representatives in the absence of a negotiated agreement, the national transposition legislation merely refers to the relevant SE legislation. In the SE legislation, however, the fallback solution is that the SE-WC nominates the board members. How this rule is to be applied in the case of a cross-border merger where no EWC-type structure is present is entirely unclear.

In summary, the arbitrary and illogical experience with the implementation and practice of the CBM lends much weight to the ETUC's demand for a common European standard on workers' participation. Clearly it can be in no stakeholder's interest that workers' participation should be so inconsistent, so fragmented, and frankly, so arbitrary.

Workers' rights in EU company law

Figure 4.10. Workers' rights in EU company law



Source: ETUI own research.

Inadequate workers' rights in EU takeover bids

In 2004, the EU adopted the Takeover Bids Directive (2004/25/EC) designed to make it easier for companies listed on European stock markets to be taken over. An underlying assumption was that restructuring through takeovers is generally beneficial for the European economy and for workers. However, research conducted by the ETUI's GOODCORP network of corporate governance and company law experts indicates that many if not most takeovers result in job losses; furthermore, the inadequate provision for workers' rights in the Directive increases the risk that workers will be negatively impacted by takeovers.

The Takeover Bids Directive does define some nominal rights for workers. Firstly, workers' representatives are entitled to see the bidder's 'offer document' which, among other things, states the planned impact of the takeover on employment and production locations covered by the takeover. Secondly, worker representatives in the target firm are entitled to inform shareholders of their opinion of the effect of the takeover.

However, experience shows the inadequacy of these rights in practice. One weakness is that the worker rights provided for by the Directive come late in the takeover process. In many cases, particularly where companies are controlled by a large shareholder, the takeover is already, by the time the official bid is made, a 'deal concluded' between the bidder and the management of the target company. Workers need to be involved much earlier in the process, when the bidder management is considering the takeover or when management of the target company has been informally approached by the bidder.

A second weakness is that the Directive defines rights for workers of the takeover target, but not for workers in the bidding company. Studies show that employment losses after the takeover is completed are frequently more severe in the bidding company than in the takeover target. Thus the need for information and consultation rights during the takeover process is at least as great for employees of the bidder company as for those of the company to be taken over.

A third weakness is that the Directive does not define penalties for successful bidders who fail to keep their promises regarding employment and production locations. This became painfully obvious in case of the 2010 takeover of the UK firm Cadbury, in which, shortly after the takeover, the bidder company

Kraft failed to honour its promises to keep open a key factory employing 400 persons. Public outcry over this spurred a revision of the UK takeover code, which made statements in offer documents legally binding for a limited period of time.

Experience from countries with formally stronger workers' rights shows that workers in these countries do succeed better in defending their interests in takeover situations. For example, in a number of countries, worker representatives are involved at an earlier stage in the takeover process in companies in which they are represented on the board, or where works councils or local union representatives have extensive rights in restructuring situations. These rights exist for worker representatives both in the target and the bidding company. The EU Takeover Bids Directive should be revised to create such rights for workers in all EU countries, and to also define penalties for violations of statements made in offer documents. Worker rights could also be strengthened through a revision of EU competition policy to explicitly include social and environmental impacts in the criteria for approving or disapproving mergers.

Conclusions

The joints are still loose and squeaky, —but they're there

Workers' participation – taken to encompass information, consultation, and negotiations at all levels of the company – must be understood as a multi-level system, in which the processes and actors are intricately and flexibly articulated with one another. In carefully understanding and managing these links and interchanges, and in enabling an operationalisation of subsidiarity, workers' participation can be fully developed as a genuinely European process.

While many ideas and practices are in place, the articulation process itself has yet to function smoothly and effectively. Vertical articulation refers to the procedural and institutional links between national and transnational information and consultation which lie at the heart of the Recast EWC Directive's repeated attempts to define this relationship. The Recast EWC Directive provides more clear definitions of the competences, roles, and rights of the EWC, but what about the information and consultation at the local and national level which are meant to be linked to these strengthened transnational rights? Unfortunately, the Commission's REFIT exercise targets precisely those local rights which are meant to be articulated with those of the EWC: day-to-day information and consultation, as well as in cases of restructuring, both of which have clear transnational implications. Restructuring in multinational companies is seldom limited to individual countries; on the contrary, when whole divisions of a company are split off or shut down, information and consultation processes in may be invoked in several countries at once. In line with the Recast EWC Directive's new definitions, the cross-border implications of these processes put them squarely on the agenda of the EWC.

Furthermore, an examination of the transposition of those key provisions in the Recast EWC Directive that are meant

to foster articulation yields some worrying gaps and omissions. While there may be a legal consensus that, in cases of doubt, the provisions of the Recast EWC Directive apply even if they have been inadequately transposed, the fact remains that strictly speaking, in the national legislation, domestic information and consultation is still considered completely separate from its transnational counterpart.

It is too early to expect the Recast Directive's requirement that the EWC agreements define the arrangements for linking information and consultation at the transnational and national levels to be reflected in the ETUI's database of EWC and SE-WC agreements. However, there is already a range of other provisions found in the EWC agreements that can contribute to more systematic linkages between levels. Since many of the gaps remaining in agreements have been closed in practice, it is safe to conclude that the toolbox of vertical articulation is fairly well stocked; more and better practice in actually using the tools contained therein still remains to be developed, though.

Turning now to what can be called horizontal articulation, the potential to forge new linkages between EWCs and SE-WCs and board-level employee representatives at the peak of the company on the one hand, and workplace health and safety representatives on the other hand, was explored. Bringing the voice of workers to the highest level of strategic and operational decision-making within companies is an important source of information and influence that can also be brought to bear on information and consultation processes at all other levels, both formally and informally. It remains to be seen how systematically transnational information and consultation can be linked to board-level employee representation even when only one country is represented on the board.

Linked to this, the gradual europeanisation of the employee bench on the boards of companies represents an entirely new chapter in the europeanisation of industrial relations, for two reasons: firstly, the actors concerned are confronted with the multi-nationality of the company's workforce, and secondly, opening up the board to employee representatives from different countries enhances the possibility for

board-level employee representation to be more systematically articulated with more countries and sites. Analysis of the application of the Cross-Border Mergers (CBM) Directive showed, on the one hand, that it had led to an unprecedented europeanisation of the employee side of the boards of the companies concerned, but also that the CBM legislation and its transposition into national law has left some baffling legal gaps and loopholes. The other horizontal articulation that deserves to be actively developed further is that between transnational information and consultation and workplace health and safety (OHS) representatives. The widespread incidence of OHS representatives across European workplaces amounts to a potentially powerful, well-resourced, trade-union-oriented network of activists at the company level. Multinationals are increasingly centralising policy areas, including health and safety protection, and the introduction of new technologies and new working methods across companies also raises new questions in the area of health and safety. Where these developments have cross-border implications, the EWC is competent to be involved in information and consultation at the European level, yet it is the local health and safety representatives who will be confronted with that policy. All the more reason to better link up those implementing it with those who have early, comprehensive and transnational information and consultation rights.

Another source of information and consultation rights which can and should usefully be articulated with those of the EWC and SE-WC is to be found in company law. For the Takeover Bids Directive, however, there are several important weaknesses in the current arrangements which mean both that information and consultation are provided far too late in the process, and also that they risk not getting any real purchase on the key issues.

Overall, we can conclude that while many of the parts of the whole are in place, some are more developed than are others. Between the national-level and the European level, and between them and employee representation rights in the area of health and safety and on the board, there remains much work to be done to build robust but flexible links.

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List of abbreviations

AGS	Annual Growth Survey
AMECO	Annual macro-economic database
BLER	board-level employee representation
BNEF	Bloomberg New Energy Foundation
CB	collective bargaining
CBM	cross-border merger
CJEU	Court of Justice of the European Union
CEE	central and eastern European
DGA	Declaration of general applicability
DGB	Deutscher Gewerkschaftsbund
DG ECFIN	Directorate General for Economic and Financial Affairs, European Commission
EA	Euro Area
EC	European Commission
ECB	European Central Bank
ECSR	European Committee of Social Rights
ECtHR	European Court of Human Rights
EEA	European Environment Agency
EFSF	European Financial Stability Facility
EFSM	European Financial Stability Mechanism
EIB	European Investment Bank
EPL	Employment Protection Legislation
ESC	European Social Charter
ESM	European Stability Mechanism
ETUC	European Trade Union Confederation
ETUF	European Trade Union Federation
ETUI	European Trade Union Institute
EWC	European Works Council
EWCD	European Works Council Directive
EWCDb	European Works Councils database
EWPPC	European Workers' Participation Competence Centre
GDP	gross domestic product
GHG	greenhouse gas
GOODCORP	ETUI research network on corporate governance
H&S	health and safety
I&C	information and consultation
ICTWSS	Database on Institutional Characteristics of Trade Union, Wage Setting, State Intervention and Social Pacts
ILO	International Labour Organisation
ILO CCAS	ILO Conference Committee on the Application of Standards
ILO CEACR	ILO Committee of Experts on Application of Conventions and Recommendations
ILO CFA	ILO Committee of Freedom of Association
IMF	International Monetary Fund
IR	industrial relations
NEET	people not in employment, education or training
NGO	non-governmental organisation
NMS	new member states
OECD	Organisation for Economic Co-operation and Development
OHS	occupational health and safety
OMT	outright monetary transactions
PPS	purchasing power standard
QE	quantitative easing
R&D	research and development
REACH	Registration, Evaluation, Authorisation and Restriction of Chemicals,
REFIT	regulatory fitness and performance programme
SCE	European Cooperative Society
SE	Societas Europaea (European Company)
SE-WC	SE works council
SME	small and medium enterprises
SNB	special negotiation body
UN	United Nations
UNEP	United Nations Environment Programme
USD	US-Dollar
VAT	value added tax
WSI	Wirtschafts- und Sozialwissenschaftliches Institut in der Hans-Böckler-Stiftung

The Benchmarking Group

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