

European economic governance and its intervention in national wage development and collective bargaining

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1. Introduction

The European system of economic governance, set up over a period by the EU and its member states in order to cope with the crisis, represents a new model of European politics that can be described as a new European interventionism. This new approach is characterised by three key features. First, it stands for an increasingly authoritarian top-down approach, with the European level directly determining national-level policies, even in policy areas such as wages and collective bargaining, in which the EU has no formal competences. The second key characteristic of the new European interventionism is the strengthening of the European executive organs – in other words, the European Commission and the European Council – vis-à-vis parliaments both at European and at national level (Oberndorfer 2013a). And the third is its one-sided focus on fiscal austerity and cost competitiveness, which considers wages – or, more specifically, downward wage flexibility – to be the main adjustment mechanism for the current macroeconomic imbalances.

As a consequence, the establishment of the new system of European economic governance enabled European institutions such as the European Commission, the European Central Bank (ECB) and the European Council to intervene directly in national collective bargaining arrangements by pushing for wage cuts and freezes and the decentralisation of wage setting arrangements. The new system of European economic governance therefore marks a paradigm shift in the EU's approach to collective bargaining, from the acceptance of free collective bargaining to direct political intervention in national bargaining outcomes and procedures.

1. This chapter is a revised and updated version of Schulten and Müller (2013).

The objective of this chapter is to trace this paradigm shift and its implications for wage development and national collective bargaining arrangements. Section 2 gives a brief overview of the development of the new system of economic governance and illustrates how European policy, step by step, tightened its grip on national wage policies and wage-setting arrangements. Based on an analysis of the underlying political and economic rationale of the new interventionist approach, Section 3 describes the various tools of intervention, in terms of both their procedural characteristics and their content. Section 4 represents the empirical core of this chapter and looks at the key areas of supranational political intervention in national wage policies: the public sector and minimum wages; the decentralisation of multi-employer bargaining arrangements; and, finally, the impact of all these interventions on the overall pattern of wage development. The concluding Section 5 discusses the future of a European wage policy and the strategic options available to trade unions if they wish to counter the current strategy of European interventionism.

2. The role of wage policy under the new European economic governance

According to the Treaty on the Functioning of the European Union (TFEU, Article 153.5), it is explicitly ruled out that the EU shall be granted any competences in the area of wage policy. This provision was introduced for the first time in 1991, with the so-called Social Protocol of the Maastricht Treaty. Later on it became part of the Social Chapter of the Amsterdam Treaty of 1997. Paradoxically, the exclusion of wage policy from the realm of EU competences was introduced at the same time as the decision to launch the European Monetary Union (EMU). The latter has led not only to a new stage of European economic integration, but has also created a new macroeconomic regime which has set new terms and challenges for national wage policies (Hein *et al.* 2005).

The existing legal framework, however, has never prevented EU institutions such as the European Commission, the ECB or even the European Council from making general statements and recommendations about wage policy. The Broad Economic Policy Guidelines (BEPG), for example, which have been regularly drafted by the Commission and adopted by the Council since 1993, have always included demands for more moderate and more dispersed wage developments (Hein and

Niechoj 2007). Moreover, the so-called Macroeconomic Dialogue was established in 1999 as a forum for exchanges of views between the Council, the Commission, the ECB and the European employers' and trade union organisations, aiming at a 'coordination of economic policy and improvement of mutually supportive interaction between *wage developments* and monetary, budget and fiscal policy' (European Council 1999; authors' emphasis). Finally, it has been the European trade unions, in particular, which since the late 1990s have continually emphasised the need for European coordination of collective bargaining in order to prevent downward wage competition in Europe (Schulten 2002, 2003).

While these early European initiatives in the area of wage policy shaped a certain political and economic discourse at EU-level, they have never led to legally binding policy initiatives. If at all, they have had only very limited impact on the practice of wage policy, which remains almost exclusively the result of national wage-setting institutions. However, the situation started to change fundamentally with the emergence of the so-called 'new European economic governance'. The latter encompasses a set of new policy rules and procedures that have been developed in the wake of the economic crisis that hit in 2008 and which are intended to achieve a more binding European coordination of economic policy (Deryse 2012).

A new system of European economic governance began to emerge in 2010 with the adoption of the 'Europe 2020' strategy, which included the introduction of the so-called 'European Semester' as a yearly cycle of European economic policy coordination. Every year the EU issues policy recommendations for all EU member states on the basis of a detailed economic analysis. These recommendations must then be transposed into national 'reform programmes', whose effectiveness will again be assessed by the EU.

The annual economic coordination cycle was further developed in 2011 with the adoption of a package of five Regulations and one Directive. The so-called 'Six-Pack' contains two new major instruments intended to intensify economic policy coordination: one is the establishment of a new system of enhanced fiscal and macroeconomic surveillance through an alert mechanism for the early detection of macroeconomic imbalances based on a 'scoreboard' of economic indicators. The second is the introduction of an automatic procedure for imposing financial sanctions on those countries that fail to comply with the policy recommendations

issued on the basis of the alert system. As a consequence, the European policy recommendations for member states lose their purely voluntary character and reach a much higher degree of liability.

Wage policy plays a prominent role within the new system of European economic governance. This was underlined, in particular, by the adoption of the Euro Plus Pact in 2011, which defines wages explicitly as the main economic adjustment variable for overcoming economic imbalances and fostering competitiveness. Consequently, the Euro Plus Pact calls for close monitoring of wages and wage-setting institutions at European level (European Council 2011). Moreover, the new 'scoreboard' of economic indicators that have to be considered by the EU member states explicitly includes unit labour costs and defines a certain margin for 'permitted' wage and labour costs developments. Currently, all countries within the euro zone are allowed a maximum 9 per cent increase in unit labour costs over a period of three years (12 per cent for EU countries outside the euro zone) (European Commission 2012a).

As a result of the new European economic governance, the EU's influence on national wage policies has grown substantially, especially since EU policy recommendations have become more binding because member states that ignore them face financial sanctions. The possible scope of the new European interventionism in the area of wage policies becomes most obvious in those crisis-ridden countries that rely on financial assistance from the EU and/or the International Monetary Fund (IMF). In exchange for new credits, these countries have had to introduce far-reaching policy reforms, which were laid down either in so-called 'Memorandums of Understanding' with the 'Troika' comprising the European Commission, the ECB and the IMF (in the case of Cyprus, Greece, Ireland and Portugal) or in 'Stand-By Arrangements' with the IMF (in the case of Hungary, Latvia and Romania). The policy measures that these countries had to agree to included far-reaching labour market reforms, such as changes in wage development and collective bargaining systems.²

Strong European intervention was also felt in Spain, which received international financial aid for its financial sector. Although this rescue plan is not for the complete economy, it has been linked with a Memorandum

2. For an overview of the broad range of labour market reforms imposed by the Troika or the IMF in the various European countries see: Clauwaert and Schömann (2012) and Hermann (2013).

of Understanding in which the Spanish government had to commit itself 'to implement the country-specific recommendations in the context of the European Semester', including more fundamental changes in labour market regulation (European Commission 2012b). Before that, it was the ECB that practiced a more 'unofficial' form of intervention by making the purchase of government bonds conditional on policy reforms. The same holds true for Italy, where in autumn 2011 a confidential letter from the top of the ECB was leaked to the public, in which the Italian government was asked to carry out far-reaching structural reforms, including the radical decentralisation of collective bargaining (Meardi 2014; for the letter see: Draghi and Trichet 2011). Since autumn 2012, this kind of policy has become more official after the ECB announced that it would buy state bonds without limit if the affected countries agree to certain policy reforms.

Following the proposals made by the European Commission (2012c) for a 'deep and genuine economic and monetary union', as well as by German Chancellor Angela Merkel (2013), the next step in the development of the new European economic governance would be the conclusion of competitiveness pacts between the EU and the member states, in which the latter commit themselves to implement 'structural reforms', which include wage policy and collective bargaining. Following the logic of the Memorandums of Understanding, this new system of competitiveness pacts has been rightly labelled 'Troika for everyone' (Oberndorfer 2013b) and would transpose current practices in bailout countries to the EU as a whole. Even though the initiative to conclude competitiveness pacts was blocked at the meeting of the European Council in December 2013, the principal idea remains on the political agenda of the newly appointed Commission (Oberndorfer 2014).

3. European intervention in national wage policies

There are at least three main sets of arguments that serve as legitimisation for European interventions in the area of wage policies. Two are at a more macro level and reflect the dominant perception of the current crisis in the EU as a debt crisis and a crisis of competitiveness. First of all, the EU argues in favour of a strong austerity policy in order to overcome the debt crisis. This view became even more pronounced with the adoption of the Fiscal Pact in March 2012, which can be interpreted as an attempt to make the austerity approach irreversible (Konecny 2012:

389). Austerity policy always has an immediate impact on wage policy as labour costs in the public sector often represent a significant part of public budgets. Thus, all current austerity programmes include demands for cuts and freezes of public sector wages.

Secondly, the growing economic imbalances between the so-called ‘surplus’ and ‘deficit’ countries in Europe are understood to be the result of diverging developments in national competitiveness, caused mainly by diverging trends in wages and unit labour costs. Before the creation of EMU, deficit countries would have solved their competitiveness problems by devaluating their national currency. Because within EMU this is of course no longer possible, the less competitive countries need a policy of ‘internal devaluation’, which involves increasing competitiveness by reducing labour costs, which is thus understood as a ‘functional substitute to currency devaluation’ (Armington and Baccaro 2012: 256). For the ECB, one of the ‘main policy conclusions’ of its 2012 report ‘Euro area labour markets and the crisis’ is that ‘downward wage rigidities are an impediment to restoring competitiveness (and thus employment), particularly in those euro area countries that had accumulated external imbalances before the crisis’ (ECB 2012: 9). While currently the dominant view in the EU is to put the whole burden of rebalancing on the deficit countries, there is also a more Keynesian variant of this argument that states that the surplus countries (in particular, Germany) should play a stronger role by promoting stronger wage growth (for example, Grauwe 2012; Malliaropoulos and Zarkos 2013). Both views, however, focus on wages as the core – or sometimes even only – adjustment variable in the EMU.

There is a third set of more micro-oriented arguments that have regained prominence against the background of the sharp increase in unemployment in many European states. These arguments are based on the neo-classical view that unemployment is mainly the result of institutional ‘rigidities’ in the labour market. A perfect example of this view was presented in the DG ECFIN Report ‘Labour Market Developments in Europe 2012’, which presented a long list of so-called ‘employment-friendly reforms’. Apart from various issues of labour market deregulation – for example, cutting unemployment assistance, reducing employment protection and increasing the retirement age – the list also includes a subsection on the ‘wage bargaining framework’, which demands that member states do the following:

- ‘decrease statutory and contractual minimum wages’;
- ‘decrease bargaining coverage’;
- ‘decrease (automatic) extension of collective agreements’;
- ‘reform the bargaining system in a less centralised way, for instance by removing or limiting the “favourability principle”’;
- introduce/extend ‘the possibility to derogate from higher level agreements or to negotiate firm-level agreements’;
- promote measures that ‘result in an overall reduction in the wage setting power of trade unions’ (European Commission 2012d: 103–104).

Considering the international research on the macroeconomic performance of different collective bargaining systems,³ DG ECFIN has rightly acknowledged in another paper that ‘there is no strong evidence in support of a single superior wage setting model’ (European Commission 2011: 17). Nevertheless, in its policy recommendations, DG ECFIN always takes a decentralised, company-based bargaining system as the benchmark, because this system seems to allow companies to adjust better to varying economic developments. Regarding this point, the Commission received support from the Euro Plus Pact, which calls on member states, somewhat convolutedly, to ‘review the wage setting arrangements, and, where necessary, the degree of centralisation in the bargaining process’ (European Council 2011: 16).

Moving from analysing the underlying rationale to assessing the practice of EU intervention in wage policy, it should be noted that in recent years 19 out of 28 EU member states have been affected by at least some EU initiatives (see Table 1). For the EU there are two main channels of intervention, which vary in the extent to which they are binding. The first channel relies on the country-specific recommendations issued within the framework of the European Semester. Even though these recommendations are not legally binding, in combination with the new alert mechanism, which includes the possibility of financial sanctions, they might become more binding in future. The second channel relies on the *quid pro quo* of reforms for financial support. Because the wage policy measures are laid down in agreements between the Troika or the IMF and national governments, this second channel of political intervention has a more immediate impact and is therefore more binding in character.

3. See, for example, Aidt and Tzannatos (2008) and Traxler and Brandl (2011).

Table 1 European interventionism in the area of wage policy, 2011–2014

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

Source: Authors' compilation on the basis EU 2020 country-specific recommendations for 2011–2014 (available from the EU web page: http://ec.europa.eu/europe2020/index_en.htm) and the 'Memorandum of Understanding' between EU-ECB-IMF or IMF and national governments (available from the IMF web page: <http://www.imf.org>).

However, the demands for certain measures usually come from the Troika, which insists on their implementation as a precondition for financial assistance. Therefore, one can say that in practice many national initiatives in the area of wage policy have often been 'imposed' by the Troika.

For most countries, however, the EU's attempts to influence national wage policies have up to now been limited to (non-binding) country-specific recommendations within the framework of the European Semester. So far, the EU has used these instruments for 13 member states. In many

cases, the recommendations have been relatively vague, calling for moderate development of wages in general (Bulgaria, Finland, Italy, Slovenia and Spain) or of minimum wages in particular (France, Slovenia and Portugal). While in the case of Sweden the EU *de facto* demanded an extension of the low wage sector, in the case of Germany it called for wage development to remain in line with productivity growth, which can be understood as a plea for a somewhat higher wage growth. In 2014, a further three countries (Belgium, Croatia and Italy) received the recommendation to ensure that wages stay in line with productivity, with the opposite intention of ensuring moderate wage increases, because the EU Commission demands that nominal wages should follow real productivity without any compensation for inflation.

Much more precise recommendations have been given regarding the reform of wage-setting systems. In the case of Belgium, Italy and Spain, the EU has asked for a decentralisation of collective bargaining by making it easier for companies to derogate from multi-employer agreements. Finally, Belgium, Cyprus, Luxembourg and Malta are strongly criticised as the only countries in the EU that still have a national system of automatic wage indexation (Mongourdin-Denoix and Wolf 2010). Here the EU has demanded, if not the abolition, at least a fundamental reform of these systems in order to make indexation less strict and binding.

The second, more binding channel of political intervention has been applied to seven states that have been under international bailout programmes (Cyprus, Greece, Hungary, Ireland, Latvia, Portugal and Romania). In all seven cases, EU interventions affected both the current development of wages and the structure of collective bargaining. In addition, the Troika has made explicit reference to the country-specific recommendations developed within the framework of the European Semester with respect to Spain.

In terms of content, the Troika first of all demanded significant cuts and subsequently freezes of public sector wages in order to reduce public deficits. Furthermore, the Troika has called for cuts (in the case of Greece and Ireland) or freezes (in the case of Latvia, Portugal and Romania) of national minimum wages. Both measures were also intended to have a dampening effect on wage developments in the private sector. However, in the case of Greece, the Troika has even called for a freeze of seniority allowances in private collective agreements. Finally, in Greece, Portugal and Romania (as well as Spain) the Troika has pushed for essential

changes in the national wage-setting systems, aiming at a radical decentralisation of collective bargaining and a sharp restriction of the criteria for extending collective agreements.

4. Impact of the new European interventionism on recent developments in national wage policies

In the wake of the current crisis, the emergence of a new European interventionism has already shaped the development of national wage policies in many European countries, and in particular in those countries that are currently under the economic surveillance of the Troika. Here, international pressure has also fostered the development of a new state interventionism at national level, which in every case has included the same measures: pay cuts or freezes in the public sector, a restrictive minimum wage policy and the fundamental reconstruction of the collective bargaining system, leading to a radical decentralisation or even dismantling of multi-employer bargaining. The objective of the present section is to analyse in more detail the concrete implications of the new European interventionism in the three above-mentioned areas. Because the impact on public sector wages and the decentralisation of collective bargaining systems has been particularly pronounced in the countries under international economic surveillance, the key focus of the respective sub-sections is these eight countries. The sub-sections on minimum wages and real wage developments open the perspective to the whole of Europe in order to illustrate the broader impact of European interventionism on wage developments in Europe more generally.

4.1 Cuts and freezes of public sector wages

Public sector pay cuts and freezes have been one of the main tools of direct intervention used by national governments in an effort to reduce public spending in order to stabilise government finances and to 'reassure' bond markets (ILO 2013: 20). Public sector wages are an easy target for direct political intervention because in many European countries the salaries of public sector employees are regulated not by collective agreements but by law, thus enabling governments to impose pay cuts and freezes unilaterally. Direct intervention in public sector wages was furthermore given additional legitimacy by the Euro Plus Pact,

which emphasises the wage-leadership function of public sector wages in many countries, and therefore explicitly calls on the EU member states to ‘ensure that wages settlements in the public sector support the competitiveness efforts in the private sector’ (European Council 2011: 16).

Recent analyses of public sector wage developments during the crisis identify the following key tendencies (Glassner and Keune 2012; Grimshaw *et al.* 2012, ILO 2013, LRD 2012). First, wage cuts and freezes have by no means been restricted to those countries hit particularly hard by the crisis. Between 2008 and 2012, public sector pay reforms were adopted by at least 18 out of the 27 EU Member States. The fact that pay cuts and/or freezes were also imposed in countries that are characterised by a comparatively low level of debt (such as the Czech Republic), or that have remained relatively unaffected by the crisis (such as Poland) suggests that, in some countries, the crisis has been used as a pretext to introduce austerity measures (Grimshaw *et al.* 2012: 11). The second key trend is that, in most EU countries, public sector pay cuts and freezes have been introduced unilaterally by the state. Even in countries with a tradition of free collective bargaining in the public sector – such as Ireland, Portugal, Spain, Italy and the United Kingdom – ‘public sector employers have bypassed established collective bargaining procedures and imposed pay cuts and pay freezes unilaterally’ (Glassner 2010: 23). Third, in the majority of countries, pay adjustments have been implemented in two or three consecutive rounds. They were thus, as a rule, not introduced as a one-off emergency measure but as part of a longer and sustained strategy of putting pressure on public sector wages.

Table 2, which provides an overview of the measures implemented in those countries that were subject to direct supranational political intervention, shows that the most drastic measures have been introduced in Romania, Latvia and Greece with pay cuts of 30 per cent or more. In Romania, the wages of public sector employees were cut by 25 per cent in 2010. However, because the government also raised VAT from 19 to 24 per cent and introduced cuts in bonuses and additional payments (such as food allowances and rent subsidies), the effective wage decrease was close to 50 per cent (Glassner 2010: 19). In Greece, nominal wages were cut by an average of 14 per cent between 2009 and 2010, which together with the 17 per cent pay cut between 2011 and 2013 amounts to a total pay cut of approximately 30 per cent (Busch *et al.* 2013: 12). In Latvia,

Table 2 Public sector pay cuts and freezes in EU countries under EU, ECB and/or IMF surveillance (2008–2013)

Country	Wage cut/freeze	Unilateral state decision
Greece	Pay freeze for all earnings >€2000 per month (2009) Cuts of 12–20% in general public sector (2010) Further cut of up to 17% over three years (2011–2013)	Yes
Hungary	Pay cut of 7% (2008–2010) Abolition of 13th month salary in general public sector (2009) Pay freeze (2010–2012 or longer)	Yes
Ireland	Pay freeze for civil servants (2008–2010) General pay freeze (2010–2014) 5–7% cut in net pay as a result of pensions levy inversely related to level of income (2009) 5–8% cuts progressively related to level of income (2010)	Yes
Italy	Pay cut of 5–10% for high wage earners (2010) Pay freeze and reduced productivity bonuses (2010–2014) Suspension of automatic pay increases for certain groups of employees, such as magistrates, police force, state lawyers, military personnel and so on (2010–2013)	Yes
Latvia	Unspecified pay cuts (2008) 15–30% pay cuts (2009) Pay freeze (2010–2012)	Yes
Portugal	Pay freeze for civil servants and employees in public companies (2010–2013) 5% pay cut for higher paid civil servants (2010) 3.5–10% pay cut for salaries >€1500 per month (2011) 13th and 14th monthly pay abolished or reduced (2012–2013)	Yes
Romania	25% pay cut but cut in additional payments can mean cuts of up to 50% (2010) Abolition of a wide range of bonuses and 13th monthly pay (2011)	Yes
Spain	5% pay cut for civil servants (2010) Pay freeze for civil servants (2011–2012) 14th monthly pay abolished for all public sector employees (2012)	Yes

Source: Glassner and Keune (2012); Grimshaw *et al.* (2012); ILO (2013).

public sector wages were cut by 15 per cent in spring 2009 in return for the 7.5 billion euro loan provided by the IMF and the EU. Particularly hard hit by the cuts in public expenditure were teachers, whose wages were cut by almost one-third from September 2009 onwards (Glassner 2010: 17). These measures were particularly painful because these dramatic cuts were followed by a pay freeze between 2010 and 2012. The

pay cuts in the other countries range between 5 and 15 per cent, with wages subsequently being frozen at the lower level.

However, when assessing the real extent of the reduction in the disposable income of public sector workers, it is important to bear in mind that these figures only reflect cuts in nominal wages. Often these cuts occurred in combination with further measures, such as the abolition of thirteenth and/or fourteenth monthly wages, cuts in pension entitlements (in Greece and Spain) and other allowances, for instance for accommodation (in Portugal, Romania and Hungary), medication (in Hungary and Portugal) and food (in Portugal and Romania) (ILO 2013: 28; Vaughan-Whitehead 2012: 8).

The far-reaching cuts in the public sector in the crisis countries have also had a negative impact on the overall wage distribution. One consequence is that the public sector wage premium that traditionally exists vis-à-vis the private sector, due to the higher skills level and seniority in the public sector, has been reduced substantially. In Romania and Hungary the wage premium has even turned into a public sector wage penalty. The extreme case is Romania, where in 2009 average wages in the public sector were 45 per cent higher than in the private sector, but by the end of 2010 this wage premium had been turned upside down, with average wages in the public sector being 15 per cent lower than in the private sector (Vaughan-Whitehead 2012: 10).

4.2 Cuts and freezes of minimum wages

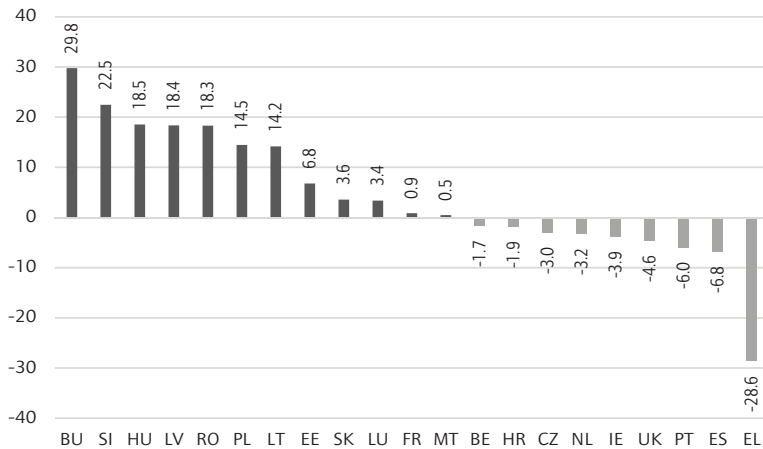
Besides public sector wages, national minimum wages offer a second opportunity for political intervention. This is all the more true for those many European countries in which the development of minimum wages not only determines the wages of those at the bottom of the wage scale, but also influences overall wage developments. This 'spillover effect' of national minimum wage developments is particularly strong in countries with comparatively weak collective bargaining systems and low bargaining coverage (for example, in many central and eastern European countries), but also in countries such as France, with relatively high minimum wage levels, where an increase in the minimum wage has an important signalling effect for overall wage developments (Aeberhardt *et al.* 2012). Moreover, national minimum wages are an obvious instrument for state intervention, as in most of the 20 out of 28 EU

member states with a national minimum wage it is statutorily determined by the state. The only exception is Belgium where the national minimum wage is set by a national collective agreement for the whole of private industry (Schulten 2014). Until recently, the same applied to Greece. However, following political pressure from the Troika (IMF 2012: 17), in November 2012 the Greek government passed a law stipulating that in future the minimum wage in Greece will be determined on a statutory basis.

Considering the impact of minimum wages on overall wage development, they also play a fairly prominent role in the new interventionist strategies at European level (for the following see Schulten 2013). The first country affected by this was Ireland, which under pressure from the Troika cut its minimum wage by 1 euro from 8.65 to 7.65 euros an hour (a decrease of nearly 12 per cent) in February 2011. After a change in the Irish government, however, the minimum wage cut was retracted and the former rate of 8.65 euros was restored in July 2011. The Troika agreed to this because the Irish government had decided to reduce social security contributions for employers in return.

In other countries – such as Latvia, Portugal and Romania, as well as, more informally, Spain – the Troika has pushed for freezes of national minimum wages. In the context of a Memorandum of Understanding, Portugal, for instance, had to agree that for the coming years minimum wage increases would be possible only with the approval of the Troika. The most radical intervention took place in Greece, where the Troika decreed a radical cut in the minimum wage of 22 per cent (and even of 32 per cent for young workers below 25 years of age), which came into effect in February 2012. Because at the time the Greek minimum wage was determined by a national collective agreement the Troika intervention was even more problematic as it openly violated the principle of free collective bargaining. After the ILO (2012a) criticised the minimum wage cut as a violation of collective bargaining autonomy and fundamental ILO Conventions, the Troika demanded that in future the minimum wage should be determined statutorily by the state. This demand was promptly implemented by the government, so that since November 2012 the Greek minimum wage has been determined on a statutory basis.

The political pressure put on minimum wages during the past four years (2010–2013) led to a drop in the real value of the minimum wage – that is, the nominal value of minimum wages deflated by consumer prices

Figure 1 Development of real national minimum wages, 2010–2013 (%)*

Note: *Increase or decrease from 1 January 2010 to 1 January 2014, deflator of consumer prices

Source: WSI Minimum Wage Database 2014

– in nine out of 21 EU member states (Figure 1). The decrease was particularly strong in countries under the surveillance of the Troika (Greece, Portugal, Spain and Ireland) as well as in the United Kingdom, the Netherlands and the Czech Republic. On the other hand, in a few eastern European countries the real minimum wage value has shown remarkably high growth rates. This includes Hungary, where the unusually high increase in the minimum wage served mainly to compensate for the effects of a new flat-rate tax reform, which led to a significant tax increase for low wage earners (Szabó 2013).

A rise in the minimum wage with the intention of raising the minimum wage level above the poverty line also occurred in Slovenia in 2010. Meanwhile, the comparatively high minimum wage level in Slovenia was criticised by DG ECFIN (Stoviček 2013). The same applies to the relatively high minimum wage level in France. With regard to both countries, DG ECFIN alleged that the development of minimum wages negatively influences price competitiveness. ‘Moderate development’ of the minimum wage was therefore one of the main emphases of the country-specific recommendations issued for both countries in the context of the European Semester in 2013 and 2014.

4.3 Decentralisation and dismantling of multi-employer collective bargaining

Apart from direct intervention in wage developments through cuts and freezes of public sector and minimum wages, in many European countries the most fundamental changes have concerned the wage-setting and collective bargaining institutions (for an overview see Marginson and Welz 2014; Waas 2013). Although the current economic crisis has reinforced the decentralisation of collective bargaining throughout Europe, this process has been most pronounced in countries subject to direct supranational intervention by the Troika (Schulten and Müller 2014a). In exchange for financial assistance, the Troika has asked in all countries for ‘structural reforms’ which always also include more or less far-reaching changes to national collective bargaining systems. Irrespective of specific national traditions and structures of industrial relations, the Troika has pursued the same strategy of a radical decentralisation of collective bargaining in all cases.

In the meantime, all the ‘Troika’ countries have introduced more or less far-reaching changes to their collective bargaining systems (see Table 3).⁴ Concerning the changes that have been made, three groups of countries can be distinguished. The first group comprises Ireland and Romania, which before the reforms were 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). In these two countries, the austerity-driven changes led to an almost complete breakdown of multi-employer bargaining. In Ireland this was the result of the employer federation IBEC’s withdrawal from the national agreement following the failure of talks on the implementation of the wage agreement concluded in 2008, which after 22 years of cross-sectoral wage determination brought the return of company-level bargaining (Doherty 2011). In Romania, cross-sectoral bargaining was essentially abolished by the government’s unilateral introduction of the Social Dialogue Act in 2011 (Trif 2013). Further pressures towards decentralisation resulted from the government’s tightening the rules on the extension and application of sectoral agreements and increasing the threshold for the representativeness of trade unions as a precondition to negotiate agreements.

4. For a detailed list of measures and legal changes in the various countries see Appendix 1.

Table 3 Decentralisation of collective bargaining system in EU countries under EU, ECB and/or IMF surveillance

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

Source: Authors' compilation based on Appendix 1.

The second group of countries consists of Greece, Italy, Portugal and Spain, which represent the 'Mediterranean model' of labour relations, marked by a long tradition of well-established sectoral bargaining structures (Meardi 2014). All Mediterranean countries have enjoyed comparatively high levels of collective bargaining coverage of 80 to 90 per cent, which was backed by direct – or in the case of Italy, indirect – *erga omnes* regulations and extensions of collective agreements (Schulten 2012b). Although the multi-employer bargaining structures remained formally intact, their scope and actual operation was increasingly undermined by the various legal changes that have been introduced in response to the demands placed upon these countries by the Troika. The most radical decentralisation took place in Greece (Dedoussopoulos *et al.* 2013; Patra 2012) and Spain (Molina and Miguélez 2013; Nieto 2012). Both countries gave company agreements a general priority over sectoral agreements, and abolished the 'favourability principle', which has allowed company agreements to undermine sectoral standards. In the case of Italy (Pedersini 2013) and Portugal (Campos Lima 2013; Palma Ramalho 2013), the decentralisation of collective bargaining is still promoted in a more organised form, as the possibilities for downward derogation from sectoral standards at company level remain dependent on the commitment of the bargaining parties at sectoral level. However, in Italy the

legal reforms of September 2011 increased the scope for companies to derogate not only from collective agreements but also from legislative minimum provisions. The case of Fiat, furthermore, has shown that companies are able to withdraw from the sectoral bargaining system and to set up their own company agreement (Tomassetti 2013). In Portugal, the bargaining system has been further weakened by the introduction of more restrictive criteria for the extension of collective agreements. Before the reform, all major collective agreements were declared generally binding in a quasi-automatic way. Finally, Greece, Portugal and Spain have made it easier for non-union employee representatives to conclude collective agreements, in particular in small and non-unionised companies, which has further weakened the position of trade unions.

The third group of countries affected by changes in national collective bargaining systems that have been promoted by the IMF, in cooperation with the other Troika institutions, comprises Hungary and Latvia. Both countries have – as is the case in the majority of CEE countries – a fairly fragmented, company-level single-employer bargaining system with a comparatively low level of collective bargaining coverage. Thus, there was not much scope for further decentralisation. In Latvia, attempts by the social partners to establish sectoral collective bargaining structures were abandoned in the context of the crisis (Karnite 2013). While in Latvia the brunt of austerity measures has been borne by the public sector in the form of extensive wage cuts (Kallaste and Woolfson 2013), the legal changes introduced in Hungary in 2011 were aimed primarily at weakening the bargaining power of trade unions, for instance by curtailing the right to strike in public services, abolishing the only tripartite national forum for discussing recommendations on minimum wage increases and allowing works councils to negotiate company-level agreements if there is no trade union present at the workplace (Szabó 2013).

The fundamental changes in the collective bargaining systems of the European ‘programme countries’ were promoted in more or less close cooperation between national and European actors. In most cases, however, the Troika was the driving force behind these far-reaching reforms. At the same time, the Troika was used by national governments to legitimise the introduction of measures that have been demanded by certain national actors for a long time. Especially with regard to the neoliberal transformation of national collective bargaining systems the new European interventionism played a crucial role. What European market integration left unfinished is now being driven forward by the Troika: the convergence

of national collective bargaining arrangements towards a highly decentralised system of the kind that already exists in the United Kingdom and in many central and eastern European countries (Meardi 2014).

However, such a system change implies not only a decentralisation but also a de-collectivisation of labour relations, because collective bargaining coverage is usually much higher in countries with strong multi-employer bargaining than it is in countries with mainly company-level bargaining. The data presented in Table 4 illustrate the dramatic decline of collective bargaining coverage in some of the ‘programme countries’ as a result of the far-reaching changes that have been introduced during the crisis. In Spain, for instance, the number of branch-level collective agreements was essentially halved between 2008 and 2013 from 1,448

Table 4 Collective agreements and bargaining coverage in Greece, Portugal and Spain, 2008–2013*

	2008	2009	2010	2011	2012	2013
Greece						
Branch-level agreements	202	103	91	55	31	14
Company-level agreements	462	347	352	241	978	408
Portugal						
Branch-level agreements	172	142	141	93	36	27
Company-level agreements	124	110	89	78	66	68
Total agreements	296	252	230	171	102	95
Number of extension decrees	131	101	116	17	12	9
Workers covered by collective agreements (million)	1.7	1.3	1.4	1.2	0.3	0.2
Spain						
Branch-level agreements	1,448	1,366	1,265	1,163	1,113	706
Company-level agreements	4,539	4,323	3,802	3,422	2,893	1,702
Total agreements	5,987	5,689	5,067	4,585	4,006	2,408
Workers covered by collective agreements (million)	12.0	11.6	10.8	10.7	9.9	7.0

Note: * newly concluded collective agreements in the respective year.

Sources: Ministry of Labour in Greece, Portugal and Spain.

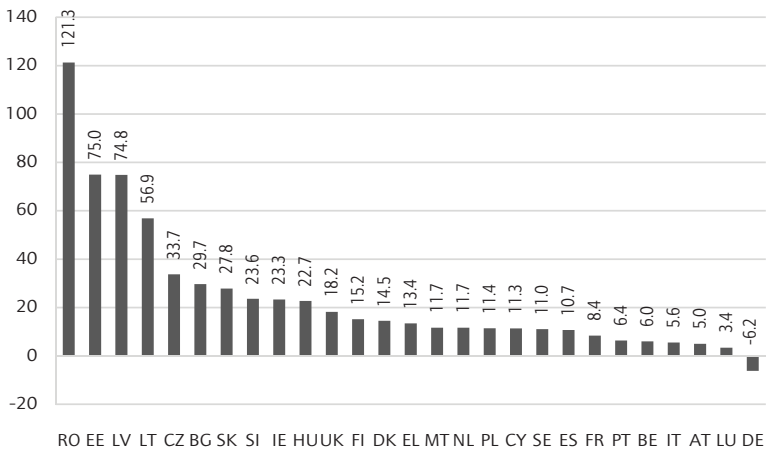
to 706. Company-level agreements declined even more, by roughly two-thirds. As a consequence, the number of workers covered by collective agreements decreased from 12 million in 2008 to just 7 million in 2013. In Portugal the decline in collective bargaining coverage was even more dramatic. There, the total number of registered collective agreements dropped from 296 in 2008 to 95 in 2013. Because, at the same time, the number of extended collective agreements fell from 131 in 2008 to only 9 in 2013, the number of workers covered by collective agreements virtually collapsed, from 1.7 million in 2008 to 200,000 in 2013. In Greece, the number of newly-concluded sectoral collective agreements decreased from 202 in 2008 to only 14 in 2013. The strong increase in company-level agreements in 2012 can be explained mainly by the fact that many companies used the new rules introduced in October 2011 to negotiate company-level wages which remained below the existing sectoral wage level (Daouli *et al.* 2013).

4.4 Changing pattern of European wage developments

Against the background of widespread wage freezes and cuts, as well as a comprehensive reconstruction of collective bargaining in many European countries, the implications of the new European interventionism are manifest in the fundamentally changed pattern of wage developments in Europe (see Figures 2 and 3; see also OECD 2014). In the decade up to 2009, almost all EU member states registered positive real wage developments. The strongest increases took place in some central and eastern European countries, followed by substantial wage growth in countries such as Ireland or Greece, and more moderate increases in countries such as Italy, Spain and Portugal. The sole exception was Germany, the only country during that period with a strong decrease in real wages.

Since 2010 the picture has virtually reversed. Only a few countries have registered – mainly modest – real wage increases, while in 14 of the 28 EU countries real wages have fallen. By far the biggest cut has been in Greece, with a fall of more than 23 per cent, followed by Cyprus with 14 per cent, Romania with 13 per cent and the rest of the ‘Troika countries’, namely Ireland (–6.8 per cent), Portugal (–6.5 per cent) and Spain with a fall of 6.1 per cent. While the Troika welcomes this development as a necessary ‘adjustment process’ (for example, European Commission 2012d), from a more critical perspective it looks more like a strong European-wide downward wage spiral, which obviously depresses consumer

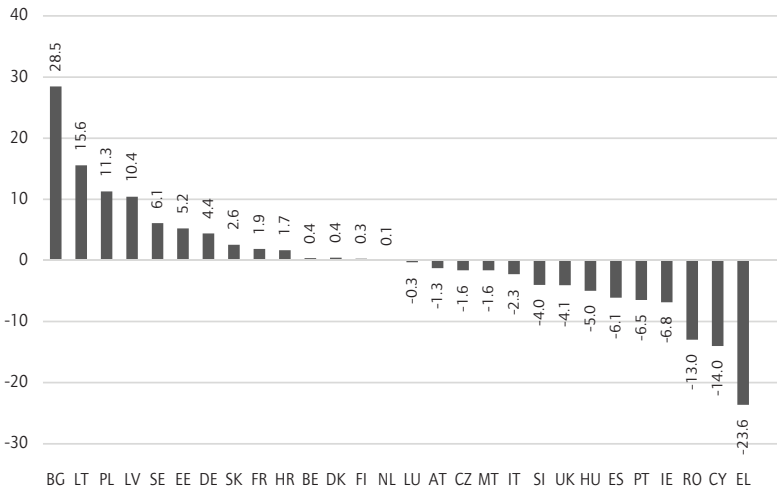
Figure 2 Development of real wages, 2001–2009 (%)*



* Nominal compensation deflated by the national HCPI

Source: AMECO Database, calculations by the WSI

Figure 3 Development of real wages, 2010–2014 (%)*



Note: * Nominal compensation deflated by the national HCPI. Figures for 2014: Forecast by the European Commission (Spring 2014)

Source: AMECO Database, calculations by the WSI

demand, fosters deflationary tendencies and therewith contributes to consolidating economic stagnation in Europe.

5. Outlook: What future for a European wage policy?

The new system of European economic governance has led to a new European interventionism in the area of wage policy; this marks a paradigm shift from the acceptance of free collective bargaining to direct political intervention in national collective bargaining outcomes and processes. The key objective of this new European interventionism is to use wages as the central adjustment variable in order to close the (cost-)competitiveness gap between ‘surplus’ and ‘deficit’ countries in Europe. By now, it is abundantly clear that the EU crisis management based on the combination of austerity policies and neoliberal structural reforms has not only been ineffective in addressing the problem of macroeconomic imbalances, but has even aggravated the debt and growth problems of deficit countries (Holland 2012). Even the IMF has stated that the austerity policies might have gone too far, because they are obviously depressing economic growth and are contributing to sharp increases in unemployment (Blanchard and Leigh 2013). However, this has not stopped the IMF from continuing to support intervention in national collective bargaining processes (Blanchard *et al.* 2013).

The interventionist approach of cutting wages is questionable in at least two respects. First, it views wages primarily as a cost factor and neglects the important role of wages in creating or stabilising domestic demand. Thus, particularly in the European deficit countries, in which growth relies more heavily on domestic demand than on exports, the potential positive effects of falling wages and unit labour costs on net exports is more than offset by the negative impact of falling wages on domestic demand. The promotion of an export-oriented growth model as a way out of the crisis overstates the importance of the export sector for overall economic growth (Feigl and Zuckerstätter 2012).

Secondly, the narrow focus on cost competitiveness ignores the fact that the primary reason for the increasing macroeconomic imbalances is not wage developments but the different economic structures of the various countries (Felipe and Kumar 2011). Wage cuts therefore help to reduce current account deficits only in that they deplete domestic demand, which in turn reduces imports. Wage cuts, however, do little to improve

the competitiveness of the Mediterranean countries vis-à-vis the northern European surplus countries. This is because the deficit countries either lack the industrial structures needed to pursue an export-oriented growth strategy or their industrial structures are so different from those in the northern European countries that they are in direct competition with countries from outside the EU rather than with the northern European surplus countries.

However, maybe even more problematic than the economic effects of the current wage policy in Europe are the long-term and structural consequences of the new European interventionism. These manifest themselves in the neoliberal transformation of national collective bargaining systems aimed at radically decentralising and dismantling multi-employer bargaining arrangements. This applies in particular to the countries under the surveillance of the Troika.

As a result, there has been convergence of collective bargaining structures within the group of 'crisis countries', with the Mediterranean countries moving closer towards the fragmented and decentralised model of collective bargaining that is characteristic of the majority of CEE countries (Meardi 2014). At the same time, the new European interventionism has increased the divergence between the 'crisis countries' and the so-called 'core countries' of the EU (comprising Austria, the Benelux countries, France, Germany and the Nordic states), where collective bargaining institutions remained fairly stable and where the crisis – if at all – reinforced the already existing trend of controlled decentralisation, without, however, substantially undermining the dominant role of sectoral-level bargaining (Schulten and Müller 2014a). However, the fact that so far only the Mediterranean countries are affected by this convergence trend does not mean that the 'core countries' are immune to the new European interventionism and the resulting political pressure to decentralise their collective bargaining systems. In the country-specific recommendations, Belgium, for instance, was repeatedly requested to decentralise its bargaining system by 'facilitating the use of opt-out clauses from sectoral collective agreements to better align wage growth and labour productivity developments at local level' (European Council 2012: 14). Another country under strong pressure to reform its wage-setting system is France. Accordingly, the national agreement on a 'new economic and social model', which was concluded in January 2013, makes it easier for companies to sign company-level agreement which temporarily derogate from the norms of the collective agreement in return for a commit-

ment to secure employment (Turlan and Cette 2013). Moreover, if the currently proposed system of European competitiveness pacts becomes reality, the experiences made in the ‘neoliberal laboratory of Southern Europe’ might spread across the whole EU (Oberndorfer 2013b).

The overall objective of the new European interventionism is to force EU member states to overcome all the ‘rigidities’ that hamper the downward flexibility of wages, including trade union bargaining power. Beyond that, European interventionism has a strong political dimension. DG ECFIN could not have been clearer in its report on labour market developments in 2012, in which it classifies ‘the overall reduction in the wage-setting power of trade unions’ (European Commission 2012d: 104) as a desirable outcome of labour market reforms. Against this background, it is becoming increasingly clear that the new European interventionism must also be seen as a political project to weaken European trade unions.

Against the background of increased mass unemployment in many European countries, it is, of course, fairly difficult for trade unions to counter such a strategy. However, there are at least three core elements that mark an alternative approach towards a European wage policy. First of all, European trade unions (but also employers⁵) need to defend the principle of collective bargaining autonomy against the increasing state interventionism at European and national level (Janssen 2013). One way to do this is to use judicial channels by filing formal legal complaints against political intervention in free collective bargaining at national constitutional courts, as well as at international organisations such as the Council of Europe and the ILO (Clauwaert and Schoemann 2013; Fischer-Lescano 2014). In the case of Greece, for instance, the ILO confirmed that the Troika-imposed intervention in national collective bargaining practices violates ILO Conventions No. 87 and No. 98 (ILO 2012a). Even though the ILO cannot force national governments to change legislation, the ILO’s verdict lends important moral and political support to the trade unions’ position so that the European policymakers cannot continue to ignore the strong political signals coming from international and European institutions (ETUI 2014).

5. The fact that the defence of free collective bargaining is not only a trade union issue is demonstrated by a statement by the Council of European Employers of the Metal, Engineering and Technology-Based Industries which ‘insists ... that the EU institutions must respect the autonomy of social partners/employers and workers and do not intervene with wage setting at any level’ (CEEMET 2012).

A further central element of a trade union counter-strategy is to strengthen the unions' own attempts towards a European coordination of collective bargaining. The traditional trade union wage coordination rule, according to which real wages should at least increase in line with productivity growth (Schulten 2002), is still very important as a bottom line to prevent downward wage competition. Moreover, a more proactive approach might turn the currently dominating European wage policy on its head by strengthening multi-employer collective bargaining institutions in order to support a more sustainable wage-led growth regime in Europe (Stockhammer and Onaran 2012). A first step in this direction could be the development of a 'European minimum wage policy' in order to make sure that every worker in Europe receives a wage that ensures a decent standard of living (Schulten 2012a; Schulten and Müller 2014b).

Such an alternative approach towards a European wage policy has been supported by, for example, the ILO, which in its 'Global Wage Report' emphasises that in order to avoid an austerity-induced recession, it is important to stimulate domestic demand by, among other things, strengthening wage-setting institutions (ILO 2012b: 62/63). There is also some support for this within the European Commission, as at least DG Employment has taken a much more nuanced approach than their colleagues from DG ECFIN by explicitly acknowledging the function of wages in generating domestic demand and strengthening social inclusion (European Commission 2012e, 2012f). In light of meagre price development there even seems to be a growing awareness that a continuation of wage freezes and cuts will further increase the danger of a European-wide deflation crisis (for example, OECD 2014).

Therefore, there is a strong need to overcome the currently dominant narrative of European policymakers and national governments, according to which wages are seen as the core adjustment variable to economic imbalances in Europe. Instead of the narrow focus on wages, there should be a much broader approach to alternative macroeconomic policy coordination in Europe, whereby European wage coordination would primarily have the function of avoiding deflationary tendencies triggered by downward wage competition and contributing to a more sustainable, demand-led economic development model (EuroMemoGroup 2013; Hein *et al.* 2005; Hein *et al.* 2011).

Appendix 1 Major changes in collective bargaining systems in EU countries under EU, ECB and/or IMF surveillance

Greece	<p>Law No. 3899/2010 of 17 December 2010: Introduction of new type of a 'special company-related collective agreement' in companies in significant financial straits: these new company agreements may provide for wages and other working conditions that are less favourable than those provided for by the respective sectoral collective agreement, but not less favourable than the minimum conditions agreed in the national collective agreement. The new company agreements could be signed either by the unions at company level, or – where they do not exist – by the sectoral union organisations.</p> <p>Introduction of stricter criteria for extension of sectoral agreements: extension is allowed only when the employers under the agreement represent at least 51 per cent of the workforce in the respective sector.</p> <p>Law No. 4024/2011 of 27 October 2011: Introduction of a general priority for company agreements over sectoral agreements and a general abolition of the favourability principle. In companies without trade unions or with less than 50 employees, company agreements can also be concluded by 'other associations of employees' which represent at least 3/5 of the workforce.</p> <p>Law No. 4046/2012 of 14 February 2012: Reduction of the after-effect of expired collective agreements to three months.</p> <p>Law No. 4093/2012 of 07 November 2012: The national minimum wage is no longer determined by a national collective agreement but instead statutorily by the state.</p>
Hungary	<p>Revision of Labour Code of 26 October 2011: Introduction of the right to conclude collective agreements for works councils, provided that there is no trade union at company level whose membership covers at least 10 per cent of the employees. The revised Labour Code furthermore allows collective agreements and individual work contracts to regulate working conditions differently to what is stipulated in the law – this includes the possibility of agreements derogating from the law to the benefit of the employer.</p>
Ireland	<p>December 2009: Breakdown of the 22 year-old centralised pay bargaining system after the employers withdrew from the national social partnership agreement.</p> <p>Industrial Relations (Amendment) Act 2012: More restricted regulation on the so-called 'Registered Employment Agreements' (REAs), as well as on 'Employment Regulation Orders' (EROs), which determined certain minimum wages and conditions in a limited number of sectors (for example, agriculture and construction). Companies now have the option to diverge from these conditions.</p>
Italy	<p>National collective agreement of 22 January 2009: Introduction of a general opening clause for wage regulations deviating from sectoral agreements at company level (the agreement was not signed by the largest Italian trade union federation CGIL).</p> <p>National collective agreement of 28 June 2011: All sectoral agreements shall contain opening clauses, according to which there may be deviation at the enterprise level from sectoral standards under certain circumstances (economic difficulties, restructuring, introduction of significant new investment). Such deviations must be agreed in an enterprise collective agreement signed by the majority of the Rappresentanze Sindacali Unitarie (RSU) (unitary workplace union structures). The workforce must confirm the deviating company agreement if one of the signatory trade unions or at least 30 per cent of the employees request it.</p>

Appendix 1 Major changes in collective bargaining systems in EU countries under EU, ECB and/or IMF surveillance (cont.)

Italy (cont.)	Law No. 148 of 14 September 2011: Company collective agreements can deviate downwards from sectoral agreements and certain labour law provisions. Possibilities to deviate from collective agreements at enterprise level concern almost all aspects of labour and employment conditions (including wages and wage structures, working time, atypical employment and employment protection). The company agreement must be signed by a majority of the representative trade unions in the enterprise.
Portugal	Law No. 23/2012 of 25 June 2012 (approved Draft Law No. 46/XII of 2 February 2012): In companies with 150 or more employees, collective agreements can be concluded by works councils, if the trade unions have authorised them to do so. Council of Ministers' Resolution No. 90/2012 of 10 October 2012: Introduction of stricter criteria for the general extension of collective agreements, according to which an employer covered by ten agreements has to represent at least 50 per cent of the employees of certain sector.
Romania	Law No. 62/2011 of 10 May 2011: – Abolition of the national collective agreement – Abolition of the automatic extension (<i>erga omnes</i>) of sectoral agreements; extension is possible only if more than 50 per cent of all employees in the sector work for companies that are members of the signatory employers' organisations. – A trade union can negotiate company agreements only if it organises more than 50 per cent of the workforce in the company. – If there is no union in the company, agreements can be concluded with other employee representatives
Spain	Royal Decree 10/2010: Improved options for making use of hardship clauses at company level which allow temporary deviation from sectoral agreements. If agreement cannot be reached, an arbitration board can be called in. Royal Decree 7/2011 of 10 June 2011: Extension of possibilities to use opening clauses at company level to derogate from sectoral agreements. Law 3/2012 of 6 July 2012 (approving Royal Decree 3/2012 of 10 February 2012): – Introduction of a general priority of company agreements over sectoral agreements. – Possibility to deviate from sectoral collective agreements by means of company agreements. Company-level options for such deviations concern almost all aspects of employment and working conditions (including wages and wage structures, working time, social benefits). – In companies without union representation, company agreements can be concluded by non-union groups of workers. – Limitation of the after-effect of expired collective agreements to one year (previously unlimited).

Source: Authors' compilation on the basis of Busch *et al.* (2013); Clauwaert and Schömann (2012); European Labour Law Network (<http://www.labourlawnetwork.eu/>)

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