



Eurofound

# Changes to wage-setting mechanisms in the context of the crisis and the EU's new economic governance regime



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*This report explores the impact of the crisis on wage-setting mechanisms in the 28 EU Member States plus Norway. It also examines the impact of the EU's new economic governance regime – specifically the requirements of the country-specific recommendations and Memoranda of Understanding – on wage-setting mechanisms. It looks at changes in wage bargaining levels, the extent of horizontal coordination across bargaining units, links between the different levels involved in wage-setting, minimum wage-setting and indexation mechanisms, and the volume and duration of collective wage agreements. The report examines the factors influencing changes, chiefly economic and political ones, and addresses the role of different institutional actors in initiating and implementing changes, including the social partners, national governments and the European and international institutions. Overall, the extent and consequences of change in wage-setting has been greatest among the countries receiving financial assistance packages from the troika of European and international institutions.*

## Introduction

Since the onset of the crisis in 2008, wage-setting regimes in parts of Europe have undergone profound change. This comes after a lengthy period marked by an overall trend towards decentralisation, but otherwise relative stability in wage-setting mechanisms across Europe. There are multiple dimensions to the regimes through which wages are set, and countries differ considerably in the nature of the mechanisms they use. Collective wage bargaining between employers and trade unions can be on a multi-employer basis, establishing wage standards which are sector-wide, even cross-sector, in the scope of their application. Alternatively, collective wage bargaining arrangements can be on a single-employer basis, at either company or establishment level. In general, the coverage of collective wage-setting arrangements established by multi-employer bargaining tends to exceed that established by single-employer bargaining. Further, under multi-employer wage bargaining, ongoing pressures for decentralisation in wage setting has been reflected in the growing possibilities for further negotiation over wages at company level, or for differential application of sector and cross-sector agreements. Collective wage bargaining arrangements can also be the focus of supportive state policies, including extension procedures and the favourability principle, under which the standards specified in agreements at lower levels must generally improve on those contained in higher level agreements. The state can also play an important role in wage setting through statutory minimum wage arrangements and wage indexation mechanisms. Alternatively, minimum wages may be negotiated between employers and trade unions at sector or cross-sector level.

The crisis has triggered substantial changes in wage bargaining regimes in a number of countries and further extended the existing trajectory towards decentralisation in others. Also, several countries have seen few or no changes in wage-setting mechanisms. Where changes have occurred, in some Member States they have come as an internal response to changing conditions, while in others they have been triggered by European-level policies (such as annual country-specific recommendations under the EU's new economic governance regime) or as part of the reform programmes required by the troika of European and international institutions – the **European Commission**, European Central Bank (**ECB**) and International Monetary Fund (**IMF**) – as a condition of financial assistance packages provided to some countries. It is among this last group of countries, which includes Cyprus, Greece, Ireland, Portugal, Romania and Spain, that wage-setting regimes have undergone the most extensive changes.

This comparative report is a follow-up to a wider Eurofound project on the impacts of the crisis on industrial relations and working conditions, comprising an overview report, a previous European Industrial Relations Observatory (**EIRO**) comparative report on *The impact of the crisis on industrial relations*, a report from the European Working Conditions Observatory (**EWCO**) on *The impact of the crisis on working conditions in Europe* and two literature reviews. In particular, the earlier EIRO comparative report drew attention to the impact that the crisis was having on wage-setting mechanisms in the private sector in several EU Member States. The more important impacts which it identified included changes in levels of bargaining; the spread of opt-out clauses in sector agreements, enabling companies to derogate from wage standards under specific circumstances; inversion of the favourability principle to allow company-level agreements

to take precedence over sector ones, even if the wage standards specified were inferior; and changes restricting the use of extension mechanisms.

This report charts and analyses the main changes that have taken place in wage-setting mechanisms in the 28 EU Member States (EU28) plus Norway since the onset of the crisis in 2008. It examines the factors influencing changes, distinguishing between economic and political ones. It addresses the role of different institutional actors in initiating and implementing changes, including the social partners, national governments and the European and international institutions. In respect of the last, attention is paid to the impact of the EU's new economic governance regime and, in the case of countries receiving financial assistance packages, of the requirements contained in the Memoranda of Understanding with the troika.

The first section of this report charts changes in six main dimensions of wage-setting mechanisms since 2008: main levels of bargaining; horizontal coordination across bargaining units; linkages between levels under multi-tier bargaining, including opening and opt-out clauses; reach and continuity of collective bargaining, including extension mechanisms; minimum wage setting and wage indexation; and parametric outcomes, including the number of agreements and their duration.

The second section explores whether changes have been principally influenced by economic or political factors and, in terms of economic factors, differentiates between macro- and micro-economic influences. The third section investigates the relative weight of the main institutional actors in bringing about the different changes, including employers' organisations and trade unions, national governments and European and international institutions (the European Commission, European Central Bank and the IMF). Finding that the European and international institutions have exercised considerable influence over changes in a number of countries, the fourth section considers in more detail the impact of the EU's new regime of economic governance as well as the Memoranda of Understanding between the troika and the respective national governments which govern the financial assistance packages in several countries. The fifth section presents the perspectives of employers and trade unions on the changes which have taken place, and identifies areas of common ground as well as some noticeable differences. The sixth section offers a commentary on the nature and wider implications of the changes which have occurred in wage-bargaining regimes.

### **Main changes in wage-setting mechanisms since 2008**

Mechanisms for collective wage setting are multi-dimensional and vary considerably across the EU Member States. A key distinction is between multi- and single-employer wage-setting regimes (see Table 1). Under the former, negotiations between employers' organisations and trade unions lead to agreements at sector, inter-sector and territorial levels. Under the latter, agreements are at the level of the company or the establishment. The levels at which wages are negotiated do not, however, straightforwardly correspond to whether wage-setting arrangements are multi- or single-employer in nature. Under multi-employer arrangements, bargaining over wages can occur at more than one level, involving multi-tier arrangements, for example the sector and the company and/or the inter-sector and sector levels.

In turn, a further feature of multi-employer bargaining is the extent to which bargaining across different levels is linked or 'articulated'. In many Member States, the relationship between levels has been underpinned by the 'favourability' principle, under which agreements at lower levels can only improve on the standards established by higher-level agreements and, where applicable, the labour code. Increasingly, however, sector and/or inter-sector agreements have incorporated derogation clauses which allow companies to opt out of the standards specified, including on wages, under specific circumstances such as economic difficulties. A second form of linkage is (horizontal) coordination across bargaining units, such as the different sectors or – under single-employer bargaining – across companies.

The state may also provide supports for multi-employer collective bargaining, including legal underpinning for the favourability principle and legal provisions for the extension of agreements to cover firms (and their workforces) which are not members of the employers' organisation concluding the agreement concerned. In some countries, continuity of coverage is ensured by legal provisions which prolong the life of agreements beyond their expiry date, until a new agreement is concluded.

Two types of collective wage-setting mechanism have more generalised effects: arrangements for setting minimum wage standards; and indexation mechanisms which automatically link wages to a measure of inflation. Minimum wage standards can be set statutorily, with or without formal consultation with the social partners, or be negotiated between employers and trade unions. Indexation mechanisms tend to be statutorily regulated, with or without social partner involvement.

In what follows, changes to wage-setting mechanisms are clustered into six main types:

- main levels of bargaining;
- horizontal coordination across bargaining units;
- linkages between levels under multi-tier bargaining, including ordering between levels, opening and opt-out clauses, and extending bargaining competence to non-trade union based representatives;
- reach and continuity of collective bargaining, including extension mechanisms and continuation of agreements following expiry;
- minimum wage setting and indexation;
- parametric outcomes, including the number of agreements and their duration.

Of these six main types of change, four are applicable to wage setting under both multi- and single-employer bargaining regimes: bargaining level; horizontal coordination across bargaining units; minimum wage setting and indexation; and parametric outcomes. Two mainly concern multi-employer regimes and are, for the most part, not applicable among single-employer ones: linkages between levels; and reach and continuity. It is therefore useful to identify whether countries are primarily characterised by multi- or single-employer bargaining. Table 1 indicates the prevalent bargaining regime in each of the Member States for 2008 and 2011. Four countries, Bulgaria, Cyprus, Luxembourg and Slovakia, are coded as having mixed regimes with multi-employer bargaining covering some parts of the private sector and single-employer bargaining other parts. The prevalent regime shifted from multi- to single-employer bargaining in two countries: Ireland and Romania (shown in bold). In both countries, this resulted from the demise of inter-sector agreements and a shift to primarily company-level bargaining.

Table 1: *Prevalent bargaining regime*

	Multi-employer (MEB) or Single-employer (SEB) bargaining prevalent	
	2008	2011
AT	MEB	MEB
BE	MEB	MEB
BG	Mixed	Mixed
CY	Mixed	Mixed
CZ	SEB	SEB
DE	MEB	MEB
DK	MEB	MEB
EE	SEB	SEB
EL	MEB	MEB
ES	MEB	MEB
FI	MEB	MEB
FR	MEB	MEB
HR*	MEB	MEB
HU	SEB	SEB
IE	<b>MEB</b>	<b>SEB</b>
IT	MEB	MEB
LT	SEB	SEB
LU	Mixed	Mixed
LV	SEB	SEB
MT	SEB	SEB
NL	MEB	MEB
NO	MEB	MEB
PL	SEB	SEB
PT	MEB	MEB
RO	<b>MEB</b>	<b>SEB</b>
SE	MEB	MEB
SI	MEB	MEB
SK	Mixed	Mixed
UK	SEB	SEB

Notes: The coding as MEB or SEB is derived from the ICTWSS Database measure of ‘Level’, the predominant level(s) at which wage bargaining takes place. Values of 3, 4 and 5 indicate that the sector and/or the cross-sector level is predominant: these correspond to multi-employer bargaining (MEB). A value of 1 indicates that the establishment or company level is predominant: this corresponds to single-employer bargaining (SEB). A value of 2 indicates an intermediate situation where sector and company negotiations each, respectively, account for at least one-third of those covered by collective wage-setting arrangements. ICTWSS codes five countries as 2: BG, CY, FR, LU and SK. Of these five countries, four are classified as ‘mixed’ in the table: BG, CY, LU and SK. FR is classified as MEB: the wage provisions of sector agreements are almost universally subject to legal extension.

\*Croatia is not included in the ICTWSS, and for 2011 has been coded on the basis of the EIRO country profile.

A change in bargaining regime is shown in bold (IE and RO).

See Annex for list of country codes.

Source: J. Visser, *Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (ICTWSS)*, version 4, 2013

### Main levels of bargaining

Since 2008, 12 countries have reported some change in the main bargaining levels at which wages are determined, including several where the change involved has been considerable. The other 17 countries reported no changes in level. Of the 12 countries concerned, the dominant tendency was decentralisation, from the cross-sector towards the sector or company levels, and/or from the sector towards the company level. This accounted for changes in 10 countries: Austria,



Bulgaria, Cyprus, France, Greece, Ireland, Italy, Romania, Slovenia and Spain. In two countries, Belgium and Finland, changes were in the opposite direction and involved centralisation. The prevalence of decentralisation since the onset of the crisis continues, and has accelerated; it is the predominant tendency in the evolution of wage-setting mechanisms observed since the late 1980s.

Concerning decentralisation, cross-sector agreements were terminated in Ireland and Romania. In Ireland, over 20 years of wage setting through cross-sector wage agreements came to an end in 2009 when the employers' confederation, **Ibec**, formally withdrew from the national agreement. This followed the failure of talks, initiated in light of the crisis, over the implementation of the 21-month wage agreement concluded in 2008. The collapse of the national agreement led to wage negotiations moving to company level. The trade union confederation, the Irish Congress of Trade Unions (**ICTU**), and Ibec concluded protocols providing guidance to company-level negotiators in 2010, and again in 2012. Furthermore, the sector-level wage-setting mechanisms which feature in a few sectors, and which have binding force, have been suspended indefinitely following a judicial ruling in 2013 (see below). In Romania, the 2011 Social Dialogue Act, enacted by the government without consulting the social partners, abolished the national cross-sector agreement which had hitherto provided the point of reference for wage negotiations at lower levels. It also replaced 'branch' agreements with newly-defined and more disaggregated 'sector' agreements. By mid-2013, however, virtually no sector agreements had been concluded and in practice, to the extent that wages continue to be set through collective bargaining, negotiations are at company level. In Slovenia, up until 2009, there was a 'fall-back' cross-sector wage agreement which applied to those sectors which were not covered by a sector agreement. Trade unions and employers were not, however, able to agree on a renewal of the agreement when the previous one expired in 2009; in the sectors concerned, wage-setting since then has been at company level. Employers are reported to be pressing for sector agreements to open up further scope for company negotiation. In two sectors, chemicals and construction, employers have unilaterally cancelled current agreements in 2013 to try to force through changes along these lines.

In Greece and in Spain, major changes in the principles and mechanisms linking bargaining at different levels (outlined below) have resulted in rapid decentralisation of wage bargaining towards company level. Government measures giving precedence to the outcome of company negotiations over the provisions specified in sector, or territorial, agreements have had the effect of sharply increasing the weight of company-level negotiations in the two countries' multi-tier bargaining arrangements. In addition, in Spain, a 2012 cross-sector agreement between the social partners encouraged the development of wage bargaining at company level. In France, legislation adopted in 2008 requires companies with trade union representation to engage in annual negotiations on pay, thereby strengthening the role of company-level bargaining in wage setting.

In Bulgaria, the previous trend for sector agreements in parts of manufacturing to be replaced by company agreements is reported to have accelerated since 2008, with chemicals, electrical equipment manufacture and food processing being amongst the sectors where employers stopped negotiating at the sector level. Insofar as wages are governed by collective bargaining, this is now through company agreements. In Cyprus, the previous trend towards company agreements becoming more important for wage setting than sector agreements has accelerated since 2008.

In Italy, a 2011 cross-sector agreement concluded between **Confindustria**, the main organisation representing manufacturing and services companies, and the three main union confederations reformed the two-tier bargaining system, involving some weakening of the mandate of the sector level in wage setting, in favour of the company level. The agreement also introduced and introduced the possibility of derogation from the provisions of sector agreements for companies in economic difficulty. The shift in the relative weight of the sector and company levels in wage setting confirmed provisions in an earlier, 2009 cross-sector agreement which had not been signed by the largest union confederation, **CGIL**. A subsequent, 2012 cross-sector agreement, again not signed by CGIL, opened up scope for a further shift in the balance between the two levels over wage negotiation in favour of the company level. In addition, the withdrawal of Italy's largest industrial employer, **Fiat**, from Confindustria towards the end of 2011, and therefore from

multi-employer bargaining, in favour of its own single-employer bargaining arrangements, constitutes a significant further development. A shift of a different nature occurred in Austria's metalworking sector, where the employers successfully pressed for the replacement of the single, sector-wide agreement with a set of agreements covering each of the six sub-sectors in 2012 (renewed in 2013), on the grounds that economic circumstances were increasingly different in the various sub-sectors.

Finland is one of two countries which have seen movement in the opposite, centralising, direction. In 2011, after an absence of four years, a two-year cross-sector wage agreement was concluded which provided a framework for subsequent sector and company negotiations. When the previous cross-sector agreement expired in 2007, reflecting pressure for employers for more decentralised wage setting (FI0806029I), it was replaced by sector-level agreements on wages in the 2008, 2009 and 2010 bargaining rounds. In 2011, the employers' confederation EK indicated that they would be willing to conclude a national agreement in light of the deepening economic crisis. Following difficult negotiations, which at one stage broke down, a further two-year cross-sector wage agreement was concluded in 2013. In Belgium, centralisation has taken the form of government imposition of the outcomes to the two most recent wage bargaining rounds, covering 2011–2012 and 2013–2014. In 2011, government intervention followed the failure of two of the three union confederations to agree the draft agreement. In 2013, the government ruled that no increase in wages was permissible beyond that generated by automatic indexation. Already, bargaining rounds since 2008 had seen a decline in the margin left available by the cross-sector agreement for wage negotiations at sector level.

Changes since 2008 in the main levels of wage setting are summarised in Table 2, distinguishing between whether the direction of change was towards centralisation or decentralisation.

Table 2: *Changes in main levels of bargaining since 2008*

Increased centralisation	Increased decentralisation
BE: government-imposed outcomes to 2011 and 2013 cross-sector wage bargaining rounds, with no wage margin for further negotiation at sector level.	AT: single metalworking agreement replaced by agreements covering each of six sub-sectors (2012).
FI: cross-sector wage agreements abandoned in 2007, but returned to in 2011 and 2013.	BG: acceleration of trend for sector agreements to be replaced by company ones.
	CY: acceleration of trend for sector agreements to be replaced by company ones.
	EL: legislative changes prioritising the company level, as well as permitting negotiations with unspecified employee representatives in smaller companies prompted an upsurge in company agreements at the expense of sector ones.
	ES: legislative change prioritising the company level, together with social partner encouragement, increased the weight of the company level in wage setting.
	FR: 2000 legislation requires companies with trade union representation to engage in annual pay negotiations.
	IE: breakdown of national wage agreement following employer and government withdrawal (2009).
	IT: 2011 cross-sector agreement weakened sector-level mandate over wage negotiations in favour of the company level.
	RO: cross-sector agreement abolished under 2011 legislation, which also had the effect of paralysing negotiating activity in newly defined sectors; wage negotiations now mainly at company level.
	SI: social partners failed to agree on a renewal of the 'fall back' cross-sector agreement, which applied in the absence of a sector one (2009).

Source: *EIRO 2014*



### **Horizontal coordination across bargaining units**

Centralised wage bargaining arrangements at cross-sector level ensure coordination of wage setting across different sectors. In the absence of such, which is the case in most of the countries, various mechanisms can be utilised to effect horizontal coordination across different bargaining units. These include the different sectors but also, under single-employer bargaining, prominent companies. Changes in horizontal coordination were reported to have occurred in seven countries: Austria, Hungary, Ireland, Romania, Slovakia, Spain and Sweden.

In Ireland and Romania, the termination of national, cross-sector agreements has weakened coordination across sectors, particularly given that wage bargaining has largely moved to the company rather than to the sector level. In Ireland, the protocols agreed between Ibec and ICTU in 2010 and 2012 establish ground rules intended to orientate company-level negotiations, and thereby give some coherence to the new, decentralised bargaining regime. The protocols stress the need for negotiations to take account of companies' business circumstances. No such development is evident in Romania. In Hungary, until 2011, employers and trade unions agreed a joint recommendation for wage increases as a guide for local negotiators, within the framework of the former tripartite body OÉT. With the abolition of OÉT, consultations on guideline wage increases now take place within the government's consultative forum (VKF) after which the government issues its own recommendation.

In Spain, there was a break in 2009 in the cross-sector agreements which, since 2002, had established pay guidelines for sector and company negotiators, and therefore a degree of coordination. The employer and trade union confederations failed to agree on new guidelines in 2009, but were successful in doing so in 2010 and 2012. Slovakia has seen a strengthening of horizontal coordination, with the previous informal coordination across sectors being augmented by the establishment of a formal bi-partite social dialogue arrangement for industry in 2013.

Under the sector-based bargaining regimes in Austria and Sweden, which rely on pattern-setting to realise coordination, there have been changes in the nature of the pattern-setter. In Austria, the pattern-setting metalworking agreement has been separated into a set of agreements covering each of six sub-sectors from 2012. To date, wage outcomes in the six agreements have been practically identical. Even so, the implications for the previous pattern-setting role of the metalworking sector remain unclear. In Sweden, the pattern-setting role changed in 2010. Since the early 1990s, it had been the prerogative of blue-collar unions in the industry sector (following the move from central bargaining to sector-level bargaining). However, it was the white-collar unions in the sector which concluded the first agreement and thereby established the pattern.

### **Linkages between levels under multi-tier bargaining**

Where more than one bargaining level is involved in wage setting, there are two main types of procedural mechanism which are utilised to link or articulate the levels concerned. The first are mechanisms governing the vertical ordering between levels, including the cross-sector (where applicable), sector and company levels. The second are opening and opt-out clauses in sector (or cross-sector) agreements, which specify circumstances under which further negotiation or derogation from the higher agreement can occur. In addition to these two, a third feature is also addressed below: extending competence to bargain over wages beyond trade unions to other types of employee representative. The rationale for including this last is that articulation between the sector level (where trade unions are the bargaining agent) and the company level is likely to be disrupted where bargaining competence is accorded to other types of employee representative within companies with which the union does not have a direct relationship. The issue of linkages largely concerns the 21 countries where there are multi-employer bargaining arrangements (coded as either MEB or Mixed in Table 1). Since 2008, changes to one or more of these three dimensions have occurred in 16 countries.

### *Ordering between levels*

Labour law, in continental western and central eastern Europe, and basic agreements, in the Nordic countries, have applied the 'favourability' principle to govern the relationship between different levels of bargaining over wages and conditions. This holds that agreements concluded at lower levels can only improve on the standards established by higher level agreements. The exceptions to this general picture have been Ireland and the UK, reflecting their different legal tradition based on voluntarism. In the years preceding the crisis, France was the only country to make changes to the operation of the favourability principle. The 2004 Fillon law ([FR0404105F](#)) inverted the principle, giving precedence to agreements concluded at company level over the provisions specified in higher level agreements, with the important exceptions of minimum wages and job classifications.

Since 2008, the operation of the favourability principle has been inverted or temporarily suspended in three countries: Greece, Portugal and Spain. In Spain, changes have been imposed by the previous and current governments in laws enacted in 2011 and 2012, respectively. In between, the social partners called in their 2012 cross-sector agreement for lower level agreements to specify the ways in which sectoral and provincial agreements were to be articulated with those concluded at company level. The 2011 law inverted the favourability principle as between sector or provincial agreements and company agreements, according priority to the latter for negotiations on basic wages and wage supplements. However, employers and trade unions had the option to re-establish the favourability principle under the relevant sector or provincial agreement, if they so wished. This possibility was removed by the subsequent 2012 law introduced by the incoming government, thereby also invalidating the intention of the 2012 cross-sector agreement. Nonetheless, employers and trade unions in some sectors, including chemicals, cork, construction and wood products, have subsequently concluded agreements reverting to the favourability principle.

In Greece, a 2011 law inverts the favourability principle as between the sector and company levels for the duration of the financial assistance measures provided by the troika of international institutions until at least 2015. The 2011 law also specifies that the standards specified in company agreements cannot be set below those of the general, cross-sector agreement. The latter, however, has had its competence to negotiate and set minimum wages removed (outlined below). In Portugal, the [2012 Labour Code \(505Kb PDF\)](#) inverts the favourability principle, specifying that the provisions of agreements concluded at company level take priority over those contained in sector and cross-sector agreements, but allows employers and trade unions to negotiate a clause in higher-level agreements reverting to the favourability principle.

### *Opening and opt-out clauses*

Opening clauses in sector and/or cross-sector agreements provide scope for further negotiation on aspects of wages at company level, such as variation in the timing and/or phasing of a wage award or in the implementation of a variable (productivity-related) element to wages. Opt-out clauses permit derogation under certain conditions from the wage standards specified in the sector and/or cross-sector agreement. In practice, the distinction is not always clear-cut, as in the inclusion of once-off opening clauses allowing variation in the implementation of wage awards in a few countries in 2009 and 2010. Changes in, or the introduction of, opening clauses relating to wages were reported in seven countries: Austria, Finland, Germany, Italy, Norway, Portugal and Sweden. The introduction of provisions for derogation at company level from standards specified in sector or cross-sector agreements featured in eight countries: Bulgaria, Cyprus, France, Greece, Ireland, Italy, Slovenia and Spain. The use of derogation is mainly limited to companies which are in economic difficulty, although how tightly this is defined varies.

Concerning opening clauses, Portugal's 2012 Labour Code enables sector agreements to delegate the regulation of some issues, including wages, to other bargaining levels including company level. Italy's 2012 cross-sector agreement promotes 'devolution' clauses in sector agreements intended to prompt bargaining on productivity-enhancing measures at company level. One-off, crisis-response clauses were a feature in Austria, Finland, Germany and Norway. In response to the sharp downturn in industrial output which marked the initial phase of the crisis, one-off opening clauses in

Germany's chemicals and metalworking sector agreements in 2009 and 2010 provided scope to vary the implementation of elements of the wage settlement. In Austria's electronics sector, a one-off opening clause provided scope for companies undergoing a sharp decline in business activity to not implement the wage award in full. In Finland, several sector agreements in 2010 included a similar clause allowing individual companies to adjust the agreed wage increase to reflect their own financial circumstances. In Norway, a one-off opening clause in most private sector agreements provided local negotiators with the option not to implement the sector increase agreed for 2009. In Sweden, several plant-level agreements de facto varying the main sector agreement in manufacturing paved the way for the conclusion of a time-limited, sector-wide short-time working agreement in 2010 which facilitated local negotiations to maintain employment.

On opt-out clauses, introduction of the possibility of derogation primarily reflects legislative changes in Greece, Spain and – affecting certain sectors only – Ireland. In Bulgaria, Cyprus, France, Italy and Slovenia, increased possibilities for derogation have resulted from negotiations at either the cross-sector or sector level. In Greece, a 2010 law introduced scope for company agreements to derogate from the wage and working time provisions of sector agreements in cases of economic hardship. The law was subsequently replaced by the 2011 law which gives precedence to the company over the sector level in establishing wage standards (see previous page). In Spain, the possibility was first introduced in a 2010 law which enabled the wage provisions of sector or provincial agreements to be modified by company agreements on grounds of economic difficulties. The 2012 cross-sector agreement subsequently encouraged the inclusion of opt-out clauses, on similar economic grounds, in sector and provincial agreements. However, this was overtaken by legislation enacted by the incoming government, which broadened the economic grounds and introduced further criteria such as technical and organisational change, under which company derogations could be invoked. In Ireland, 2011 legislation concerning those relatively few sectors where wage setting is legally governed through Registered Employment Agreements (sector agreements, such as construction and electrical contracting, which are accorded binding force under sector-specific extension) or Employment Regulation Orders (ratifying the recommendations of Joint Labour Committees in low-paid sectors such as hotels, catering, retail and cleaning where union density is low) introduced the possibility of derogation on grounds of economic difficulty (see under 'Extension mechanisms' on page 11 for recent legal decisions suspending these two mechanisms).

In France, a 2013 cross-sector agreement, subsequently enacted as law, introduces the possibility of derogation for companies in economic difficulty subject to commitments to refrain from implementing redundancies. The 2011 cross-sector agreement in Italy introduced the possibility of derogation from the wage standards specified in sector agreements on the grounds of economic hardship. Subsequently, the government unilaterally imposed a legislative measure which broadened the circumstances where, and issues on which, derogation could be invoked. The measure was opposed by both the employers' and trade union confederations. In Bulgaria, Cyprus and Slovenia, the inclusion of derogation clauses which can be invoked by companies in economic difficulty has been a feature of agreements concluded in several sectors from 2009 onwards.

#### *Extending bargaining competence to non-trade union representatives*

Articulation between levels is potentially disrupted where employee representatives other than trade unions, which always negotiate sector and cross-sector agreements, are accorded competence to conclude agreements at company level. An important difference is whether or not any such development involves trade union consent. Changes have occurred since 2008 in France, Greece, Portugal and Romania.

In France, a 2008 law implementing a cross-sector agreement aimed at promoting collective bargaining in smaller companies permits management to negotiate with the works committee, or formally elected and recognised personnel delegates, where there is no trade union presence. In Portugal, the conferring of bargaining competence on other employee representatives also involves trade union consent. Legislation in 2009 provided trade unions with scope to delegate negotiating responsibility to company-level employee representation structures in larger companies, employing

500 people or more. This threshold was lowered to 150 or more employees under the 2012 Labour Code, which retained the principle of delegation. Under the Memorandum of Understanding governing the financial assistance package provided to Portugal, the troika included a further change which would remove the condition for delegation to require trade union consent. To date, this has not featured in the government's legislative proposals.

In Greece, under 2011 legislation, collective agreements can now be concluded in companies with fewer than 50 employees with unspecified 'associations of persons' which must represent at least 60% of the employees concerned. In practice, this establishes an alternative beyond trade union influence to the previous situation where such companies were generally covered by the provisions of sector agreements through the application of extension procedures. In Romania, legislation enacted in 2011 introduces tougher criteria for trade unions to secure representativeness status, which is a pre-condition for unions to undertake the negotiation of legally valid agreements at sector and company levels. Where unions do not meet the new criteria at company level, employers can now negotiate agreements with unspecified elected employee representatives.

A different development has featured in Hungary, where bargaining is single-employer based. Where trade unions are not present in a company, 2012 legislation extended negotiating competence to works councils.

Changes since 2008 in linkages between the different levels involved in collective wage bargaining are summarised in Table 3.

Table 3: *Changes in linkages between levels since 2008*

Ordering between levels	Opening and opt-out clauses	Extending bargaining competence to non-union representatives
<b>Opening clauses</b>		
EL: 2011 legislation specifying that company agreements have priority over sector ones, although not over the cross-sector agreement, and can entail lower standards.	AT: one-off opening clause allowing in electronics providing the option not to implement the sector wage award in full (2009).	EL: 2011 legislation allowing negotiations with unspecified employee representatives in smaller companies (<50 employees).
ES: 2011 legislation specifying that company agreements have priority over sector and provincial ones, and can entail lower standards.	DE: one-off opening clauses variation in implementation of wage increases in chemicals and metalworking (2009, 2010).	FR: 2008 law allowing negotiations with works committees in smaller companies (<200 employees) with no union presence.
PT: 2012 Labour Code specifies that company agreements have priority over sector and provincial ones, and can entail lower standards.	FI: one-off opening clauses allowing variation in implementation of wage increases in several sectors (2010).	HU: 2012 legislation permitting negotiation with works council where no trade union is present.
	IT: 2012 cross-sector agreement promoting devolution clauses in sector agreements, aimed at widening the company-level agenda.	PT: 2009 legislation conferring bargaining competence on works councils in larger companies (500+ employees) with trade union consent.
	NO: one-off opening clause in most private sector agreements providing the option not to implement the sector wage increase (2009).	RO: 2011 legislation permitting negotiation with unspecified employee representatives where no 'representative' trade union is present.
	PT: 2012 Labour Code enables elements of the sector bargaining agenda to be delegated to company level.	
	SE: 2010 short-time working agreement in manufacturing, facilitating local negotiation over shortened working time to maintain employment.	
<b>Opt-out clauses</b>		
	BG: increase in the number of sector agreements with opt-out clauses.	
	CY: increase in the number of sector agreements with opt-out clauses.	

Ordering between levels	Opening and opt-out clauses	Extending bargaining competence to non-union representatives
<b>Opt-out clauses</b>		
	EL: 2010 legislation introduced possibility for companies in economic hardship to opt out of sector agreements.	
	ES: 2010 legislation introduced possibility for companies in economic hardship to opt out of sector or provincial agreements. 2012 cross-sector agreement encouraged inclusion of opt-out clauses in sector and provincial agreements.	
	FR: 2013 cross-sector agreement, translated into law, introduces opt-out clause for companies in economic hardship conditional on 'no redundancies' commitment.	
	IE: opt-out clauses on grounds of economic hardship introduced in sectors governed by binding wage-setting mechanisms (REAs, EROs).	
	IT: 2011 cross-sector agreement introduced opt-out clause from sector wage standards on grounds of economic hardship.	
	SI: increase in the number of sector agreements with opt-out clauses.	

Source: *EIRO 2014*

### **Reach and continuity of collective bargaining**

Changes affecting the reach and continuity of collective wage bargaining arrangements have implications for the coverage of multi-employer agreements and concern two features. The first is mechanisms for the legal extension of the provisions of sector, or cross-sector, agreements to all employers and workers within the relevant domain. The second is clauses which provide for agreements to continue to have effect following their expiry, until a further agreement is concluded. As with the previous section, the issue largely concerns the 21 countries where there are multi-employer bargaining arrangements (coded as either MEB or Mixed in Table 1).

#### *Extension mechanisms*

Of the 21 countries concerned, 17 have extension mechanisms or a functional equivalent. Among the eight countries where single-employer bargaining arrangements predominate, there are procedures for legal extension of the few sector agreements that exist in the Baltic countries, the Czech Republic, Hungary and Poland. There is no legal procedure for extending collective agreements in Cyprus, Denmark, Italy and Sweden, Malta and the UK. In Italy, however, judicial decisions have long underpinned de facto extension of the wage provisions of sector agreements.

There have been changes to either extension procedures or in their use in eight countries: Greece, Ireland, Portugal, Romania, Slovakia, Bulgaria, Germany and Italy (concerning de facto practice). In Greece, a 2011 law, in effect, suspends extension procedures for the duration of the financial assistance measures provided by the troika, that is at least until 2015. The law exempted companies which are not members of employers' organisations from any obligation to implement sector agreements. In practice, this has had a widespread impact among small companies, which have rapidly taken up the opportunity to negotiate company agreements with unspecified 'associations of persons', with less favourable provisions than those of the relevant sector agreement (see above). Portugal's 2012 Labour Code specifies stricter criteria for the application of extension procedures, limiting this to sectors where the employers' organisation's member companies account for more than 50% of the workforce. Romania's extension provisions were curtailed by the 2011 Social Dialogue Act, which stipulates that the newly-defined sector agreements (see above) are applicable only to the members of the employers' organisation concluding them. In Ireland, decisions by the High Court (2011) and the



Supreme Court (2013) found that Employment Regulation Orders (EROs) and Registered Employment Agreements (REAs), which give binding effect to wage-setting mechanisms in some sectors (see above), were unconstitutional because the **1946 Industrial Relations Act** did not provide 'principles and policies' to guide the Labour Court and Joint Labour Committees on how to exercise their power. Since 9 May 2013, REAs, which cover sectors such as construction and electrical contracting, have ceased to have statutory effect in Ireland. The government has reaffirmed its commitment to introduce a new legal framework to replace REAs as soon as possible.

The procedure for triggering extension in Slovakia has been a source of controversy, and there have been several recent changes, with contrasting effect, in the legislation governing extension. A 2007 law had removed the requirement for the individual employer concerned to give consent to implementing extension, and provided for extension requests to be reviewed by a tripartite group. Following subsequent changes of government, this was first reversed at the end of 2010 and then reinstated with effect from the start of 2014. In Cyprus, which has not had extension provisions, an initiative was brought forward by the government in 2012 to introduce such provisions, but subsequently dropped following a change in government.

In Bulgaria and Germany, use of existing extension procedures has increased. Bulgaria has seen the activation of hitherto unused extension procedures, established in 2001, in some sectors from 2010 onwards. The number of sectors in Germany in which minimum wages have been declared legally binding, under legislation on posted workers, has increased. This reflects a growing problem of low pay in parts of the private sector. In late 2013, the new coalition government's commitments included a measure intended to facilitate the uptake of extension procedures.

In Italy, the long-established practice, based on earlier judicial decisions, of the de facto, 'quasi-legal' extension of the wage and working time provisions of sector agreements has been called into question by recent court rulings which confirmed the validity of the new plant-level agreements unilaterally imposed by Fiat during 2011. These agreements include provisions on working time which go beneath the standards specified in the metalworking sector agreement. They were imposed prior to the company's decision at the end of 2011 to terminate its membership of Confindustria and withdraw all its plants from the metalworking agreement.

### *Continuation beyond expiry*

Clauses providing for agreements to continue to have effect beyond the date of expiry until a new agreement is concluded are intended to protect workers should employers refuse to negotiate a renewal. They are found in a number of countries, for example: Austria, Croatia, Denmark, Estonia, Greece, Portugal, Slovakia, Spain and Sweden.

Changes have been made to such provisions in five countries: Greece, Portugal, Spain, Croatia and Estonia. In Greece, a 2012 law introduced a three-month limit for the period beyond expiry, during which agreements can remain in force; after this period, only the basic wage specified in the agreement is payable (and no supplementary payments or other allowances). A 2012 law in Spain imposes a 12-month time limit, beyond which agreements will no longer have binding effect. As a consequence, considerable numbers of workers could lose the protection entailed by being covered by a collective agreement. Responding to this concern, the social partners adopted an agreement in May 2013 encouraging their affiliates to renew collective agreements. Portugal introduced legislation in 2009 which limited the continuation of agreements beyond expiry to 18 months, should renewal negotiations fail. Where the parties agree to the inclusion of a clause on the issue, the maximum duration permitted is five years. In Croatia, a 2010 proposal to limit the continuation of agreements beyond expiry was withdrawn following sustained trade union opposition. It was reintroduced in 2012 under a law which limits the procedure to three months. A 2012 law in Estonia replaces automatic continuation of agreements beyond expiry with the requirement that this should be agreed between the parties.



Changes since 2008 in the reach and continuity of collective wage bargaining are summarised in Table 4. For extension mechanisms, changes in use are differentiated from changes in the procedures themselves.

Table 4: *Changes in the reach and continuity of collective agreements since 2008*

Extension mechanism changed	Use of existing extension mechanisms changed	Continuation of agreements beyond expiry
EL: 2011 law in effect suspends extension by restricting its application to employers' association member companies.	BG: activation of hitherto unused extension procedures in some sectors.	EE: a 2012 legislative change requires the parties to agree to continuation of agreements in place of them being automatic.
IE: extension via REAs (concluded in some sectors) suspended following 2013 Supreme Court ruling.	DE: increase in the number of sectors where minimum wages declared legally binding, under posted workers legislation.	EL: 2012 law introduced a three-month limit on continuation of agreements
PT: 2012 Labour Code restricts extension procedures to sectors where employers' organisation member companies employ >50% of the workforce.	IT: court rulings confirming the legal validity of Fiat's new single-employer agreements call into question widespread practice of de facto extension of wage (and working time) clauses of sector agreements.	ES: 2012 law introduced a 12-month limit on continuation of agreements.
RO: 2011 Social Dialogue Act curtails extension by restricting its application to employers' association member companies.		HR: 2012 law introduced a three-month limit on continuation of agreements.
SK: controversy over whether the consent of individual employers was required before applying extension procedure, resulting in three changes in legislation (2007, 2010, 2014).		PT: 2009 law introduced an 18-month limit on continuation of agreements, extendable to five years by agreement between the parties.

Source: *EIRO 2014*

### Minimum wage setting and indexation

Collective wage-setting mechanisms establishing minimum wages and providing for automatic adjustments to wages against an index measure of the cost of living have generalised effects on wage standards.

#### *Minimum wage setting*

Twenty-one of the EU28 plus Norway have statutory, universal minimum wages, while in Cyprus minimum wages are set for nine different occupations. There is no statutory minimum wage in Austria, Denmark, Finland, Germany, Italy, Norway or Sweden, where minimum wage rates are generally set by sector collective agreements. The incoming government in Germany is committed to introducing a statutory minimum wage within the next four years. Among the countries with statutory minimum wages a variety of mechanisms are involved including cross-sector agreements, as in Belgium or until recently Greece; tripartite bodies, as in Poland, the Baltic States and until recently Hungary; independent bodies which consult the social partners or to which the social partners can make representations, as in the UK; or government decision, with or without consulting the social partners, as in France and Slovenia (with consultation) or Spain (since 2011 without consultation).

Among the countries with statutory minimum wages, there were changes in 10: Croatia, Cyprus, Greece, Hungary, Ireland, Poland, Portugal, Spain, Slovakia and Slovenia. Germany, in addition, was the only country with sector-specific minimum wages where there was change. A 2012 law in Greece introduced change to minimum wage setting, as well as cutting minimum wages by more than 20% and freezing them until 2016. Previously, the minimum wage was determined by the cross-sector national agreement. From 2016 it will be set by the government, with the social partners having a consultative role only. In Ireland, the 2010 Memorandum of Understanding between the troika and the government imposed a cut in the minimum wage, subsequently restored in 2012 (by agreement with the troika). In addition, a 2012 law specifies that Joint Labour Committees, which set minimum pay rates in low-paid sectors where collective bargaining coverage is low, must now take account of competitiveness and labour market criteria in determining appropriate rates. In Cyprus and Portugal, the respective Memoranda of Understanding between the troika and the

government impose restrictions on the criteria for increases in the statutory minimum wage and require any increase to be agreed with the troika.

In Hungary, the tripartite OÉT, until its abolition in 2011, had determined minimum wages. It was replaced by a new tripartite body, **NGTT**, with a consultative role only: government now determines minimum wages. Changes in three other central eastern European countries were aimed at strengthening the protection provided by the statutory minimum wage. Croatia introduced a statutory minimum wage in 2008, to be determined by the government according to a formula. Its introduction has affected the minimum wage levels specified in collective agreements. The formula was revised in 2013 by legislation which also provided for annual uprating. In Slovenia, 2010 legislation amended the previous, 2006 minimum wage law, introducing indexation on an annual basis against a measure of the cost of living. A government proposal to reverse this in 2013 was withdrawn following widespread trade union opposition. A 2008 amendment to Slovakia's minimum wage legislation allows the government to increase the wage above the level indicated by the prescribed formula for uprating.

De facto changes in minimum wage setting featured in two other countries. In Poland, the government has unilaterally set the minimum wage from 2010 onwards, given the failure to agree on this by the **Tripartite Commission**. While this is envisaged under the procedures for setting the minimum wage, it does represent a change in practice. In Spain, since 2011, the government has discontinued the practice of consulting with the social partners before taking decisions on the level of the minimum wage.

Of the countries where minimum wages are sector-specific, Germany has seen an increase since 2008 in the number of sectors in which the minimum wages specified in the sector agreement have been declared legally binding.

### *Indexation*

Indexation mechanisms, which trigger automatic increases in wages against some measure of the cost of living, are found in five countries: Belgium, Cyprus, Luxembourg, Malta and Spain. In addition, the price index utilised as a reference for cost-of-living wage settlements negotiated at sector level in Italy can be regarded as a proxy mechanism.

There have been changes, or pressure for change, in all six countries. Elsewhere, indexation was adopted in 2010 for the minimum wage only in Slovenia (see above). In the face of a country-specific recommendation under the EU's new economic governance to reform its system of wage indexation, the Belgian government decided, in 2012, to retain the automatic wage indexation mechanism. It did, however, change the composition of the basket of goods and services used to calculate changes in the cost of living, so as to temper the effect of changes on the wage index. Luxembourg has also received country-specific recommendations from the EU to reform its wage indexation system. Negotiations on a reform in the Tripartite Coordination Committee failed in 2010, with unions opposing proposals tabled by the government and supported by employers. Subsequently, the government suspended the operation of the indexation mechanism for three years, from 2012 to 2014 inclusive, imposing fixed increases in wages instead.

In Cyprus, there has also been substantial debate on reform of the indexation mechanism which was also the subject of a country-specific recommendation from the EU. In 2012, a tripartite agreement provided for the continuation of indexation, but introduced temporary exemption for companies facing economic hardship. This was, however, overtaken by the Memorandum of Understanding governing the financial rescue package made available by the troika in 2013, which requires reform of the system. Government proposals include reduction in the frequency of adjustments, introducing the possibility to suspend automatic uprating under unfavourable economic circumstances, and moving from full to partial (50%) indexation. Implementation is awaiting tripartite agreement. Initially, the troika had sought the abolition of indexation. Malta also received a country-specific recommendation from the EU to reform its wage indexation system. The government has, however, contested the need for change (which was supported by employers

and opposed by trade unions) on the grounds that the indexation mechanism ensures that cost-of-living related wage increases are received by many employees not covered by the decentralised, company-level bargaining arrangements which prevail. It took the decision in 2012 to maintain the current mechanism.

In Italy, the 2009 cross-sector agreement, not signed by the CGIL union confederation, introduced a new indicator of expected inflation as the reference point for sector negotiations, which conclude cost-of-living related wage adjustments. In Spain, wage revision clauses in collective agreements have acted as a functional equivalent to indexation. There has been a sharp decline in their use since 2008. Up until 2009, pay guidelines agreed by the social partners in periodic cross-sector agreements were based on officially projected inflation. Wage revision clauses subsequently adjust wages for any deviation between actual and projected inflation. The pay guidelines in the cross-sector agreements concluded in 2010 and 2012 no longer incorporated official inflation forecasts. Probably reflecting this, the proportion of the workforce covered by collective bargaining which were protected by wage revision clauses fell from two thirds in 2007, prior to the onset of the crisis, to an estimated one third in 2012.

Changes since 2008 in minimum wage setting and indexation mechanisms are summarised in Table 5.

Table 5: *Changes to minimum wage-setting and indexation mechanisms since 2008*

Minimum wage setting	Indexation mechanisms
CY: Memorandum of Understanding governing financial assistance package imposes restrictions on criteria for any increase in the minimum wage, and requires international approval.	BE: 2012 change in the method of calculation to temper effect of price increases on wage indexation.
EL: 2012 law changed minimum wage setting and froze the minimum wage until 2016. Minimum wage no longer determined by the social partners through cross-sector negotiations, but by government following consultation with the social partners.	CY: 2012 tripartite agreement introduced temporary exemption for companies facing economic hardship. Further changes proposed by government, under the 2013 MoU, include reduced frequency of adjustments, possibility of suspension under unfavourable macro-economic circumstances, replacing full with partial (50%) indexation.
ES: de facto change. Since 2011, government has discontinued previous practice of consulting the social partners before determining the minimum wage.	ES: wage guidelines agreed between the social partners no longer incorporate official inflation forecasts (since 2009). Sharp reduction in number of agreements including wage revision clauses, which adjust for deviation between anticipated and actual inflation.
DE: increase in the number of sectors with minimum wages declared legally binding.	IT: 2009 cross-sector agreement introduced a new indicator of expected inflation as the reference point for sector wage negotiations.
HR: statutory minimum wage introduced in 2008, determined by government according to a formula. Annual uprating introduced in 2013.	LU: following the failure of tripartite negotiations over reforming indexation, government suspended operation of indexation mechanism until 2014, imposing a fixed-rate increase for 2012–2014.
HU: abolition, in 2011, of the tripartite body which had determined the minimum wage. The new tripartite body has consultative status only, with government now deciding.	MT: no change, although CSR is recommending this; government decision to retain current mechanism in 2012, supported by social partners.
IE: 2010 cut in the minimum wage under the Memorandum of Understanding governing its financial assistance package; restored in 2012, but required international approval.	
PL: de facto change. Failure to agree on minimum wage level in Tripartite Commission, i.e. with the result that government has unilaterally decided.	
PT: Memorandum of Understanding governing financial assistance package imposes restrictions on criteria for any increase in the minimum wage, and requires international approval.	
SI: 2010 legislation introducing indexation for the minimum wage.	
SK: 2008 legislative change enabling government to increase the minimum wage above the level indicated by cost-of-living formula.	

Note: CSR = country-specific recommendation  
Source: *EIRO 2014*

### Parametric outcomes

Both changed economic conditions and the changes to wage-setting mechanisms outlined in the previous five sections potentially affect the extent of collective wage bargaining activity. Data on collective bargaining coverage, that is the proportion of the workforce covered by collective bargaining, tend to become available only with some lag. The most recent figures in the database on Institutional Characteristics of Trade Unions, Wage-setting, State Intervention and Social Pacts (**ICTWSS**) are for 2010 and 2011, but these are available only for some of the countries covered in this report. The most recent year for which there is a complete set of figures for the EU28 (except Croatia) plus Norway is 2008. As an indicator of bargaining activity, EIRO respondents were asked to report on any change in the number of agreements being concluded since the onset of the crisis in 2008. They were also asked to report on any changes in the duration of collective wage agreements since 2008. Findings on both these parametric outcomes are summarised in Table 6.

Table 6: *Changes in the number and duration of collective wage agreements since 2008*

Country	Number of agreements	Duration of agreements
AT	No change	No change
BE	Small decline	No change
BG	Small decline	No change
CY	Decline	No change
CZ	Increase	No change
DE	Small decline	Increase then reduction
DK	No change	Reduction
EE	Decline	Reduction
EL	Steep decline (sector) Increase (company)	Reduction
ES	Steep decline	Reduction
FI	n.d.	No change
FR	Increase	n.d.
HR	No change	No change
HU	n.d.	No change
IE	n.d.	n.d.
IT	No change	Reduction
LT	Decline	Reduction
LU	No change	n.d.
LV	Decline	No change
MT	Increase	n.d.
NL	No change	No change
NO	No change	No change
PL	Decline	No change
PT	Steep decline	No change
RO	Decline	Reduction
SE	No change	Reduction
SI	No change	No change
SK	Decline	No change
UK	No change	Reduction

Note: n.d. = no data available

Source: *EIRO 2014*

### *Number of agreements*

Estimates of the trend in the number of agreements are available for 26 of the 29 countries. The majority reported either a decline in the number of agreements (13 countries, including Greece) or no change (10 countries). Four countries reported an increase, including Greece, where numbers of company agreements increased while those of sector agreements declined.

In Greece, the number of company agreements increased sharply, rising from 238 in 2010 to 976 in 2012, reflecting the new possibilities to conclude agreements with associations of employees which do not have to conform with sector wage standards. The other three countries reporting increased numbers of agreements also did so in respect of company agreements. For France, the number of sector agreements remained unchanged. The increase reflects the effect of the 2008 law introducing an obligation for companies where there are union sections to negotiate annually over pay. In the Czech Republic and Malta, the company is the main level of bargaining. The Czech Republic experienced a step change in the number of company agreements between 2009 and 2010, possibly stimulated by the introduction of a short-time working scheme, which has subsequently been sustained. Malta saw a marked decline in the number of agreements concluded in 2009, 2010 and 2011 compared with 2008, and then a sharp increase in numbers in 2012 to above 2008 levels. This might prove to be a 'rebound' effect.

Eight of the countries reporting a decline in the number of agreements are ones where multi-employer bargaining is prevalent, or there is a mixed pattern, and sector agreements feature prominently: Belgium, Bulgaria, Cyprus, Germany, Greece (sector agreements), Portugal, Slovakia and Spain. In a ninth country, Romania, multi-employer bargaining was prevalent until the crisis. In the other four, single-employer bargaining, based on company-level agreements, prevails: Estonia, Latvia, Lithuania, Poland. Among the first group, the steepest declines are in Greece, Portugal and Spain. In Greece, as compared with the 70 sector agreements and 67 occupational multi-employer agreements concluded in 2010, only 10 and 2, respectively, were concluded in 2012. In Spain, the number of agreements in force (at sector, provincial and company levels) fell from almost 6,000 in 2008 to just over 3,500 in 2012. In Portugal, the numbers of sector and other multi-employer agreements concluded fell from 200 in 2008 to 115 in 2011 and 46 in 2012, while the number of company agreements declined from 95 to 55 and 39 over the same period. As a consequence, the number of workers covered has fallen dramatically from almost 1.9 million in 2008 to almost 1.25 million in 2011 and just 330,000 in 2012. In contrast, the declines reported in Belgium and Germany were modest or potentially time limited. In Belgium, the decline in the number of sector wage agreements concluded in 2013 compared with previous bargaining rounds in 2011 and 2009 is probably due to the removal of any wage margin for sectoral negotiation as a result of the government's unilateral decision to limit wage increases in 2013 and 2014 to those arising from indexation. In Germany, fewer wage agreements were reported in 2011 and 2012 than in previous years for reasons which are unclear. The decline in the number of sector agreements in Bulgaria, Cyprus and Slovakia was modest in comparison with the sharp changes in Greece, Spain and Portugal.

In Estonia, Latvia, Lithuania and Poland, the number of company agreements has declined since 2008. In Estonia, the number of agreements concluded fell from 88 in 2007 to 50 in 2012. Poland experienced a decline from 154 agreements concluded in 2008 to 92 in 2012.

### *Duration of agreements*

Of the 25 countries for which data are available, a majority – 15 countries – reported no change in the normal duration of agreements. Ten countries reported some change: Denmark, Estonia, Germany, Greece, Italy, Lithuania, Romania, Spain, Sweden and the UK. All, with the partial exception of Germany, indicated a tendency for agreements to be of shorter duration than was the case prior to 2008. In Germany, agreement duration initially increased, in order to provide stability during the sharp downturn in economic activity, and then shortened, in the light of uncertain economic prospects. In the other countries concerned, the main reason for reducing the length of agreements was uncertainty over economic developments.

In Denmark, there was a general reduction in the duration of sector agreements from three years to two years from 2010 (when most previous agreements expired) onwards. Similarly, in Sweden, three-year sector agreements were replaced by ones lasting 18 to 24 months from 2010. Several agreements concluded in 2013 are again for three years, in the light of economic recovery. In Italy, the normal duration of sector agreements was reduced from four to three years under the 2009 cross-sector agreement. Spain experienced a decrease after 2008 in the proportion of sector agreements whose duration is for two or more years. The same applied to the proportion of company agreements which are multi-annual in Estonia, Lithuania and the UK. Reduction in the duration of agreements in Greece and Romania was the result of legislative intervention, which imposed three- and two-year limits, respectively, in place of open-ended duration.

#### Other indicators

In both the Netherlands and Cyprus, delays in the renewal of agreements were reported, with an increase in the number of agreements in force beyond their expiry. This reflected more protracted bargaining rounds.

The use of extension provisions has fallen markedly in Portugal, in part reflecting new restrictions on their use. The number of extension ordinances fell from 137 in 2008 and 116 in 2010, to 17 and 12 in 2011 and 2012 respectively.

#### Summary

Table 7 provides an overview of the countries involved in the different main types of change to collective wage-setting mechanisms, setting aside parametric outcomes.

Table 7: *Main types of change in wage-setting mechanisms*

Type of change	Countries
<b>Main levels of bargaining</b>	
Decentralisation	AT BG CY EL ES FR IE IT RO SI
Recentralisation	BE FI
Horizontal coordination across bargaining units	AT ES HU IE RO SE SK
<b>Linkages between levels of bargaining</b>	
Ordering between levels	EL ES PT
Opening and opt-out clauses	AT BG CY DE EL ES FI FR IE IT NO PT SE SI
Extending bargaining competence	EL FR HU PT RO
<b>Reach and continuity of bargaining</b>	
Extension procedures	EL IE PT RO SK
Increased / changed use of existing procedures	BG DE IT
Continuation beyond expiry	EE EL ES HR PT
<b>Minimum wage-setting and indexation mechanisms</b>	
Minimum wage setting	CY DE EL ES HR HU IE PL PT SI SK
Indexation	BE CY ES IT LU [MT]*

Note: \*Debate in Malta following an EU recommendation, but no change.

Source: *EIRO 2014*

Reviewing the cross-country pattern across the main types of change to collective wage-setting mechanisms (Table 7) reveals three clusters of country according to the number of changes which have occurred. Table 8 shows that there have been multiple changes in six countries: Cyprus, Greece, Ireland, Portugal, Romania and Spain. There have been some changes in four countries: Croatia, Hungary, Italy and Slovenia. In the remaining 19 countries, there have been fewer or no changes.



The six countries featuring multiple changes have all received financial rescue packages from one or more of the troika of international institutions, comprising the ECB, the European Commission and the IMF. The link between these rescue packages and the changes which have occurred in collective wage-setting mechanisms is explored in subsequent sections. In 2008, prior to the onset of the crisis, multi-employer bargaining constituted the prevalent bargaining regime in five of the six countries, while Cyprus was characterised as ‘mixed’ with both multi- and single-employer bargaining present. By 2012, multi-employer bargaining arrangements had been replaced by single-employer ones in Ireland and Romania. Among the other four countries, a distinctive characteristic of their multi-employer bargaining regimes, up until 2008, was the weakness or absence of procedural provisions articulating bargaining across the different levels. The changes imposed by governments in these countries, under external requirements, have, with the partial exception of Portugal, addressed the issue of articulation by weakening the role of higher level (variously cross-sector, sector or provincial) agreements and according priority to those concluded at company level.

Among the four countries featuring some changes – Croatia, Hungary, Italy and Slovenia – these have been primarily driven by domestic institutional actors, such as governments and/or employers and trade unions. Complying with the EU’s social acquis prior to accession has also been a factor in Croatia.

Table 8: *Volume of changes to collective wage-setting mechanisms*

<b>Multiple or several changes</b>	CY EL ES IE PT RO
<b>Some changes</b>	HR HU IT SI
<b>Few or no changes</b>	AT BE BG CZ DE DK EE FI FR LT LU LV MT NL NO PL SE SK UK

Source: *EIRO 2014*

Correspondents in the countries reporting few changes were asked to indicate possible reasons for the relative stability in collective wage-setting mechanisms. Responses were provided for 13 of the 19 countries concerned. Four different types of reason were identified, with some countries referring to more than one. First, the absence of a major impact on economic activity under the crisis, and hence pressure on wage-setting mechanisms, was mentioned in respect of four countries (AT, CZ, NL (until recently), NO). Second, the capacity of existing wage-setting mechanisms to adjust to the changed economic conditions was indicated for several countries with multi-employer bargaining arrangements (DE, DK, NL, SE, NO), Slovakia with mixed arrangements, and for the Czech Republic and UK with single-employer arrangements. Among the first group, two-tier bargaining arrangements in the Nordic countries (with the exception of Finland) enabled local (company) settlements to rapidly adapt to the need to contain costs (as in the UK), while in Germany and the Netherlands, hardship clauses in sector agreements offered the necessary scope for adaptation. Third, three countries indicated that collective bargaining plays a marginal role in wage setting (LT, LV, PL). In the two Baltic States, concern focused on reducing wage costs and securing internal devaluation, which was not seen to entail changes to wage-setting mechanisms. Fourth, governments and social partners can resist (international) pressures for change, as in the case of Malta’s indexation system.

## Economic and political factors

Changes in wage-setting mechanisms respond to both economic and political pressures. Correspondents were asked about the influence of three main factors or rationales on changes in the different aspects of wage-setting mechanisms detailed in the previous section. The three main factors were:

- macro-economic, for example securing wage moderation or augmenting demand in the economy;
- micro-economic, for example accommodating increased variability in the competitive circumstances of companies or responding to the situation of companies in economic difficulties or undergoing business restructuring;
- state policies and/or recommendations or requirements from the European Commission and/or the ECB and/or the IMF aimed at weakening or strengthening state supports for collective bargaining.

For each of the six main types of change in wage-setting mechanisms, correspondents were asked to indicate whether one or more of these three main factors had been influential.

### Main levels of bargaining

Of the 12 countries reporting changes in the main levels of bargaining, the factors influencing change were identified for 10, as shown in Table 9. Economic and political factors are both influential, with economic factors being cited for more countries than political ones. As between macro- and micro-economic factors, macro-economic factors were reported to be influential in the two countries – Belgium and Finland – which have experienced centralisation in wage-setting arrangements. In addition, for Ireland, the break-up of national bargaining was reported to have been motivated in part by macro-economic reasons such as securing wage moderation. In contrast, micro-economic factors are prevalent among the larger group of countries which have experienced decentralisation in the main levels of bargaining.

The main source of political influence was the European and international institutions, including recommendations under the EU's economic semester system in Belgium and Spain and the terms of Memoranda of Understanding governing financial rescue packages in Greece and Romania.

Table 9: *Economic and political factors influencing change in main levels of bargaining*

Factors influencing change in:	Macro-economic	Micro-economic	State policies/recommendations and requirements from the EC/ECB/IMF
Main levels of bargaining	BE FI IE	AT CY EL ES FR IE IT RO	BE EL ES RO

Source: *EIRO 2014*

### Horizontal coordination across bargaining units

Changes in horizontal coordination across bargaining units were reported to have occurred in seven countries. The factors influencing these changes were indicated for five of these. In one, Sweden, the switch in pattern-setting in manufacturing from the blue-collar to the white-collar agreement reflects the influence of a further factor, namely industrial change. Findings for the other four countries are given in Table 10. This shows that macro-economic factors are influential in three countries where the nature of cross-sector coordination has changed: Hungary, Slovakia and Spain. Micro-economic factors in Austria relate to metalworking, and the different business conditions prevailing in the six sub-sectors. Government policy has been an additional influence in Hungary.

Table 10: *Economic and political factors influencing change in horizontal coordination*

Factors influencing change in:	Macro-economic	Micro-economic	State policies/recommendations and requirements from the EC/ECB/IMF
Horizontal coordination	ES HU SK	AT	HU

Source: *EIRO 2014*

### Linkages between levels under multi-tier bargaining

Of the 21 countries with multi-employer, or mixed, bargaining arrangements, changes in one or more of the three dimensions to linkages between levels were reported in 16. Of these, the factors influencing change were indicated for 11 countries and are shown in Table 11. Of the two kinds of economic factor, it is micro-economic considerations that are the relevant ones. This reflects pressures to make wage-setting mechanisms more responsive to companies' business circumstances. Micro-economic factors are cited as influencing changes in ordering between levels and in opening and opt-out clauses, where they are the most prevalent influencing factor, but not in the extension of bargaining competence to non-union representatives. In contrast, macro-economic factors are not judged to have been influential in changes to any of the three dimensions.

Political factors are reported to have exercised influence on changes in at least some of the countries concerned on all three dimensions. On extending bargaining competence to non-union representatives, political factors are cited as having been influential in three of the four countries concerned. Both national government and, in the cases of Greece, Romania, Spain and Portugal, the European and international institutions have been sources of political influence on the changes involved.

Table 11: *Economic and political factors influencing change in linkages between bargaining levels*

Factors influencing change in:	Macro-economic	Micro-economic	State policies/recommendations and requirements from the EC/ECB/IMF
Ordering between levels		EL ES IT	EL ES PT
Opening and opt-out clauses		BG CY ES IE IT NO PT SI	ES IE IT PT
Extending bargaining competence to non-union representatives		FR	EL PT RO

Source: *EIRO 2014*

### Reach and continuity of collective bargaining

Changes to extension mechanisms and/or to provisions governing the continuation of agreements following expiry were reported in 10 countries. Of these, the factors influencing changes were indicated for nine, as shown in Table 12.

On extension mechanisms, macro-economic factors were reported to have been influential where augmentation or activation of extension mechanisms has occurred, on the grounds that this prevented undercutting of collectively agreed wages. In contrast, micro-economic influences were cited where extension mechanisms have been curtailed, better enabling wages to be set according to companies' business conditions. But it is political influence that is more prevalent where extension arrangements have been curtailed. Such influence came from the European and international institutions in four of the five countries concerned, in the form of recommendations or requirements under the terms of Memoranda of Understanding governing financial rescue packages in Greece, Ireland, Portugal and Romania. In Slovakia, changes in government have brought repeated switches in policy on extension mechanisms.

On continuation of agreements beyond expiry, macro-economic factors, relating to capacity for adjustment to changed economic conditions, were cited as being an influence in three of the countries. The influence of political factors was, however, more prevalent, stemming from both national governments (Croatia, Estonia, Spain) and the European and international institutions (Greece and Portugal).

Table 12: *Economic and political factors influencing change in the reach and continuity of bargaining*

Factors influencing change in:	Macro-economic	Micro-economic	State policies/recommendations and requirements from the EC/ECB/IMF
Extension mechanisms	BG SK	EL IE	EL IE PT RO SK
Continuation of agreements beyond expiry	EL ES HR		EE EL ES HR PT

Source: *EIRO 2014*

### Minimum wage-setting and indexation mechanisms

Of the 14 countries reporting changes to either minimum wage-setting or indexation mechanisms, or to both, the factors influencing changes were indicated for 13, as shown in Table 13. Both macro-economic and political factors are influential in almost all of the countries concerned. Micro-economic factors feature for Germany only, where minimum wages are sector-specific and their implementation affects the conditions of competition within a sector.

On minimum wage setting, the influence of macro-economic factors includes both countries where minimum wage protection has been strengthened (Croatia, Slovenia and Slovakia) and those where it has been weakened (Cyprus, Greece, Ireland, Portugal). Different macro-economic considerations are likely to feature among the two groups, relating to sustaining or stimulating demand in the first, and constraining growth in wage costs in the second. Political factors are also influential in all these countries, and additionally in Hungary. Political influence has primarily been exercised by national governments in Croatia, Slovenia, Slovakia and also Hungary. In Cyprus, Greece, Ireland and Portugal, the European and international institutions have exercised influence through recommendations or requirements under the respective Memoranda of Understanding.

On indexation, the primary macro-economic consideration is constraining growth in wage costs. In three of the five countries concerned, political factors have also exercised influence, with the European institutions prominent. Country-specific recommendations (CSRs) under the EU's economic system have featured in each case, as has the 2013 Memorandum of Understanding in the case of Cyprus.

Table 13: *Economic and political factors influencing changes in minimum wage-setting and indexation mechanisms*

Factors influencing change in:	Macro-economic	Micro-economic	State policies/recommendations and requirements from the EC/ECB/IMF
Minimum wage-setting mechanisms	CY EL HR IE PT SI SK	DE	CY EL HR HU IE PT SI SK
Indexation mechanisms	BE CY ES IT LU		BE CY LU

Source: *EIRO 2014*

### Parametric outcomes

Information on the factors influencing the parametric outcomes is only available for the duration of agreements: correspondents were not asked about the number of agreements. Ten countries reported changes in duration, and the factors influencing change were indicated for nine of these, as shown in Table 14. Economic influences are prevalent, both macro- and micro-economic. Greece and Romania are the exceptions, where a legislative change as part of the reforms required under the Memorandum of Understanding with the European and international institutions has curtailed the duration of agreements in both.

Macro-economic considerations relating to uncertainty over economic prospects were cited in relation to all but one of the countries concerned. Micro-economic influences, relating to uncertainty over business prospects at company level, were cited also for the three countries with single-employer bargaining arrangements (Estonia, Lithuania, and UK) and for Sweden, where the scope for company-based wage negotiation under its multi-employer bargaining arrangements is extensive.

Table 14: *Economic and political factors influencing changes in the duration of agreements*

Factors influencing change in:	Macro-economic	Micro-economic	State policies/recommendations and requirements from the EC/ECB/IMF
Duration of agreements	DE DK EE IT LT SE UK	EE LT SE UK	EL RO

Source: *EIRO 2014*

## Summary

The main factors influencing changes in the different aspects of wage-setting mechanisms are summarised in Table 15. This shows that, for some aspects, economic factors – either macro or micro – have been the prevalent influence on change. For other aspects, political factors have been prevalent, and for yet others economic and political factors are approximately equally prevalent.

Table 15: *Main influences on changes in different aspects of wage-setting mechanisms*

Factors influencing change in:	Macro-economic	Micro-economic	State policies/recommendations and requirements from the EC/ECB/IMF
Main bargaining levels	X	XX	X
Ordering between levels		X	X
Opening and opt-out clauses		XX	X
Extending bargaining competence			XX
Horizontal coordination	XX		
Extension mechanisms	X	X	XX
Continuation beyond expiry	X		XX
Minimum wage setting	X		X
Indexation mechanisms	X		X
Duration of agreements	XX	X	

Note: X = influence indicated for at least two countries; XX = prevalent influence

Source: *EIRO 2014*

Economic factors are the prevalent influence over changes in main bargaining levels, with the dominant decentralising direction of change reflected in the influence of micro-economic factors being cited for more countries than macro-economic ones. Micro-economic factors are the prevalent ones in the case of changes to opening and opt-out clauses, also reflecting their decentralising character. In contrast, macro-economic considerations are prevalent in changes in horizontal coordination, which relates to centralisation. Economic factors are also a prevalent influence on changes in the duration of agreements, with macro-economic considerations being more to the fore than micro-economic ones.

Economic and political factors emerge as equally prevalent influences over changes in ordering between levels, minimum wage-setting mechanisms and indexation mechanisms. As between macro- and micro-economic factors, the latter is the most influential in changes in ordering between levels. In contrast, macro-economic considerations are the greatest influence on changes to minimum wage setting and indexation.

Political factors have the greatest influence over changes involving the extension of bargaining competence to non-union representatives, to extension mechanisms and to the continuation of agreements beyond expiry. On all three aspects, influence stems variously from national governments and from the European and international institutions.

## Institutional sources of change

Different institutional actors can be involved in shaping the changes in wage-setting mechanisms reviewed in the first main section. These include the social partners at the cross-sector, sector and company levels; national governments; and European and international institutions, including the ECB, European Commission and IMF. This section establishes the relative influence of these institutional actors over the different types of change which have taken place in wage-setting mechanisms. The next section looks in more depth at the influence of the EU's new economic governance regime.

For five of the six main types of change in wage-setting mechanisms (horizontal coordination across bargaining units was the exception), correspondents were asked to identify the main sources of change, in terms of the institutional actors involved, from among the following possibilities:

- negotiated between social partners at sector level;
- negotiated or concerted between the cross-sector social partners;
- imposed by national government;
- externally influenced, for example via country-specific recommendations (CSRs) under the EU's economic semester system under its new economic governance regime;
- externally required or imposed, for example by the European Commission and/or the ECB and/or the IMF as part of the conditions of a financial rescue package.

Correspondents were also asked to indicate any other sources of change, and these largely related to those negotiated between employers and trade unions at company level. Responses were checked and modified for cross-country consistency. This mainly concerned the countries receiving financial rescue packages. Measures covered by the respective Memoranda of Understanding were consistently identified as externally required and imposed by national government.

## Main levels of bargaining

Twelve countries reported changes in the main level of bargaining. The main institutional sources of change in each of these countries is shown in Table 16. There is no predominant source of change, with negotiated change at different levels and government imposition each featuring in at least five countries. External influence or requirement featured in four countries. Decentralisation of bargaining towards the company level was reported to be influenced by CSRs in Cyprus, Romania and Spain, while in Greece this was regarded as having been required under the terms of the Memorandum of Understanding governing the financial rescue package.

Table 16: Sources of change in main levels of bargaining

Source of change in:	Negotiated by sector (or company) social partners	Negotiated or concerted by the cross-sector social partners	Imposed by national government	Externally influenced	Externally required
Main bargaining levels	AT [BG] [CY]	FI IE* IT SI	BE EL ES FR RO	CY ES RO	EL

Notes: Square brackets [ ] indicate negotiated at company level; \*the employers' confederation, Ibec, and the government withdrew from the national agreement.

Source: EIRO 2014



### Linkages between levels under multi-tier bargaining

Changes in one or more of three dimensions to the linkages between levels under multi-employer bargaining were reported in 16 of the 21 countries concerned. The main sources of change, in terms of the institutional actors involved, were indicated for 10 of these. Table 17 shows contrasting patterns according to the dimension of change involved.

Changes in the hierarchical ordering between levels, involving either suspension or inversion of the favourability principle to give priority to agreements concluded at company level, have in each case been imposed by the national government. The European and international institutions have also exercised a noticeable role, with the change in Spain being influenced by a CSR and those in Greece and Portugal required under the Memoranda of Understanding governing the financial rescue packages.

In contrast, the introduction of (further) opening and opt-out clauses has resulted from negotiations between the social partners at either sector or cross-sector level in the majority of the countries concerned, although government imposition features in four of them. European and international institutions are reported to have had an impact in four countries. CSRs are reported to have influenced the changes in Bulgaria and Spain, while changes in Ireland were influenced and those in Portugal were required under the respective Memoranda of Understanding.

For changes entailing bargaining competence being extended to non-union representatives, it is government imposition which is more prevalent. Imposed change in Greece was required under its Memorandum of Understanding. In Portugal, although featuring in its Memorandum of Understanding, a measure to extend bargaining competence to works councils regardless of trade union consent has not yet been brought forward. The Hungarian government has imposed the relevant change, whereas change in France resulted from a cross-sector agreement.

Table 17: Sources of change in linkages between levels

Source of change in:	Negotiated by sector (or company) social partners	Negotiated or concerted by the cross-sector social partners	Imposed by national government	Externally influenced	Externally required
Ordering between levels			EL ES PT	ES	EL PT
Opening and opt-out clauses	BG CY ES SI	ES FR IT NO	ES IE IT PT	BG ES IE	PT
Extending bargaining competence to non-union representatives		FR	EL HU PT*		EL PT*

Notes: \*delegation of bargaining competence to works councils in larger companies requires trade union consent; the troika requirement that this condition should be dropped has not been acted on.

Source: *EIRO 2014*

### Reach and continuity of collective bargaining

Changes affecting either extension procedures or the provisions on the continuation of agreements following expiry were reported in 10 countries. Of these, the main institutional sources of change were identified for nine, as shown in Table 18.

Imposition by national government predominates for both these kinds of change. The exception is Bulgaria, where activation of extension arrangements was initiated by government and negotiated and agreed with the social partners. Changes to extension mechanisms were required under Memoranda of Understanding in two countries – Greece and Portugal – and influenced in two others, Ireland and Romania. The change to continuation of agreements beyond expiry in Greece was also required by the European and international institutions. The change in Spain was reported to have been influenced by a CSR.

Table 18: Sources of change in the reach and continuity of collective bargaining

Source of change in:	Negotiated by sector (or company) social partners	Negotiated or concerted by the cross-sector social partners	Imposed by national government	Externally influenced	Externally required
Extension mechanisms		BG*	EL IE PT RO SK	IE RO	EL PT
Continuation of agreements beyond expiry			EE EL ES HR PT	ES	EL

Note: \*Initiated by government and negotiated with the social partners.

Source: *EIRO 2014*

### Minimum wage-setting and indexation mechanisms

Changes to either minimum wage-setting arrangements or indexation mechanisms, or to both, were reported in 14 countries. The main sources of change, in terms of the institutional actors involved, were identified in 12 of these, as shown in Table 19.

Imposition by national government predominates among the changes to minimum wage-setting arrangements. This includes three cases where changes have been aimed at strengthening the protection provided by minimum wages (Croatia, Slovakia, Slovenia) as well as the remaining countries where the effect of changes has been either to weaken minimum wage protection (Cyprus, Greece, Ireland, Portugal) or to weaken, or remove, social partner involvement in determining minimum wages (Greece, Hungary, Spain). Changes in four countries were required under the respective Memoranda of Understanding governing financial rescue packages.

Imposition by government is also a prominent source of changes in indexation mechanisms, although change in Spain resulted from the cross-sector social partners in dropping any reference to inflation forecasts in the recent agreement on pay guidelines. In Cyprus, proposals for change put forward by the social partners were overtaken by a requirement to introduce changes under the subsequent Memorandum of Understanding. In all four countries concerned, changes in indexation mechanisms are reported to have been externally influenced through CSRs under the EU's economic semester system.

Table 19: Sources of change in minimum wage-setting and indexation mechanisms

Source of change in:	Negotiated by sector (or company) social partners	Negotiated or concerted by the cross-sector social partners	Imposed by national government	Externally influenced	Externally required
Minimum wage setting	DE*		CY EL ES HR HU IE PT SI SK		CY EL IE PT
Indexation		CY** ES	BE CY** LU	BE CY** ES LU	CY**

Notes: \*increase in the number of sectors where minimum wages declared legally binding, at the social partners' request.

\*\*changes were first proposed by the social partners in light of a 2011 CSR; the Memorandum of Understanding governing the subsequent, 2013 financial rescue package required the government to bring forward proposals for more extensive changes.

Source: *EIRO 2014*

### Parametric outcomes

Information on the institutional sources of change is available for the duration of agreements: correspondents were not asked about the number of agreements. Findings from the 10 countries reporting change are shown in Table 20. With two exceptions, changes in duration, most of which involved reductions in length, were negotiated between employers and trade unions at cross-sector, sector or company level, according to country. The exceptions are Greece and Romania, where legislation has abolished scope for agreements to have open-ended status and limited duration to, respectively, a maximum of three and two years.

Table 20: Sources of change in the duration of agreements

Source of change in:	Negotiated by sector (or company) social partners	Negotiated or concerted by the cross-sector social partners	Imposed by national government	Externally influenced	Externally required
Duration of agreements	DE DK [EE] ES [LT] SE [UK]	IT	EL RO	RO	EL

Note: Square brackets [ ] indicate negotiated at company level.

Source: *EIRO 2014*

## Summary

Table 21 summarises the findings on the main institutional sources shaping the changes to different aspects of wage-setting mechanisms. The two categories of external impact (influenced or required) have been combined. A striking feature is that, for five of the nine aspects, imposition by national government has been the most prevalent source of changes, including: ordering between levels of bargaining; extending bargaining competence to other employee representatives; extension mechanisms; continuation of agreements beyond expiry; and minimum wage-setting arrangements. Conversely, changes to these five aspects have generally not been the subject of negotiations between the social partners. The impact of European and international institutions on changes to these five aspects, either via CSRs or through the terms of Memoranda of Understanding, is also noticeable. For ordering between levels and extension mechanisms, one or more of these external actors has had an impact on changes in all, or nearly all, countries concerned. For the other three aspects, an impact is evident on changes in some of the countries concerned.

A consistent feature of the changes to indexation mechanisms, whether they stem from negotiation or concertation between the cross-sector social partners, or from government imposition, is that the European and international institutions had an impact in all the countries concerned.

Negotiations between either the cross-sector or sector social partners, taken together, have been as prevalent as government imposition, as a source of change to the main levels of bargaining, and more prevalent concerning changes in opening and opt-out clauses. European and international institutions have had an impact on the changes in a minority of the countries concerned. The aspect for which negotiation between the social partners is most prevalent, although imposition by government and external influence feature in two countries, is change in the duration of agreements, a parametric outcome.

Table 21: Main institutional sources shaping changes in different aspects of wage-setting mechanisms

	Negotiated by sector (or company) social partners	Negotiated or concerted by the cross-sector social partners	Imposed by national government	Externally influenced or required
Main bargaining levels	X	X	X	X
Ordering between levels			XX	XX
Opening and opt-out clauses	X	X	X	X
Extending bargaining competence			X	X
Extension mechanisms			XX	XX
Continuation beyond expiry			XX	X
Minimum wage setting			XX	X
Indexation mechanisms		X	X	XX
Duration of agreements	XX		X	X

Note: X = source identified in at least two countries; XX = most prevalent source

Source: *EIRO 2014*

Although not shown in Table 21, further reviewing Tables 16 to 20 reveals that, with the exception of one issue, imposition by national government largely features among those countries which have been subject to financial rescue packages from the European and international institutions. The exception is the issue of minimum wages, where governments in a wider range of countries have introduced changes to minimum wage-setting arrangements, which in some instances have strengthened rather than weakened minimum wage protection. Also, Tables 16 to 20 indicate that, as well as influencing measures imposed by governments, CSRs can influence social partner initiatives to negotiate change. There are two such examples: the recent pay guidelines negotiated between Spain's employer and trade union confederations, which did not, as previously, incorporate inflation adjustment, or the inclusion of opt-out clauses in a growing number of sector agreements in Bulgaria.

### Influence of the crisis and the EU's new economic governance regime

The introduction in 2011 of the new 'European semester' macro-economic planning system, which strengthens the European Commission surveillance of Member States' macro-economic policy in the interests of better coordination and avoiding economic imbalances, has brought wage-setting mechanisms within the ambit of the economic governance regime of the EU. There have been three main developments. First, in March 2011, the governments of the then 17 Eurozone countries agreed a 'Euro-plus pact', subsequently signed by a further six governments. These were Bulgaria, Denmark, Lithuania and Latvia, which subsequently joined the Eurozone at the start of 2014, and Poland and Romania. The Czech Republic, Hungary, Sweden and the UK remained as non-signatories. The pact includes commitments to ensure that wages increase only in line with productivity and to monitor and benchmark trends in unit labour costs. While formally respecting the autonomy of Member States in respect of wage setting, the pact also includes a commitment to review wage-setting mechanisms, in particular the degree to which bargaining is centralised and the effects of wage indexation mechanisms. Second, the so-called 'Six Pack' of regulations on economic governance adopted by the European Council in October 2011, which took effect from January 2012, strengthen EU-level economic governance mechanisms and, among Eurozone countries, introduce the possibility of sanctions being invoked in the case of countries with persistent macroeconomic imbalances. The regulations reinforce the powers of the Commission in relation to surveillance of wages policy and unit labour costs, amongst other macroeconomic indicators, and refer to reform of wage-setting arrangements amongst the possible corrective measures that can be required. The reinforced powers enable the Commission to issue country-specific recommendations (CSRs) as part of the annual European semester macro-economic planning system. Third, and most starkly, the Memoranda of Understanding between the troika of European and international institutions (the ECB, the European Commission and the IMF) and national governments in those countries receiving financial assistance packages have had a much more direct impact by requiring changes in wage-setting mechanisms.

This section explores further the impact on wage-setting mechanisms of CSRs and Memoranda of Understanding requirements under these developments in EU economic governance. After outlining the recommendations and requirements, it looks at the impact of CSRs adopted under the semester system, before turning to the impact of the Memoranda of Understanding.

The recommendations (CSRs) to Member States, and commitments required, in respect of their wage-setting mechanisms under the three developments in European economic governance are summarised in Table 22. Norway is excluded as it is not a Member State and therefore not covered by the economic governance regime. Croatia is also excluded as it only became part of the European semester macro-economic planning system during the past year.

Table 22: Commitments and recommendations on wage setting and wage policy in the EU Member States, 2011–2014

Country	Euro Plus Pact Commitments in 2011	European semester recommendations for 2011/2012	European semester recommendations for 2012/2013	European semester recommendations for 2013/2014
AT	–	–	–	–
BE	Wage-setting mechanisms	Reform wage bargaining and wage indexation	Reform wage-setting system including indexation	Reform wage-setting system including indexation
BG	Wage-setting mechanisms	Link wage growth to productivity	–	–
CY	Wage-setting mechanisms	Reform wage setting and wage indexation	Reform of the system of wage indexation	Implement commitments under financial assistance programmes
CZ	N/A	–	–	–
DE	–	–	Wages in line with productivity	Wage growth to support domestic demand
DK	–	–	–	–
EE	–	–	–	–
EL	Wage-setting mechanisms	Implement commitments under financial assistance programmes	Implement commitments under financial assistance programmes	Implement commitments under financial assistance programmes
ES	Wage-setting mechanisms	Comprehensive reform of the collective bargaining process and the wage indexation system	–	–
FI	–	–	Continue to align wage and productivity developments	Support alignment of real wage and productivity
FR	–	Ensure development in the minimum wage is supportive of job creation	Minimum wage supportive of job creation and competitiveness	Lower cost of labour; ensure minimum wage supportive of job creation and competitiveness
HU	N/A	–	–	–
IE	Wage-setting mechanisms	Implement commitments under financial assistance programmes	Implement commitments under financial assistance programmes	Implement commitments under financial assistance programmes
IT	Wage-setting mechanisms	Ensure wage growth better reflects productivity developments	Monitor and if needed reinforce the implementation of the new wage-setting framework	Ensure effective implementation of (...) wage-setting reforms
LT	Public sector wage developments	–	–	–
LU	Wage-setting mechanisms	Reform wage setting and wage indexation	Reform wage bargaining and wage indexation	Reform wage setting and wage indexation
LV	Wage-setting mechanisms	Implement commitments under Memorandum of Understanding of 20 January 2009	–	–
MT	–	Reform wage setting and wage indexation	Reform wage bargaining and wage indexation	Monitor wage indexation mechanism and stand ready to reform (in the background considerations)
NL	–	–	–	–
PL	Public sector wage developments	–	–	–
PT	Wage-setting mechanisms	Implement commitments under Memorandum of Understanding of 17 May 2011	Implement commitments under Memorandum of Understanding of 17 May 2011	Implement commitments under Memorandum of Understanding of 17 May 2011
RO	Wage-setting mechanisms Public sector wage developments	Implement commitments under Memoranda of Understanding (June 2009 and June 2011)	Implement commitments under Memoranda of Understanding (June 2009 and June 2011)	Complete the EU/IMF financial assistance programme

Country	Euro Plus Pact Commitments in 2011	European semester recommendations for 2011/2012	European semester recommendations for 2012/2013	European semester recommendations for 2013/2014
SE	N/A	–	–	–
SI	Wage-setting mechanisms	–	Ensure wage growth supports competitiveness and job creation	Ensure wage growth supports competitiveness and job creation
SK	–	–	–	–
UK	N/A	–	–	–

Sources: *Euro Plus Pact Commitments in 2011 – Background on the Euro Plus Pact*, European Commission; *European Semester recommendations – European Commission, 2011, 2012, 2013*

Under the Euro Plus Pact, 12 countries undertook commitments to review aspects of their wage-setting mechanisms: Belgium, Bulgaria, Cyprus, Greece, Ireland, Italy, Latvia, Luxembourg, Portugal, Romania, Slovenia and Spain. These commitments have subsequently been addressed in the CSRs adopted under the European semester system or in the requirements specified in the Memoranda of Understanding governing financial assistance packages. CSRs have been addressed to six countries concerning aspects of their wage-setting mechanisms in at least one of the three years during which the system has operated: Belgium, Cyprus, Italy, Luxembourg, Malta and Spain. In addition, a further five countries have been the subject of CSRs on wage developments or policy: Bulgaria, Finland, France, Germany and Slovenia. These recommendations on wage policy may or may not carry indirect implications for wage-setting mechanisms. For those countries receiving financial assistance packages, no (additional) CSRs are adopted under the semester system beyond the requirements included in the respective Memoranda of Understanding. Changes to wage-setting mechanisms have been required under the Memoranda of Understanding governing financial assistance packages provided by the troika in five countries – Cyprus (which had been subject to CSRs prior to its 2013 financial assistance package), Greece, Ireland, Portugal and Romania. The sixth country concerned, Spain, has been the subject of a CSR.

This leaves wage-setting mechanisms in 11 countries which have not been the subject of either CSRs or requirements under Memoranda of Understanding governing financial assistance packages: Austria, Czech Republic, Denmark, Estonia, Hungary, Lithuania, Netherlands, Poland, Slovakia, Sweden and the UK.

### Outcome of recommendations under the European semester system

The outcome of CSRs issued under the European semester system and the commitments undertaken under the Euro Plus Pact vary considerably in terms of subsequent action taken by the countries concerned, as Table 23 shows. In some cases, the recommendations would seem to have been taken up and implemented, as in Bulgaria and Spain. Caution, however, is needed in assuming a link between cause (the recommendation) and effect (the outcome). In Spain, for example, the CSR coincided with the election in 2011 of a government already committed to introducing several changes along the lines proposed; its main effect may have been to enhance the legitimacy of the measures concerned. Likewise in Italy, it was reported that the changes in wage-setting mechanisms cannot be attributed to the influence of the European institutions, although the nature of the changes that have occurred has been broadly in line with those suggested in EU documents and in CSRs addressed to Italy.

In other cases, recommendations are reported to have had no discernible impact, as in France and Germany, or to have been actively rebutted, as in Malta, where the government has asserted the benefits of the indexation mechanism in the face of CSRs initially to ‘change’ and subsequently ‘review’ it.

In a third group of countries, including Belgium, Cyprus and Slovenia, the outcome lies somewhere in between. In Belgium, the government has decided to retain the indexation mechanism but introduced changes which moderate its impact. In Cyprus, prior to the 2013 financial assistance package, the government had likewise opted to retain indexation, but brought forward proposals to moderate its impact.



Whether CSRs that address wage developments or policy, rather than wage-setting mechanisms as such, carry indirect implications for wage-setting mechanisms also varies from country to country. CSRs addressed to France, concerning a national minimum wage consistent with job creation and competitiveness, and to Germany, concerning wage developments that reflect productivity and support domestic demand, have – as noted – had no discernible impact on wage outcomes, let alone on wage-setting mechanisms. In contrast, the CSR addressed to Slovenia on wage developments which are consistent with job creation and competitiveness has prompted the government to propose changes to minimum wage legislation, although these were subsequently withdrawn.

Table 23: *Outcome of recommendations and commitments on wage-setting mechanisms under the new EU economic governance*

Country	Recommendation/commitment	Outcome
BE	CSR: reform the system of wage bargaining, and wage indexation in particular.	The system of wage bargaining has not changed, but the government intervened following a failure to agree in cross-sector wage negotiations for 2013–2014 to impose a settlement consistent with wage moderation. On indexation, the government decided to retain automatic wage indexation but to temper its effect by changing the reference basket of goods and services ( <b>BE12070111</b> ).
BG	Euro Plus Pact: introduce performance-based pay and suspend pension indexation and salary increases for public sector employees until 2013.	A new, performance-based system of remuneration for the public sector was introduced in July 2012; pensions and salaries were frozen until 2013.
CY	CSR: reform the system of wage bargaining, and wage indexation in particular.	The government brought forward proposals in 2012 for reform of indexation, introducing temporary exemption for companies facing economic hardship, which received reluctant approval from the three main trade union confederations in a tripartite agreement. Subsequently, wider ranging changes were required under the 2013 Memorandum of Understanding (see below).
DE	CSR: wage growth in line with productivity and foster domestic demand.	No discernible impact on wage bargaining.
ES	CSR: predominance of provincial and sector agreements leaves little space for negotiation at company level, which should be promoted; review automatic extension of agreements beyond expiry pending renewal; review wage indexation system (wage revision clauses), which contributes to wage inertia.	Legislative measures which accord priority to company over provincial and sector agreements, and limit automatic extension of agreement beyond expiry. Social partners removed official inflation forecasts from agreed cross-sector wage guidelines (2010, 2012), thereby discouraging inclusion of wage revision clauses in agreements.
FR	CSR: ensure that the national minimum wage supports job creation and competitiveness.	There are no changes responding to the CSR. Indexation system for national minimum wage changed in 2012 to reflect the impact of inflation on poorer, rather than average, households.
IT	CSR: monitor and, if needed, reinforce implementation of the new wage-setting framework.	The changes in wage-setting mechanisms that have taken place are broadly in line with those indicated in EU policy documents and in recommendations, but cannot be attributed to them.
MT	CSR: ‘change’ (2011) and subsequently ‘review’ (2012) system of wage indexation.	Following the 2011 ‘change’ recommendation, the government decided to retain indexation, citing its foundation in social dialogue, role in underpinning cooperative industrial relations and contribution to economic stability ( <b>MT11070191</b> ).
SL	CSR: ensure wage growth supports competitiveness and job creation.	Government published proposals in 2013 for changes in minimum wage legislation, including the definition of the minimum wage and its indexation.

Source: *EIRO 2014*

An additional source of EU-level influence on wage setting was identified by Sweden, which is not a signatory to the Euro Plus Pact and which has not been the subject of a CSR concerning wage-setting mechanisms or wage developments. Proposals for changes to wage-setting mechanisms affecting a range of countries have – as in the case of Sweden – been included in the Annual Growth Surveys for 2011 and 2012 prepared by the European Commission. For Sweden, the recommendations call for greater flexibility in wage setting, and have drawn strong criticism from the trade unions on the grounds that they potentially threaten the autonomy of collective bargaining through interference from the public authorities.

### **Outcome of changes required in countries receiving financial assistance packages**

Six countries have received financial assistance packages from the European and international institutions since the onset of the crisis in 2008: Cyprus, Greece, Ireland, Portugal, Romania and Spain (in respect of its banking sector). These are governed by Memoranda of Understanding (or Loan Agreement in the case of Romania) with national governments, which have required changes to wage-setting mechanisms in five of the six (except Spain). Table 24 shows changes required, and the outcome, in the five countries.

The requirements relating to wage-setting mechanisms under the Memoranda of Understanding (Loan Agreement) include, with the exception of Ireland, a general statement concerning the need for changes to improve capacity for real wage adjustment, increase wage flexibility including at company level, promote wage adjustment in line with productivity, contain labour costs, and ensure changes in the minimum wage are in line with economic and labour market developments. Specific measures relating to wage-setting mechanisms are detailed to a differing extent for four of the five countries, with Romania's Loan Agreement with the IMF being the exception.

In Greece, Portugal and Romania, the measures implemented by governments in response to the respective requirements under the Memoranda of Understanding (Loan Agreement) have, in each case, effected significant change to several aspects of wage-setting mechanisms, as elaborated in a previous section. In Cyprus, the measures implemented in response have focused on two aspects of wage setting: changes to the indexation mechanism and the level of the minimum wage. In Ireland, the focus has also been on two aspects: legally-underpinned mechanisms for wage setting in certain sectors where trade union organisation is weak (Employment Regulation Orders) or collective bargaining coverage is partial (Registered Employment Agreements); and the level of the minimum wage.

Overall, recalling that multi-employer bargaining arrangements predominated in four of the five countries before the onset of the crisis in 2008, and was also present in Cyprus, the more wide-ranging changes have been required in the three countries where sector-level bargaining was well established and there was the least scope for company bargaining: Greece, Portugal and Romania.

Table 24: Outcome of changes required to wage-setting mechanisms in countries receiving financial assistance packages

Country	Requirement	Main outcome(s)
CY	To ensure that wage growth better reflects developments in labour productivity and competitiveness, the Cypriot authorities will reform the wage-setting framework in the public and private sectors in such a way as to improve real wage adjustment. Any change in the minimum wage should be in line with economic and labour market developments (MoU, 2013).	Suspension of wage indexation in 2013, and reform of system to reduce frequency of adjustment; provide for suspension of automatic uplifts under unfavourable economic conditions; move from full to partial indexation. Implementation pending of tripartite agreement. Minimum wage frozen in 2013.
EL	In line with the reduction of wages in the public sector, the wages in the private sector should become more flexible to allow cost containment for an extended period of time (MoU, 2010). The Government will take measures to improve the flexibility of the labour market: the inflexibility of the labour market prevents the adjustment of wages to the economic conditions. Adjustment of the minimum wage: this will help to ensure that, as the economy adapts and collective bargaining agreements respond to the changes, businesses and employees will not find themselves bound by a minimum limit which is too high in international comparison (Update of MoU, 2012).	A series of legislative measures during 2011 and 2012 which: <ul style="list-style-type: none"> <li>• accord priority to company agreements over sector and occupational agreements;</li> <li>• permit company negotiations with unspecified employee representatives where there is no trade union presence;</li> <li>• restricted extension to member firms of employers' organisations;</li> <li>• three-month time limit on the continuation of agreements beyond expiry;</li> <li>• removed competence of the cross-sector agreement to set the minimum wage in favour of government determination.</li> </ul>
IE	Reduction in the statutory minimum wage; review of sector-specific wage-setting mechanisms which have binding effect (MoU, 2010)	One euro reduction in minimum wage hourly rate (2011), subsequently restored (2013). Introduction of derogation provisions in sector-specific wage-setting mechanisms.
PT	Promote wage adjustment in line with productivity at firm level; extending bargaining competence to work councils without trade union delegation; specify clearer (stricter) criteria for application of extension; shortening the period for which agreements remain valid beyond expiry; improving tripartite social dialogue; change in the minimum wage should be in line with economic and labour market developments (MoU, 2011).	2012 Labour Code which: <ul style="list-style-type: none"> <li>• accords priority to company over sector agreements;</li> <li>• restricts extension to sectors where the employers' organisation covers a majority of the workforce;</li> <li>• continuation of agreements beyond expiry limited to 12 months;</li> <li>• minimum wage frozen in 2012 and 2013.</li> </ul>
RO	A more flexible wage-setting mechanism (Loan agreement with the IMF, World Bank and European Commission, 2010).	2011 Social Dialogue Act which: <ul style="list-style-type: none"> <li>• abolished the cross-sector agreement, and replaced 'branch' with newly defined (more disaggregated) sector agreements. In practice, no new sector agreements have been concluded, and the main bargaining level is now the company;</li> <li>• introduced stricter representativeness criteria for social partners, and permitted company negotiations with unspecified employee representatives where trade unions do not meet criteria;</li> <li>• restriction of extension to member firms of employer organisations;</li> <li>• imposes new limits on agreement duration, to 24 months plus one 12-month extension.</li> </ul>

Source: EIRO 2014

## Summary

Sixteen of the 27 countries which are covered by the EU's new economic governance regime have received either CSRs, addressing either wage-setting mechanisms or wages policy (with possible indirect implications for wage-setting arrangements) or are subject to Memoranda of Understanding which require changes in wage-setting mechanisms. Countries where multi-employer bargaining is predominant, or where there are mixed bargaining regimes are more likely to be among the 16 than those with single-employer regimes: 14 out of 19 in the first group compared with two out of eight in the second. Reflecting this, the CSRs and MoU requirements have tended to focus on strengthening adjustment capacity and responsiveness to business circumstances at company level under multi-employer bargaining regimes, and on minimum wage-setting and indexation mechanisms. Whereas the outcome of CSRs is rather variable across countries, in terms of whether and to what extent measures are introduced by governments, the requirements specified under the Memoranda of Understanding have had significant effects on wage-setting mechanisms.

## Perspectives of the social partners

The perspectives of employers and trade unions on the changes in wage-setting mechanisms taking place exhibit differences between them and also some common ground. The types of change on which differences are evident include: decentralisation or centralisation of wage-setting arrangements, including changes to main bargaining levels, ordering between levels and the availability of opening and opt-out clauses; and changes to minimum wage-setting and indexation mechanisms. No consistent difference is evident between employers and trade unions over changes to extension mechanisms.

Common ground is apparent between the social partners in several countries on the undesirability of the interventions by government, externally required in some, to change wage-setting arrangements. There is also common ground among employers and trade unions in several countries which have seen few or no changes in wage-setting mechanisms, which both underline the proven capacity of existing arrangements to address the challenges posed by the crisis.

### Employer perspectives

Employers' organisations in several countries have pressed for, and endorse, changes which have the effect of decentralising collective wage setting. In Ireland, the employers' confederation Ibec initially sought renegotiation of the 2008 cross-sector agreement, on the grounds that the settlement was wholly unsuited to the changed economic conditions. In the absence of this, Ibec triggered the collapse of national, cross-sector wage bargaining when it withdrew from the agreement in 2009. In Romania, employers' organisations have been divided over the abolition of the national, cross-sector agreement by the government under the 2011 Social Dialogue Act, with some supporting the consequent decentralisation in wage-setting arrangements and others critical of the removal of the main reference point for negotiations at other levels. Although Finland's employers' confederation, EK, had pushed hard for an end to central, cross-sector wage agreements when bargaining moved to sector level in 2007, given the exigencies of the crisis it was prepared to make a return to cross-sector negotiations in 2011 and 2013. At the same time, it has underlined its preference for promoting local wage bargaining alongside central, or sector, agreements. Somewhat in contrast, Belgium's employers' confederation, (FEB-VBO) has supported the further centralisation that government-imposed wage settlements to the 2011 and 2013 bargaining rounds have entailed, on the grounds that this ensures wage moderation and a reduction in the wage-cost gap with Belgium's major trading partners.

In Spain, the main employers' organisation, CEOE, has strongly supported the collective bargaining reforms decentralising wage-setting arrangements introduced by the government, including the prioritisation of company over sector and provincial wage agreements. Employers' organisations in Portugal have also endorsed changes intended to strengthen the role of the company level in wage setting. In both countries, employers' organisations view the respective changes as better facilitating the alignment of wages with productivity. Confindustria in Italy had pushed for the shift in emphasis towards the company level under the country's two-tier wage bargaining structure which was confirmed in cross-sector agreements concluded in 2009, 2011 and 2012. It views more decentralised arrangements as enabling firms to improve their competitiveness. In Austria, the employers' organisations in the six main sub-sectors of metalworking pushed through the break-up of the previous sector-wide agreement in favour of a set of sub-sector specific agreements on the grounds that economic conditions increasingly differ between the different parts of metalworking. Employers' organisations in Bulgaria and Cyprus support an expanded role for company negotiations in wage setting, including the non-renewal of some sector agreements and the inclusion of opt-out clauses in others. In Slovenia, employers' organisations are pressing for sector agreements to leave more scope for wages to be negotiated at company level.

Employers' organisations in some countries have expressed concerns over minimum wage-setting arrangements. In Bulgaria, employers' organisations contend that the government's unilateral determination of the minimum wage is resulting in increases which cause economic difficulties for SMEs. Likewise in Slovenia, employers' organisations have

criticised the 2010 changes to minimum wage setting which introduced indexation, arguing that the effect is to inflate wage costs. Employers supported a proposal to remove indexation brought forward by the government in 2013, but this was subsequently withdrawn in the face of widespread protests. In Slovakia, employers' organisations are concerned that changes to minimum wage setting that give government scope to authorise an increase above the cost of living could, if utilised, have a negative impact on competitiveness. Employers' organisations in Portugal supported the freeze in the minimum wage implemented by the government. Employer concerns in two further countries have a different focus. In Greece, the main employers' confederation, **ESEE**, opposed the government's action in assuming the prerogative to set the minimum wage on the grounds that it should continue to be freely set through cross-sector negotiations with the union confederation, **GSEE**. In Poland, employers' organisations are critical of the government's role in the recent failures to agree on minimum wage increases in the main tripartite forum, with the result that the government has decided this unilaterally. In Germany, the **BDA** has consistently opposed proposals to introduce a statutory minimum wage, which are now part of the programme of commitments of the newly formed coalition government.

Among the countries concerned, employers' organisations have generally supported either the reform or abolition of automatic wage indexation mechanisms. In Luxembourg and Malta, employers' organisations have pushed for the abolition of indexation mechanisms. In an open letter to trade unions in 2011, Luxembourg's employers' confederation, **UEL**, called for indexation to be suspended in order to reduce the wage cost gap with major trading partners. Maltese employers view indexation as an unnecessary rigidity which hampers adjustment of labour costs. Employers' organisations in Cyprus backed the proposals to reform indexation, thereby muting its effect on wage costs. In Belgium, FEB-VBO has not called for indexation to be abolished, but has supported government reforms which temper the effect of indexation on wage costs.

On other types of change, employers' organisations in Portugal have criticised the restrictions placed on the application of extension procedures as eroding the effectiveness of the regulation provided by collective bargaining, but have welcomed the reduction in the duration for which agreements can continue beyond expiry. In Slovakia, employers' organisations have opposed changes to extension procedures which make their implementation no longer conditional on individual employer consent. Employers contend that this means collectively agreed wage standards have to be implemented, regardless of varying business circumstances.

### Trade union perspectives

Trade unions have tended to resist employer pressure for changes, and oppose government measures, which have the effect of decentralising collective wage setting. According to Ireland's trade union confederation, ICTU, the collapse of cross-sector wage bargaining has led to considerable uncertainty in wage setting and unevenness in outcomes. It has also reduced trade union policy influence over wages and wider economic and social issues. In Romania, trade unions are strongly critical of the abolition of the cross-sector agreement, and the consequent effects. These include a marked reduction in the proportion of the workforce covered by collective bargaining over wages, wage stagnation and growing wage inequality. Finland's trade unions welcomed the return to central bargaining which resulted in the 2011 and 2013 cross-sector agreements. Somewhat differently, Belgium's three main union confederations are critical of the further centralisation that government-imposed cross-sector wage agreements in 2011 and 2013 have entailed, and in particular the elimination of any wage margin for negotiation at sector level, which the unions regard as the principle level for wage setting. They view the resulting wage moderation as counter-productive in terms of sustaining purchasing power so as to mitigate the effects of the crisis.

In Greece, the trade union confederation, GSEE, has vigorously opposed the various measures decentralising collective wage bargaining, including prioritising company over sector agreements. It views these as unnecessary and unconstitutional. Accordingly, it submitted a complaint to Greece's State Court questioning the constitutional legality of the legislative measures effecting decentralisation, and also a complaint to the ILO's Committee on Freedom of



Association (**GR1303019I**). In Spain, union confederations **CCOO** and **UGT** have opposed the government-imposed reforms to collective bargaining aimed at decentralising wage setting by according priority to company-level agreements, on the grounds that these reforms restrict established collective principles and rights, and depress wages in the context of the continuing crisis. Both confederations view the present government's reforms as being primarily ideological rather than economically motivated. There are differences between the two main trade union confederations over the reforms promoting decentralisation, and a greater role for company bargaining, introduced by the Portuguese government. These have been supported by **UGT**, but opposed by **CGPT**. **CGPT**, together with left political parties, lodged a partially successful complaint over some of the legislative changes with Portugal's Constitutional Court (**PT1310019I**). Differences between union confederations have also featured in Italy, over increasing scope for company-level negotiations under Italy's two-tier bargaining arrangement. The largest confederation, **CGIL**, has been more reluctant to countenance any erosion of the wage-setting mandate of sector agreements than the other two confederations, **CISL** and **UIL**. As a result, of the three recent cross-sector agreements addressing wage-setting arrangements **CGIL** signed only the 2011 agreement.

Austria's metalworking trade union opposed discontinuation of sector-wide bargaining in favour of concluding separate agreements for the six main sub-sectors, pushed through by the employers in 2012, as undermining wage solidarity. It also contests the economic rationale cited by the employers' organisations, which refers to growing differences in business conditions in the sector, contending that the move was motivated for strategic reasons following the strikes which preceded the 2011 settlement, the first since 1986, and which resulted in a relatively high settlement. Trade unions in Bulgaria acknowledge the economic rationale for the introduction of opt-out clauses into several sector agreements, but are concerned about the extent of their subsequent use. Trade unions in Cyprus state that they have had to accede to employer pressure for a larger role for company negotiations as a result of a shift in bargaining power in favour of employers. In Slovenia, trade unions are opposed to the scaled-down role for sector agreements in wage setting proposed by employers. Somewhat differently, trade unions in France have supported the 2008 legislation requiring annual pay negotiations to take place at company level, but criticised its weak enforcement.

Trade unions have endorsed increases in the minimum wage in several countries, and criticised the freezing of the minimum wage in others. They have also been critical of changes to minimum wage-setting mechanisms which remove or weaken social partner influence. In Bulgaria, trade unions have welcomed recent increases in the minimum wage, and called for the level to be augmented further in order to boost purchasing power. This was also the case in the Czech Republic and in Slovakia. In Latvia, trade unions opposed the government's decision to freeze the minimum wage. In Portugal also, **CGPT** and **UGT** opposed the freezing of the minimum wage, contending that purchasing power needs to be maintained in the face of the crisis.

Trade unions in Cyprus have criticised the government for acting unilaterally in freezing the minimum wage in response to a condition of the Memorandum of Understanding. It views the effect, along with its unilateral action on indexation (see below), as restricting the autonomy of the social partners. The main Polish trade union confederations share employer criticism of the role of government in the recent failures to agree over the level of the minimum wage in the tripartite forum. In 2011, they mobilised a civic petition calling for a substantial increase in the minimum wage boost purchasing power. In Greece, **GSEE** has condemned the removal of its right to negotiate the minimum wage together with the employers' confederation, **ESEE**, under legislation which gives the prerogative to set the minimum wage to the government. Hungarian trade unions oppose the loss of rights and influence over minimum wage setting resulting from the abolition of the **OÉT** tripartite forum which previously set the minimum wage. In contrast, trade unions in Slovenia supported the new arrangements for determining the minimum wage introduced in 2010, and successfully mobilised widespread support to defend the indexation introduced in the face of a 2013 government proposal to remove it. In Germany, the **DGB** and major trade unions support the proposed introduction of a statutory minimum wage.



Among the countries with automatic indexation mechanisms, trade unions have argued and lobbied for the retention of existing arrangements. In Belgium, the three main confederations stress the importance of retaining indexation for wage stability and maintaining purchasing power, although they accepted the recent change to the method of calculating the index. Trade unions in Malta have strongly supported the government's decision to retain the indexation mechanism. In Luxembourg, trade unions have lobbied for the retention of the indexation mechanism and opposed the government's decision to suspend it. Trade unions in Cyprus are critical of the government for unilaterally proposing changes to the indexation mechanism.

Concerning other types of change, trade unions in Slovakia support the removal of the requirement for employer consent before extension procedures can be applied. In their view, extension prevents wage competition and promotes stability. In Portugal, both CGPT and UGT have criticised the restrictive criteria introduced on the use of extension mechanisms, arguing that this undermines collective bargaining's capacity to regulate wages. The two union confederations differ, however, over the reduction in the duration for which agreements can continue beyond expiry, with UGT supporting the new provision and CGPT opposing it.

### **Common ground**

In several countries where changes to wage-setting mechanisms have been marked by interventions by government, the views of employers' organisations and trade unions have tended to concur on some but not all of the changes in question. This is a striking feature among some of the countries which have been required to introduce changes under the Memoranda of Understanding (Loan Agreement in the case of Romania) by the troika of European and international institutions. In Greece, change to minimum wage-setting arrangements, which removed the social partners' prerogative to negotiate the minimum wage through the cross-sector agreement, has been condemned by the employers' confederations, ESEE and **GSEVEE**, and the union confederation, GSEE. Common ground is also evident in the opposition of both social partners to the abolition of the thirteenth and fourteenth month wage payments, on the grounds that the resulting reduction in purchasing power is likely to exacerbate recessionary conditions. In addition, GSEVEE, which represents SMEs, contends that wage costs are a secondary factor among the economic problems confronting Greece, a position which represents common ground with GSEE. In Portugal, both employers' organisations and the two main union confederations have opposed the restrictive criteria imposed on the use of extension procedures, although views differ on the freezing of the minimum wage. As noted above, employers' organisations in Romania are divided over the measures imposed under the 2011 Social Dialogue Act. Some support the government's interventions entailing substantial change to wage-setting mechanisms. Others have been critical and through dialogue with trade unions have developed jointly agreed proposals to amend the Act. Elsewhere, Confindustria and the three main union confederations in Italy were all critical of the government's unilateral action in passing legislation in 2011 broadening the scope for derogation from sector agreements to include protections against dismissal. In Poland, employer and trade union confederations have both been critical of the role played by the government in recent failures to agree over the level of the minimum wage in the tripartite forum.

In Italy, the changes to wage-setting mechanisms since 2008 have in important part resulted from cross-sector negotiations. There is common ground between Confindustria and two of the union confederations, CISL and UIL, on the contribution that strengthening bargaining at company level, and correspondingly scaling back the influence of sector agreements on wages, can make to enhancing companies' competitiveness. As noted above, there are differences with the largest union confederation, CGIL, which is concerned to maintain the role of sector agreements in wage setting, and at the implications for the wage distribution of giving greater reign to negotiations at the company level.

Among the countries where there have been few or no changes to wage-setting mechanisms, there are several where the views of employers' organisations and trade unions tend to coincide on the demonstrable capacity of current arrangements to adapt to the exceptional economic conditions encountered following the onset of the crisis. The countries concerned include three of the four in the Nordic area. In Denmark, employers' organisations and trade unions

positively assess the capacity of current wage-setting arrangements, based on the autonomy of collective bargaining, to address the challenges brought by the crisis, as indicated by a reduction in the duration of sector agreements, the conclusion of low levels of wage increase in negotiations at both sector and company levels, and mobilisation and enlargement of the state-supported short-time working scheme. In addition, recent developments in Germany have prompted debates over statutory minimum wages and extension procedures. Neither of these is a feature in Denmark or favoured by employers' organisations and trade unions, which have reaffirmed their long-held positions. In Norway, where employers' organisations and trade unions in most sectors exceptionally agreed in 2009 that applicable wage increases could be deferred in the face of economic difficulties and through local negotiation, an ad hoc committee of representatives from all the main employer and trade union organisations was established to review the Norwegian model of wage setting. Its report, issued in 2013, endorsed the key features of current wage-setting arrangements, including the 'trend setting' practice under which the level of wage increase in a bargaining round is set by the exposed industrial sector. In Sweden, employers' organisations and trade unions also negotiated sector agreements of shorter duration, and concluded agreements at both sector and company levels providing for low levels of increase in wages. In the exposed industrial sector, which suffered a sharp reduction in activity in 2009–2010, the employers' organisation and trade union negotiated a short-time working scheme (not cushioned by state-funded support). Similar to Norway, both employers' organisations and trade unions support the continuation of 'trend setting' by the industrial sector in wage rounds.

Elsewhere, employers' organisations and trade unions in Germany draw attention to the capacity of collective wage bargaining arrangements to effect adjustments to respond to the challenges posed by the crisis. These included concluding relatively low settlement levels, widespread use of existing opening and opt-out clauses and negotiating once-off clauses varying the implementation of wage settlements. Widespread recourse was also made to the state-funded short-time working scheme. In addition, both the BDA and DGB reiterate the importance of government, and the European authorities, respecting the autonomy of collective bargaining over wages and other matters. In the UK too, employers and trade unions underline the capacity of collective wage bargaining arrangements to facilitate rapid adjustment following the onset of the crisis, including implementing wage freezes, introducing short-time working and concluding agreements of shorter duration.

### Commentary

Since the onset of the crisis in 2008, there have been noticeable changes to one or more aspects of wage-setting mechanisms among a number – although far from all – of the EU28 plus Norway. Reviewing the different aspects of wage-setting mechanisms, it is clear that:

- change in the main levels of bargaining has occurred in 12 countries (AT, BE, BG, CY, EL, ES, FI, FR, IE, IT, RO, SI);
- horizontal, cross-sectoral coordination mechanisms across bargaining units have seen changes in seven countries (AT, ES, HU, IE, RO, SK, SE);
- changes in linkages between levels (under multi-tier bargaining arrangements), including the ordering between levels and the use of opening and opt-out clauses, have featured in 16 countries (AT, BG, CY, DE, EL, ES, FI, FR, HU, IE, IT, NO, PT, RO, SI, SE);
- changes to extension arrangements or their use have occurred in eight countries (BG, DE, EL, IE, IT, PT, RO, SK);
- changes to procedures for continuation of agreements beyond expiry have taken place in five countries (EE, EL, ES, HR, PT);

- minimum wage-setting mechanisms have undergone change in 10 countries (CY, EL, ES, HR, HU, IE, PL, PT, SI, SK);
- indexation mechanisms have seen change in five countries (BE, CY, ES, IT, LU).

One result of these changes is a decline in the volume of collective wage bargaining in a sizeable number of countries: 13 of the 26 for which data were available reported that numbers of wage agreements concluded had fallen since 2008.

There is, however, considerable variation between countries in the extent to which wage-setting mechanisms have been subject to change. Change has been concentrated among six countries, whose wage-setting mechanisms have each undergone multiple changes: Cyprus, Greece, Ireland, Portugal, Romania and Spain. All six have received financial assistance packages from the troika of European and international institutions, the ECB, the European Commission and the IMF. Under the Memoranda of Understanding (or loan agreement in the case of Romania) governing these packages, changes to wage-setting mechanisms were required for each of these countries with the exception of Spain. In a further four countries, there have been some changes to wage-setting mechanisms: Croatia, Hungary, Italy and Slovenia. In these countries, change has been primarily driven by domestic actors – either governments or employers and trade unions – although, for Croatia, EU accession has also been an influence. Wage-setting mechanisms in most countries (19) have seen fewer or no changes since 2008. The reasons for this relative stability include the relatively muted impact of the crisis in some countries (including Austria, the Czech Republic and Norway), the marginal role of collective bargaining in wage setting in a few (such as Latvia and Lithuania), and the capacity of existing wage-setting arrangements to respond to abrupt change in economic conditions triggered by the crisis, as demonstrated by multi-employer bargaining arrangements in Germany, the Netherlands and the Nordic countries, single-employer ones in the Czech Republic and the UK and mixed arrangements in Slovakia.

As for the different types of change to wage-setting mechanisms, those which primarily stem from negotiations between employers and trade unions, at cross-sector or sector level, can be distinguished from those which were primarily imposed by national governments. A further feature of the latter is the extent to which some types of change imposed by national governments were externally influenced or required (by the European and international institutions). Amongst the different changes, increased use of opening and opt-out clauses was much more likely to result from negotiations between the social partners than from intervention by governments; so too were changes in the duration of agreements. Changes in the main levels of bargaining were equally likely to be negotiated between the social partners and to be imposed by national governments. Changes in these three issues were also more likely to be responding to the influence of economic factors, either micro or macro, than to political factors. Increased use of opening and opt-out clauses and further decentralisation in the main levels of bargaining (which was the dominant trend amongst the countries concerned) also represent an extension of trajectories of change which were well established before the onset of the crisis, rather than a discrete, crisis-induced shift.

Government imposition was a more prevalent institutional source of change than negotiation between employers and trade unions for a larger number of changes, including: ordering between different levels of bargaining under multi-tier bargaining arrangements; extending bargaining competence to other (non-union) employee representatives; extension procedures; provisions for continuation of agreements beyond expiry; and minimum wage-setting arrangements. The impact of the European and international institutions, in either influencing or requiring change, was marked for the first four of these issues, and also for changes to indexation mechanisms (where changes negotiated between the social partners featured in two countries and those imposed by government in three). External impact was less marked in the case of government imposed changes to minimum wage-setting arrangements. Political influences were more prevalent than economic ones for changes in extension mechanisms, continuation of agreements beyond expiry and extending competence to bargain to other employee representatives, while they were as important as economic influences for

changes in ordering between different levels of bargaining, minimum wage-setting and indexation mechanisms. In general, the changes involved tend to mark a departure from existing arrangements rather than an extension of pre-existing trajectories of development.

Two further features amongst the changes involving government intervention stand out. First, amongst the countries receiving financial assistance from the troika, the broader effect of multiple, government-imposed changes has been to reconfigure wage-setting mechanisms by weakening or removing key state supports to multi-employer bargaining. The state supports involved are threefold: ordering between different levels of bargaining, according to the favourability principle; extension procedures; and continuation of agreements beyond expiry. Second, amongst a larger group of countries, government imposition is prominent in changes to the two forms of wage-setting institution which have more generalised effects on wages: minimum wages and indexation.

Government imposed changes substantially reconfiguring wage-setting mechanisms feature prominently among the six countries receiving financial assistance packages from the troika. As noted, in five of these the changes were at the behest of the international institutions under the Memoranda of Understanding governing the assistance packages. Prior to the onset of the crisis, multi-employer bargaining arrangements prevailed in five of the six countries, with the sixth, Cyprus, characterised by a mix of multi-employer and single-employer bargaining arrangements. The collapse of cross-sector agreements in Ireland and, less directly, in Romania, has resulted in wage bargaining largely shifting to the company level, and with this single-employer displacing multi-employer bargaining arrangements as the predominant wage-setting regime. In Greece, Portugal, Spain, and also Romania, the changes imposed by governments have reconfigured wage-setting mechanisms by decisively weakening or removing three key state supports for multi-employer bargaining. First, the favourability principle, underpinning the ordering between different levels of bargaining, has been inverted, temporarily or permanently, to give priority to agreements concluded at company level over those concluded at sector or provincial level (Greece, Spain and Portugal). The restrictive conditions on concluding sector agreements introduced in Romania have had an equivalent effect. Second, extension procedures have been subject to restrictive criteria in Portugal and curtailed altogether in Greece and Romania. Third, provisions for the continuation of agreements beyond expiry, until they are renewed, have been strictly time-limited in Greece, Spain and (less so) Portugal. One effect of these reversals of long-standing public policy of providing state supports for multi-employer bargaining arrangements has been a marked drop in the number of sector (and provincial) agreements being concluded in the four countries. There has also been a sharp increase in the number of company agreements in Greece and Romania, where they can now be negotiated with unspecified employee representatives. Looking ahead, the removal of these key state supports could herald the unravelling of multi-employer bargaining arrangements, and their displacement by single-employer ones, in Greece, Spain and Portugal, as has already largely happened in Romania and Ireland.

Government imposition is to the fore in the changes to minimum wage-setting and indexation mechanisms which have taken place amongst a larger group of countries. Four developments are noticeable. First, in four of the countries in receipt of financial assistance packages from the troika (Cyprus, Greece, Ireland, Portugal), minimum wages have been frozen or cut under the terms of the Memoranda of Understanding, with any subsequent increase subject to strict criteria and troika approval, thereby weakening the protection offered by the minimum wage. Second, in three countries (Greece, Hungary and Spain) the role of the social partners in determining the minimum wage has been reduced or removed altogether. Third, the effect of government intervention has been to augment minimum-wage protection in three central eastern European countries (Croatia, Slovakia, Slovenia). Fourth, external impact in the form of either EU recommendations or troika requirements has featured in the four countries where there have been changes to indexation mechanisms (Belgium, Cyprus, Luxembourg and Spain).

Not all government interventions have the effect of weakening collective wage-setting mechanisms, although this has been the case in the majority of instances. In addition to the three countries where government interventions have strengthened minimum wage protection, the government in Malta has resisted the recommendation from the European Commission to reform its wage indexation mechanism. In Slovakia, extension procedures have been the subject of controversy, with different governments removing restrictive criteria governing their application, then reversing this and subsequently again removing them. Looking ahead, the incoming government in Germany has pledged to introduce a statutory minimum wage and to facilitate the use of extension procedures.

While the impact of the troika in inducing changes via the Memoranda of Understanding governing financial assistance packages in five countries is reasonably clear, the influence of country-specific recommendations (CSRs) under the EU's new, European semester macro-economic planning regime is more variable and more difficult to assess. In addition to the five countries receiving financial assistance packages, 11 have been the subject of CSRs on wage setting or wage policy, or commitments under the Euro Plus Pact. In some of the 11 countries, changes have taken place which are consistent with those spelled out in the respective CSR (Bulgaria, Italy, Spain). However, the impetus for these changes may have been largely internal, driven by domestic actors, as in Italy with respect to reforms to collective wage bargaining arrangements. In some of the countries, change has fallen somewhat short of that specified by a CSR, as has happened in Belgium (with respect to indexation) but also in Cyprus, Luxembourg and Slovenia. In other countries, such as Germany, Finland, France and Malta, CSRs would seem to have had no discernible effect. These include most of the instances where CSRs have addressed wage policy rather than wage-setting mechanisms as such, for example in France and Germany, and where any implication for the latter is likely to be indirect.

A noticeable feature of the CSRs, the commitments under the Euro Plus Pact and the requirements relating to wage-setting mechanisms under the Memoranda of Understanding is the emphasis they place on collective wage setting becoming more 'marketised'. Marketisation involves wage-setting mechanisms becoming more sensitive to the market and business circumstances of companies through (further) decentralisation. Those countries where single-employer bargaining constitutes the predominant wage-setting regime, and where unilateral management regulation is usually more widespread than collective wage setting, have mechanisms which are already substantially marketised and decentralised. The main focus of change since the onset of the crisis in 2008, and of the recommendations and requirements emanating from the European and international institutions, has been among those countries where multi-employer bargaining represents the predominant wage-setting regime. In some, such as Germany, the Netherlands and the Nordic countries, marketisation in the shape of considerable scope for company-level negotiation within the framework of the sector agreement is already well developed. It is where wage-setting mechanisms are less marketised, particularly among the countries of southern Europe, that the pressure for, and the extent of change, have been greatest. Insofar as European and international institutions continue to uphold the virtues of more marketised collective wage-setting arrangements, external pressures on these countries for further change seem unlikely to recede in the foreseeable future.

## Annex

### Country codes

#### EU28

<b>AT</b>	Austria	<b>IE</b>	Ireland
<b>BE</b>	Belgium	<b>IT</b>	Italy
<b>BG</b>	Bulgaria	<b>LT</b>	Lithuania
<b>CY</b>	Cyprus	<b>LU</b>	Luxembourg
<b>CZ</b>	Czech Republic	<b>LV</b>	Latvia
<b>DE</b>	Germany	<b>MT</b>	Malta
<b>DK</b>	Denmark	<b>NL</b>	Netherlands
<b>EE</b>	Estonia	<b>PL</b>	Poland
<b>EL</b>	Greece	<b>PT</b>	Portugal
<b>ES</b>	Spain	<b>RO</b>	Romania
<b>FI</b>	Finland	<b>SE</b>	Sweden
<b>FR</b>	France	<b>SI</b>	Slovenia
<b>HR</b>	Croatia	<b>SK</b>	Slovakia
<b>HU</b>	Hungary	<b>UK</b>	United Kingdom