The Impact of the Euro Crisis on Wages and Collective Bargaining: A New European Interventionism

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WSI Summer School 2012
Industrial Relations and Crisis Management in Germany: Lessons for Europa
Berlin, 20 September 2012
Content

1. Germany as a model for a new EU policy on wages and collective bargaining?

2. EU policy on wages: A new interventionism

3. Recent state intervention on wage developments and collective bargaining in selected EU countries

4. Impact for current wage developments in Europe

5. Conclusion & Questions for the Working Groups
European imbalances
(Current account balances in billion Euro)

Surplus countries

Deficit countries


Germany Switzerland Netherlands Norway Sweden Denmark
UK Greece Spain France Italy
Critique of the German model

Clearly Germany has done an awfully good job in the last 10 years or so, improving competitiveness, putting very high pressure on its labour costs. When you look at unit labour costs to Germany, they have done a tremendous job in that respect.

I’m not sure it is a sustainable model for the long term and for the whole of the [Euro-]group. Clearly we need better convergence."

Financial Times, 15 March 2010

Christine Lagarde
Director of IMF
Former French Minister of Finance
"The way how Germany has improved its competitiveness, I would not like to see for our country."  

Germany is conducting "wage and social dumping."

In Germany "there is an undesirable development of the whole economy and the collective bargaining system."

Luxemburger Wort, 11 August 2010

Jean-Claude Juncker  
Primeminstre of Luxembourg and Chef of the Euro-Groupe
“Germany's success is due to three things. First, the moderation in unit labour costs: salaries and nominal wages have risen less quickly than the euro area average and productivity has risen. (...) A precondition for this was a high level of trust between social partners, which we would like to see in all of the euro area countries.

Second, major structural reforms were concluded several years ago, in particular of the labour market, (...) Finally, German companies have been skilful in adjusting rapidly to globalisation (...) The way in which Germany has kept a very close eye on production costs and implemented reforms to increase the flexibility of the economy can serve as an example to all of its neighbours.

Le Figaro, 3 September 2010
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EU Policy on Wages: A New Interventionism

EU-Treaty Article 153 (5):
Wages are explicitly excluded from the regulatory competence of the EU !!!

but …

since the 1990s with the adoption of the European Monetary Union
EU Institutions (EU Commission, ECB) gave regular (non-binding) Recommendations on Wages and Collective Bargaining!
EU Policy on Wages: A New Interventionism

Political Foundation: Euro Plus Pact

Originally promoted by a German-French Initiative under the headline Competitiveness Pact

EU Council February 2011
EU Policy on Wages: A New Interventionism

Political Foundation: Euro Plus Pact

- **Austerity** and fostering of **competitiveness** as the key factors to overcome economic crisis

- **Wages** as central adjustment variable for competitiveness

- **European “surveillance”** of national wage and unit labour costs developments

**EU Council, March 2011**

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EU Policy on Wages: A New Interventionism

Channels of intervention:

New European Economic Governance: (European Semester) including …

- **Mutual surveillance** of macro-economic indicators (including wages and labour costs)
- **Alert system** that uses a scoreboard of indicators and in-depth country studies
- **Country recommendations** to correct macroeconomic and competitiveness imbalances
- **Financial sanctions** for Member States which do not follow up on recommendations.
EU Policy on Wages: A New Interventionism

Channels of intervention:

- **Memorandums of Understanding** between national governments and the **Troika** of EU Commission, ECB and IMF in the framework of “bailout agreements”

- **Informal Intervention of the ECB** to promote certain (wage) policies in exchange for the buying of state loans

- **Influencing national discourse** on wages through expertise and recommendations from international organisations such as OECD, IMF, EU etc.

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EU Policy on Wages: A New Interventionism

Core elements:

- Promotion of **wage freezes or wage cuts** through intervention in
  - Public sector wages
  - Statutory minimum wages
  - Valid collective agreements

- **Decentralisation** of collective bargaining
  - Prioritising company bargaining; opening-clauses in sectoral agreements; abolishing of the favorability principle
  - Undermining/abolishing erga-omnes and extension procedures

Dr. Thorsten Schulten  
20 09 2012
### State intervention in Wage Developments

**Public sector wages:**

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>Various <strong>pay cuts</strong> with a cumulative effect of up to <strong>30%</strong>&lt;br&gt;<strong>Pay freeze</strong> since 2010</td>
</tr>
<tr>
<td>Ireland</td>
<td><strong>Pay cuts</strong> of at least <strong>5%</strong> and <strong>10%</strong> for new recruits&lt;br&gt;<strong>Pay Freeze</strong> since 2010</td>
</tr>
<tr>
<td>Italy</td>
<td><strong>Pay cuts</strong> between <strong>5%</strong> and <strong>10%</strong>;&lt;br&gt;<strong>Pay freeze</strong> 2010-2013 for (possibly extended to 2014)</td>
</tr>
<tr>
<td>Portugal</td>
<td><strong>Pay cuts</strong> of <strong>5%</strong> in 2011&lt;br&gt;<strong>Pay freeze</strong> for 2011-2013</td>
</tr>
<tr>
<td>Spain</td>
<td><strong>Pay cuts</strong> of <strong>5%</strong> in 2010&lt;br&gt;<strong>Pay freeze</strong> for 2011-2013</td>
</tr>
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</table>
# State intervention in Wage Developments

(Statutory) minimum wages:

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Action Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>2012</td>
<td>22% cut of the agreed national minimum wage in the private sector (32% for workers below 25 years)</td>
</tr>
<tr>
<td>Ireland</td>
<td>2011</td>
<td>Cut of the national minimum wage by 1 Euro (12%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Later in 2011: Cancellation of the cut in exchange for reduction of employers’ social security contributions</td>
</tr>
<tr>
<td>Italy</td>
<td></td>
<td>There is no national minimum wage</td>
</tr>
<tr>
<td>Portugal</td>
<td>2012</td>
<td>Freeze of the statutory minimum wage</td>
</tr>
<tr>
<td>Spain</td>
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</tbody>
</table>
State intervention in Wage Developments

Valid collective agreements:

2012: Intervention in the national collective agreement for the private sector

- Cut of the agreed national minimum wage
- Ban of “structural” wage increases (e.g. because of seniority)
State intervention in Wage Developments

Decentralisation of Collective Bargaining:

2010: Introduction of a new form of company agreements which can agree on less favourable wages and conditions than in the sectoral agreements

2012: Removal of the “after effect” of an expired collective agreement

2009: Breakdown of national collective agreements (after 22 years)

Only company agreements in private industry

2009: Introduction of a hardship-clause allowing companies in economic trouble to collectively agreed pay

2011: Legal opt-out close for companies to deviate from sectoral agreements in non-wage issues

Total withdraw from sectoral agreements (Fiat)
State intervention in Wage Developments

Decentralisation of Collective Bargaining:

2012: **Strengthening of company bargaining** through ‘organised decentralisation’, sectoral agreements should determine conditions for deviations at company level through agreement with the works council (ongoing)

Stop of the quasi automatic **extension of collective agreements** (new stricter criteria for extension should be developed (ongoing)

2012: **Strengthening of company bargaining** through far reaching opt-out clauses allowing companies to deviate from sectoral agreements

**Radical decentralisation**: **Priority of company agreements**

**Undermining of the erga-omnes principle**
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Development of real wages before the crisis (2001-2009, in %)

Source: AMECO Database of the European Commission
Calculations by the WSI

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Development of real wages after the crisis (2010-2012, in %)

18 out of 27 EU States are faced with decreases in real wages !!!

Source: AMECO Database of the European Commission
Calculations by the WSI (data for 2012 is based on the EU Commission's Spring Forecast)
Development of real unit labour costs before the crisis (2001-2009, in %)

Source: AMECO Database of the European Commission
Calculations by the WSI
Development of real unit labour costs after the crisis (2010-2012, in %)

Source: AMECO Database of the European Commission
Calculations by the WSI (data for 2012 is based on the EU Commission's Spring Forecast)
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Conclusion

New Interventionism in EU Wage Policy under the regime of an authoritarian neo-liberalism

- Downward wage competition enforced by wage cuts and wage freezes which promotes economic stagnation and depression

- Deconstruction of multi-employer bargaining at national and sectoral level by far-reaching decentralisation and undermining of erga-omnes and extension procedures

- Using the opportunity of the crisis for a more fundamental transformation of power relations in Europe

Dr. Thorsten Schulten
20 09 2012
Questions for the Working Groups:

1. How is the current Euro Crisis influencing wage policy and collective bargaining in your country?

2. What are the consequences if Europe follows the German model?

3. What are requirements for an alternative wage policy in Europe in terms of
   - wages development
   - developments of collective bargaining systems
   - European coordination of national wage policy