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THE NEW EU ECONOMIC GOVERNANCE AND ITS IMPACT ON THE NATIONAL COLLECTIVE BARGAINING SYSTEMS (GOCOBA)

Final Report

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Introduction

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1. THE LAUNCHING OF THE NEW EUROPEAN ECONOMIC GOVERNANCE

The financial crisis triggered in United States by the subprime market and the collapse of Lehman Brothers spread to the majority of European Union (EU) countries between 2008 and 2009. This became soon an economic crisis, then a sovereign debt crisis, which shook the whole Euro zone leading many EU member countries to what is generally known as a "double-dip recession," i.e.: a second dip in economic activity following the first recession which officially ended in mid-2010.

In the second half of 2013, there were slight signs of economic growth that raised certain optimism about the recovery of the crisis. These expectations proved to be premature, however, as the economic activity at the Euro zone registered a new stagnation in the second quarter of 2014, even of decline in countries such as Germany and Italy[2]. In this regard, there is a growing concern that this worsening of the economic situation could lead, if prolonged, to a new recession in the Euro zone (the third in five years)[3].

The labour impacts of the crisis −particularly in terms of job destruction, increase of unemployment rates and of discouragement and dropping out from the labour market− have caused a significant deterioration of the living and working conditions for broad segments of the population in Europe. This not only has adverse consequences at microeconomic level, on individuals and their families, but can also weaken previously stable societies, as opportunities to advance in a good job and improve one's standard of living become the exception rather than the rule[4].

Regarding policy responses, the first two years of the crisis were characterised by a coordination effort among the G-20 countries aimed at actively boosting recovery, as well as implementing the reforms needed to strengthen regulation of the financial system and increase the credit flow to productive companies. However these goals were postponed in 2010 by the EU governments, in the wake of the sovereign debt crisis, in favour of other priorities such as the recapitalisation of credit institutions, the

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[1] Sociologist. Fundación 1º de Mayo (Spain).

2 *Eurostat newsrelease indicators* 125/2014, published on 14/8/2014. Available at http://epp.eurostat.ec.europa.eu (accesed on October 1, 2014).

[3] As example, a report of the International Monetary Found (IMF) points out that "for the euro area, risks surrounding the growth projection are tilted to the downside. Specifically, the risk of protracted slow growth and persistently low inflation is high. And should the risk materialize, the effects would reverberate throughout Europe". IMF (2014) *World Economic Outlook: Legacies, Clouds, Uncertainties*. IMF (p.53). Available at http://www.imf.org/external/pubs/ft/weo/2014/02/index.htm (accesed on October 10, 2014).

[4] Torres, R. (Coord.) (2012) *Eurozone job crisis. Trends and policy responses*. International Labour Organization;

implementation of austerity and budget adjustment policies, and the strengthening of economic governance[5].

The discussion about economic governance has been on the agenda for decades, often in connection with renewed interest in deeper European integration, but public debate had paid only sporadic attention to this issue. This has changed however since the onset of the current crisis, and the topic has now the full interest of academics, policy-makers and social partners. The reason is that this crisis has severely shaken the European Union, highlighting the weaknesses of its economic and monetary architecture, like the lack of an economic government able to tackle economic downturns, or the role of the European Central Bank[6].

The *New European Economic Governance* (NEEG) began to emerge in 2010 with the adoption of a "European 2020 strategy", which included the introduction of the so-called "European Semester" as a yearly cycle of European economic policy coordination. This was the point of departure for a set of initiatives and rules developed in the following years, aimed to strengthen economic and budgetary coordination for the EU as a whole and for the euro area in particular.

In spite of the lack of a univocal definition, the NEEG can be considered as the new manner of how economic policy is made on the European level (or within the Eurozone) by self-organisation of self-reflexive interdependent actors. It contains the new forms and mechanisms of economic policy's coordination as well as the new institutional setting. Summarily put, it has been developed through a complex set of initiatives, including: (a) new instruments, such the Macroeconomic Imbalance Procedure, "Rescue" mechanisms, and the European Semester with growth survey; (b) new agreements (Fiscal compact, Europe 2020, Euro+ Pact); (c) new and/or stricter rules (1/20-debt-rule, expenditure rule, min. fiscal effort, more sanctions); and a new institutional setting (Commission and ECB more important; Troika; Eurogroup)[7].

The consequence of this chain of events is that, in barely three years, the concepts of what the EU and the Eurozone need to do to reform economic governance have undergone a radical change, as well as the framework of public action at national and European level[8].

2. A CONTROVERSIAL PROCESS

The process of design and implementation of the New European Economic Governance has been highly controversial among academics, policy-makers and social partners[9].

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[5] Papadoulou, E., and Sakellaridis, G. (Eds.) (2012) *The Political Economy of Public Debt and Austerity in the EU*. Nissos Publications; Theodoropoulou, S., and Watt, A. (2011): *Withdrawal symptoms: an assessment of the austerity packages in Europe*. European Trade Union Institute.

[6] Verdun, A. (2013) "The building of economic governance in the European Union", *Transfer* 19 (1), pp 23-55.

[7] For a general overview, see chapter 1.

[8] For a detailed analysis, see: Degryse, Ch. (2012) *The new EU Economic Governance*. European Trade Union Institute (ETUI), WP 2012-14.

[9] Degryse, Ch., and Pochet, Ph. (2011) "Worrying trends in the New European Governance", in Natali, D.; and Vanhercke, B. (Eds.) (2012) *Social Developments in the European Union 2012*; Kowalsky, W. (2011):"Unions for a change of course in Europe. Unions and Europe- an imminent parting of the ways?", in Kowalsky, W., and Scherrer, P. (2011) (Eds) *Trade unions for a change of course in Europe*. ETUI.

A first scope of discussion relates to the ***diagnosis of the crisis***. The development of enhanced economic governance has been justified by three main sets of arguments[10]. Two are more at a macro level and reflect the dominant perception of the current crisis in the EU as a debt crisis and a crisis of competitiveness. According to this, firstly it has been argued that a strong austerity police is essential in order to overcome the debt crisis. Secondly, the growing economic imbalances between the so-called "surplus" and "deficit" countries in Europe are understood to be the result of diverging developments in national competitiveness, mainly caused by diverging trends in wages and unit labour costs. The main policy conclusion defended by the European institutions is that downward wage rigidities are an impediment to restoring competitiveness (and thus employment), particularly in those Euro area countries that had accumulated external imbalances before the crisis.

A third set of arguments more micro-oriented have regained prominence against the background of the sharp increase of unemployment in many European states. These arguments are based on the traditional neoclassical view that unemployment is mainly the result of institutional rigidities in the labour market; in this regard, the standard recommendation to address this problem is boosting structural "employment-friendly reforms" targeted to increase the flexibility to the labour market institutions.

A second point of debate about NEEG concerns its institutional form and ***questions to democracy*** which it raises. It has been noted that the fact that the European Commission may be given the right to interfere in national budgets raises a problem of democracy legitimacy. Furthermore, it has been highly criticized that many relevant decisions have been taken without having been submitted to public consultation or parliamentary debate, showing a "democratic failure" of the implementation of the new governance[11]. Also, European trade unions have denounced the profound deterioration of the tripartite social dialogue and its replacement by the unilateral governance of the anti-crisis policies.

The consequence of this situation is that an increasing number of citizens in Europe perceive their national governments not as their representatives, but as those of other states, of or international institutions, organizations or even private agents (like the global financial players)[12].

Thirdly, the ***content of the enacted policies*** under the NEEG has been called into question for being too "austerity-oriented". The EU's approach to fighting the economic, financial and sovereign debt crisis has been based on a threefold line of action of fiscal consolidation, financial sector stabilisation and profound structural reforms (mostly focused on labour markets). This approach is reflected in the priorities set by the Annual Growth Survey as well as in the European Commission's country-specific policy recommendations to Member States[13].

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[10] Schulten, Th., and Müller, T. (2013) "A new European interventionism? The impact of the new European economic governance on wages and collective bargaining" in Natali, D. and Vanhercke, B. (Ed.) *Social developments in the European Union 2012*. OSE and ETUI (pp. 185-186).

[11] Dewitte, B. (2011) "The European Treaty Amendment for the Creation of a Financial Stability Mechanism", *European Policy Analysis*, nº 6. Swedish Institute for European Policy Studies.

[12] Streek, W. (2014) *Buying time. The delayed crisis of democratic capitalism*. Verso (pp.156-164).

[13] Canton, E.; Grilo, I.; Monteaguado, J.; Pierini, F.; and Turrini, A. (2014) "The Role of Structural Reforms", *ECFIN Economic Brief*, Issue 34, June 2014.

The comparative analysis clearly shows that, in practical terms, European Economic policy guidelines have been based in the two basic premises of "reform and cuts"[14]. In this regard, this obsession with cost competitiveness has not helped a lot to boost a sustainable economic recovery. On the contrary, it is increasingly accepted among economists and international institutions that the implementation of austerity plans in a concerted way and at an extreme pace in Europe has aggravated the debt and growth problems of the deficit countries, contributing to the sharp increase of unemployment[15].

Fourthly, another element of debate concerns the impact of the new European economic governance on ***collective bargaining systems***. The comparative analysis shows that the Labour Law reforms implemented by European governments under the new supranational interventionism launched by the NEEG, have substantially altered the landscape of the collective bargaining in the EU (particularly, in the southern countries). The enacted measures have targeted not only bargaining outcomes, by putting direct pressure on wages, but also bargaining procedures by pushing more flexible wage-setting arrangements[16].

More specifically, a clear policy goal can be identified in many European governments: fostering the decentralization of the collective bargaining. Certainly, this is not a new phenomenon, but in the context of the current crisis substantial legal changes aimed to reinforce the decentralization of collective bargaining systems have been imposed in various peripheral countries of the European Union, leading to a process that has been defined as a "frontal assault on multi-employer bargaining systems prevailing in those countries[17].

Finally, there has been a rising criticism regarding the high ***social impacts of the enacted policies***. The austerity measures and structural reforms of labour markets have led to a profound internal devaluation, based on a downward spiral of wages in the European Union. This trend has had negative consequences both at microeconomic level −due to the decline of the incomes of people and households− and at macroeconomic level, due to the accumulative effect over the aggregate demand, leading to the current risk of deflation. However, even though there is a growing awareness about the danger of deflation among the mainstream economists and the institutional representatives, the link of this problem with the evolution of wages is conspicuously absent of the debate[18].

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[14] For example, see: Theodoropoulou, S., and Watt, A. (2011) *Withdrawal symptoms: an assessment of the austerity packages in Europe*. ETUI, WP 2011.02; Clauwert, S. (2014) *The country-specific recommendations (CSRs). in the social field. An overview and comparison Update including the CSRs* ETUI. Background analysis paper, 2014.01.

[15] International Monetary Fund (2012): *World Economic Outlook. October 2012. Coping with high debt and sluggish growth*. IMF. International Labour Organization (2012) *Global Employment Trends 2012. Preventing a deeper job crisis.* ILO.

[16] Schulten and Müller (op.cit.); Clauwert, S., and Schömann, I. (2012) *The crisis and national labour law reforms: a mapping exercise*. European Trade Union Institute; Bernaciak, M., and Müller, T. (2013) "Austerity policies and the changing context of collective bargaining in Europe", in ETUI (Ed.) *Benchmarking Working Europe 2013*. ETUI (pp 43-56); Clauwert, S., and Schomann, I. (2014) "Deregulation of labour law at any price", in ETUI (Ed.) *Benchmarking Working Europe 2014*. ETUI (pp 59-68).

[17] Marginson, P. (2014) "Coordinated bargaining in Europe: From incremental corrosion to frontal assault?", *European Journal of Industrial Relations, On-line first* (published on August, 15, 2014).

[18] Janssen, R. (2014) "Europe Does Not Understand Deflation And Wages", *Social European Journal*, 15/07/2014 (accessed on October, 9, 2014).

Likewise, it is worth noting the significant effects of the budgetary cuts in social expenditure on the living conditions of broad segments of the population. In this regard, the combined effects of the prolonged crisis and the austerity policies has led to the deepening of the divergences in employment and social developments across the Member States, particularly in the Euro zone, as well as to a rising levels of inequality and poverty (mainly, in the Southern countries)[19].

The implementation of the new governance agenda has also affected industrial relations processes, either in the private sector −with a strong decline of the collective bargaining and the numbers of agreements reached− or in the public sector[20].

Lastly, it is worth noting a sharp rising of the social unrest, which has led to an escalation of the industrial action and mass protests, particularly in those countries most affected by the adoption of the austerity packages.

3. THE "GOCOBA" PROJECT: A BRIEF SUMMARY

Any general assessment about the NEEG must take into account, however, the specific developments and impacts of its implementation at national level. This premise is the point of departure of the research project "*GOCOBA*"[21], supported by the EU (*DG Employment, Social Affairs and Inclusion*), whose main findings are summarized in the present work.

The general goal of this project has been to analyze the impacts of the New EU Economic governance on the national collective bargaining systems in six countries: Bulgaria, France, Greece, Italy, Portugal and Spain. More specifically, the project aimed to address four basic issues: (a) what has been the process of implementation of the NEEG in these countries; (b) what have been the main measures of the governance agenda related to national collective bargaining systems, in terms of structures, procedures, and contents; (c) what have been the main social impacts of the implementation of austerity measures; and (d) what could be done in order to improve economic governance and the role of industrial relations in its development.

The project has been carried out by five Trade Union related Research Institutes[22]: Foundation 1º de Mayo (coordinator, Spain); Institute For Social And Trade Union Research (Bulgaria); Institute of Social and Economic Researches (France); Association Bruno Trentin (Italy); and Labour Institute of Greek General Confederation of Labour (Greece). The project also has been beneficiated from the collaboration of two experts, from the Austrian Chamber of Labour (Austria) and the University Institute of Lisbon (Portugal)[23]. Finally, it is worth noting the contributions of various experts and

[19] Yancheva, A.; Lagneaux F.; Maquet-Engsted, I,; Aujean, L.; Arranz, D.; Joseph, E. (2013) "Key employment and social trends in the face of a long delayed and fragile recovery", *Employment and Social Developments in Europe 2013*. European Commission. Frazer, H., Guio, A-C., Marlier, E., Vanhercke, B., and Ward, T. (2014): *Putting the fight against poverty and social exclusion at the heart of the EU agenda: A contribution to the Mid-Term Review of the Europe 2020 Strategy*. Observatorie Social Européen, OSE Research Papers, nº 15/October 2014.

[20] ETUI (op.cit.); European Commission (2013) *Industrial Relations in Europe 2012*. European Union.

[21] This is the acronym of the project *EU Economic Governance and impact on National Collective Bargaining Systems* (Agreement Number VS/2013/0356).

[22] For personal references of the researchers involved, see the footnotes at the beginning of each chapter.

[23] For personal references, see the footnotes at the beginning of chapter 1 and 6.

representatives of institutions of Institutions and social partners, who attended the three international events held in Athens, Paris and Madrid[24].

3.1. Main findings

The detailed findings of the various national reports can be found in the following chapters. Nevertheless, it is worth highlighting in this introduction some of the most relevant conclusions achieved.

Democratic deficit of the governance process

The implementation of the NEEG at national level shows certain "democratic deficit" in most of the countries analyzed. The reason is that the enacted policies have been adopted unilaterally by the National Governments without have been subjected to an in-depth debate in the National Parliaments, or even avoiding the public debate (as it is shown by the famous *secret letters* sent by the European Central Bank to the governments of Italy and Spain).

For example, in Bulgaria "there was no a preliminary debate on the new economic governance and its implementation tools in the country. The government joined the Euro Plus Pact and Fiscal Compact without prior debate in the parliament and with the public. It also did not launch meaningful consultations with the social partners on the ways for the implementation of the new economic governance and on how to deal with its consequences"[25].

As for the involvement of the social partners, firstly it is necessary to take into account the different views regarding the enacted measures under the NEEG: very in favor in general terms in the case of the employers' organizations, and much more critical in the case of trade unions.

Against this background, the role of the tripartite social dialogue has not been homogeneous in the six countries. The most common trend has been the unilateral implementation of the anti crisis policies since 2010, without real involvement of the social partners, which has led to the paralysis of the tripartite social dialogue (as it can be stated in Bulgaria, Greece, Italy and Spain[26]).

The situation in Portugal is rather different, because the process implementation of the *Economic Adjusted Programme* in this country actively sought legitimation through the involvement of the social partners. It is important to remark, however, that the largest trade union confederation, the *General Confederation of Portuguese Workers* (CGTP), has never accepted entering the game.

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[24] In particular, we would like to thanks to the following people who attended the seminars as speakers: Savas Rombolis (Panteion University, Athens); Giannis Kouzis (Panteion University, Athens); Jean Paul Tricart (European Commission, DG Employment and Social Affairs and Inclusion); Jorge Aragón (Economic and Social Council, Spain), Francisco Trillo (University of Castilla La Mancha, Spain); Ronald Janssen (European Trade Union Conference); Ramón Gorriz (CCOO, Spain); and Jordi García (CEOE, Spain).

[25] See chapter 2 (p. 40).

[26] Although in Spain some signals of recovery of the tripartite social dialogue can be found in 2014.

Also it its worth remarking the situation of France, where after the political change in 2012 consultation of −or even association with− the social partners has become very institutionalized, with the generalization of the so-called "Social Conferences"[27].

The development of the austerity policies: one size fits for all?

The external intervention carried out under the NEEG has been conducted in the six countries through a twofold mechanism: the strict Economic Adjustment Programmes drawn in the *Memorandums of Understanding* signed with the national governments, as it happened in Greece and Portugal (and partially in Spain); and the country-specific recommendations posed to each Member State, according to the assessment of their particular weaknesses and imbalances.

With regard to the contents of the policies, the comparative analysis confirms the prevalence of the "austerity-oriented" approach based on a threefold line of action, as mentioned above: (a) *measures of harsh fiscal consolidation*, including reductions in wages, pensions, health, education, operational expenditure and public investment, and combined with increases of direct and indirect taxes; (b) a series of *structural reforms* of the labour and products markets; and (c) measures aimed to the *stabilization an the rescue −in some cases− of the financial system*.

In this regard, it can be said that the implementation of the NEEG has follow a narrow and homogeneous road of "reforms and cuts", without taking into consideration the economic, social, cultural and institutional frameworks at national level.

Nevertheless, it is also worth noting that the specific development of these policies also shows some degree of heterogeneity, being the two countries more strictly subjected to the external intervention −Greece and Portugal− those where the length and depth of the enacted austerity measures has been higher.

Strengthening the decentralization of the national collective bargaining systems

The launching of "employment-friendly reforms", aimed at fostering a greater flexibility or deregulation of the labour market institutions, has been a shared trend in most of the countries analyzed. These reforms have been repeatedly requested by various international institutions and the European authorities, but also by leading national think tanks and employers' organizations, who argued that one of the main reasons for the increased impact of the crisis on employment −particularly, in the Southern countries− lied in the *excessive rigidity* of the employment regulations.

One of the specific targets of the structural reforms has been fostering the "modernization of the collective bargaining systems". This is a widely used euphemism that, in practical terms, points to a higher political pressure in favor of the wage restraint and of more decentralized wage-setting mechanisms. Ultimately, what is intended to achieve with this policy is to replace the former instrument of currency devaluation with the direct devaluation of wages.

[27] See chapter 4.

In this regard, although the legal changes addressing this topic certainly are not certainly new, they seem to have been reinforced and accelerated as a direct result of the new "supranational interventionism" in the field of wage-setting launched under the NEEG, especially in the peripheral countries (Table 1).

Table 1. Enacted measures related to the collective bargaining systems (2010-2013)

Decentralization of the collective bargaining	**BG**	**EL**	**ES**	**IT**	**FR**	**PO**
Faciliting derogation and/or modifications of firm-level agreements from sectoral agreements	X	X	X	x	X	X
Suspension of the favourability principle, affecting the relation between sectoral and company agreements		X	X			
More restrictive criteria for the extension of collective agreements	X	X				X
Reducing the duration of collective agreements		X		X		
Reducing the period of validity of an agreement after its expiry		X	X			X
The extension of the possibility for non-union employee representation to conclude agreements at company level		X	X			
Other measures related to wage-setting						
Reform and even removal of legal or autonomous indexation mechanisms (linking wage growth to prices), setting productivity as the only reference	X					
Changes in minimum wages setting/procedures, in procedures, level and scope		X				
Cutting and/or freezes the minimum wage	X	X	X			X
Cutting and/or freezes of public sector wages	X	X	X	X	X	X
Other measures related to industrial relations						
Abolition or diminution of the role of certain (tripartite) social dialogue institutions, with the government withdrawing from such bodies	X	X	X			
More stringent criteria for social partners organizations representativeness	X		X	X		X

Source: own elaboration based in national reports

The detailed assessment of the legal changes of the national collective bargaining systems can be found in the related chapters. Nevertheless, it is worth noting the opposed views existing in the various countries among the national governments and the social partners with regard to the justification and goals of these reforms, which can be summarized broadly speaking in two poles.

On the one hand, it has been argued that the insufficient level of decentralization of the collective bargaining, along with the excessive rigidity of the wage-setting mechanisms, had restricted the possibilities of employers to tackle with the crisis through the reorganization of their productive resources while maintaining jobs. Hence the need to favor the priority of the company-level bargaining over the sectoral, and of reinforcing the unilateral power of employers in the regulation of the working conditions (in particular, with regard to wages and working time).

On the other hand, critics have mainly argued that these reforms are really aimed at dismantling the characteristic balance of power between employers and employees that lies in the roots of Labor Law. In short, it has been remarked that overall these legal changes exalts unilateral employer decision in working regulation as a principle of new labour law, impacting information, consultation and negotiation rights. In this regard, it

can be said that the new "supranational interventionism" is leading towards a more authoritarian model of industrial relations.

Recessionary impact of the austerity policies and sharp deterioration of the labour market situation

The comparative analysis confirms the recessionary effect in the short run of the enacted austerity policies, particularly in the peripheral southern European countries at the epicentre of the debt crisis. The reason is the negative impact of the fiscal consolidation measures and the induced wage devaluation upon effective aggregate demand, which is a key driver for economic growth in the so-called wage-led economies.

Also, the national reports pose serious doubts with regard to the success of the structural reforms in order to boost the transition to an export-oriented growth model as a real and sustainable alternative to the decreasing internal demand.

The fall of the economic activity has led to a sharp deterioration of the labour market situation, whose most visible outcome has been the dramatic rising of the levels of unemployment (with the higher peaks in Greece and Spain).

It is important to remark that the profound deterioration of employment caused by the economic crisis have been aggravated since 2010, due to the unilateral implementation of the budget cuts and the legal reforms of the labor law.

Furthermore, these legal reforms also have led to a rising of precariousness because they have encouraged the massive destruction of full time jobs, and the creation at the same time of employment based on atypical contracts (temporary and non-voluntary part time). In this regard, against the argument that the "flexibility reforms" are to trigger a so called "job rich" recovery, it can be said that the recovery will not be able to sustain itself if the new employment that appear boil down to low paid, part time and insecure jobs.

Decline of collective bargaining, higher level of decentralization, plummeting share of workers covered by collective agreements and freeze of social dialogue in public sector

The evaluation of the collective bargaining developments in the current economic context must face some methodological constraints, such as: (a) difficulties to differentiate the specific effects of the legal reforms of collective bargaining systems from the general effects of the crisis; (b) the short time elapsed since the practical implementation of the various legal reforms; and (c) the gaps and weaknesses of the available statistics on collective bargaining at national level.

In spite of these limitations, it can be said that the combined effects of the downturn of the economic activity due to the crisis and the enacted austerity policies and structural reforms, have caused significant impacts on the collective bargaining developments, although with a different degree of intensity among the countries. Thus, while in France the European Agenda launched since 2010 seems to have had "an ambiguous and

delayed impact on industrial relations"[28], in the opposite extreme would be the situation of Portugal and Greece. As example, in Greece "the radical changes brought about in labour issues over the last four years lead to a complete deconstruction of the system of collective bargaining and Collective Employment Agreements"[29]

The detailed developments related to each country are summarized in the related chapters, but it is worth highlighting some of the main trends registered:

Firstly, *the dynamic on of the collective bargaining in the private sector has noticeably worsened*. This is shown by the decline in the number of collective agreements, and also in some countries by the radical fall in the number of extension decisions of collective agreements. The consequence of these trends is that the share of workers covered by collective agreements has been reduced, or even plummeted (as for example in Portugal, where the coverage rate has fallen to its lowest level in the history of Portuguese democracy)[30].

Secondly, *the process of decentralization of the collective bargaining* has accelerated through a twofold track: on the one hand, the rising in the number of company-level agreements, and the decline of the sectoral ones. It is important to note, however, that that the weight of company-level agreements in terms of workers affected is usually quite small, so this trend seems not appear to has yet a significant effect on the structure of the collective bargaining, although it may be producing indirect consequences in the employers' strategies and the negotiation processes.

On the other hand, it can be noted a *significant increasing of the derogations* of sectoral collective agreements at company level, favored by the new regulations introduced by the legal reforms of labour law. With regard to this issue, one important element of debate concerns to the involvement of the workers' representatives. As example, in Spain there has been a sharp rising of derogations since 2012, which mostly have been regulated through agreements signed between the employers and the most representative trade unions at company level. The experience of Italy shows, on the contrary, a controversial experience launched by the most important private company, with some agreements were signed addressing downward derogations, without the consent of the largest trade union confederation[31]

Thirdly, trade unions have denounced that the legal reform implemented under the NEEG has launched a radical change towards the *consolidation of an authoritarian model of industrial relations*, which exalts unilateral employer decision in working regulation as a principle of new labour law, impacting as above noted to the information, consultation and negotiation rights.

Finally, the economic and financial crisis has put *industrial relations in the public sector under strain*. A stronger scrutiny of the effectiveness and efficiency of public expenditure has emerged; the role of key stakeholders such as public sector trade unions has been challenged and formally autonomous employers, with devolved authority,

[28] See chapter 4.
[29] See chapter 5 (p. 122).
[30] See chapter 6.
[31] See chapter 3.

have been subject to tight financial and managerial control from the centre of government.

Wage devaluation, increasing levels of poverty and in-work poverty, rising of inequality, and growing social unrest

The internal devaluation based on wage reduction has been one of the main explicit goals searched by the austerity policies and structural reforms launched under the NEEG, particularly in those countries hit hardest by the crisis.

The comparative analysis clearly shows a *decline trend of the collectively agreed waged increases*, although with different degrees of intensity. It is worth noting that in some countries there was a certain mismatch between the evolution of agreed wages and GDP growth in the first stage of the crisis, which can be mainly explained by the "delay effect" of the collective bargaining. This has been widely blamed as a proof of the rigidity of wage formation in a context of economic recession. Nevertheless, even if this temporary inertia of collective bargaining led to a certain lack of wage flexibility also it had a positive effect, namely, to prevent further decline in private consumption and effective demand the whole economy.

The evolution of the *nominal and real gross wages (measured as compensation per employee) has followed a similar downward trend.* In this regard, two different periods can be identified broadly speaking: a first stage, when there was a rebound in nominal gross wages despite the consequences of the economic crisis. This specific trend can be explained to a large extent due to the significant destruction of temporary and low-wages jobs, which led to a statistical rising of the wage levels. On the second stage, there has been registered a fall in the real gross wages, particularly significant in the peripheral countries.

The process of generalized wage devaluation has caused a serious *negative impact on the living conditions of the workers and households*, but also on the effective aggregate demand at macroeconomic level.

Thus, the rising levels of unemployment, long-term unemployment and precariousness, combined with the process of wage devaluation and other negative effects of the austerity policies, has contributed to an *increased deterioration of the social standards*. This has led to a general rising of the inequality, poverty and in-work poverty levels, which has prompted to a further segmentation and impoverishment of the working population.

The situation is particularly dramatic in countries like Greece, where it is noted that he policy implemented through the Memorandums led to situations never known before, as the depth and duration of the recession and the size of unemployment are unprecedented in peacetime[32].

Finally, the growing social unrest caused by the combined effects of the crisis and the implementation of the austerity measures and the structural reforms has led to an unprecedented escalation of industrial action and mass protests (particularly in Greece,

[32] See chapter 5.

Portugal and Spain). The response of the government has been a tightening up of the Penal Code and of the repression of the protests, even affecting to the right to strike, as it have been denounced by the European Trade Union Confederation.

Policy pointers: proposals for a change of course in Europe

The *Europe 2020 strategy* was launched in 2010 with the aim of promoting smart, sustainable and inclusive growth that would help Europe recover from the crisis and "to find the path to create new jobs and to offer a sense of direction to our societies"[33]. Also in 2010, the European Semester was adopted in order to ensure the implementation and progress of macroeconomic policy developments and structural reforms contained in the Europe 2020 strategy, giving way to the New European Economic Governance.

Four years later, it can be stated that some of the main goals searched by the *Europe 2020 strategy* in fields so relevant such as employment, research and developments or poverty reduction, are far from being achieved[34]. On the one hand, the economic activity in the Euro zone has registered a new stagnation in the second quarter of 2014, which could lead as noted above to a "triple-dip" recession, posing a serious threat to the expected recovery from the crisis[35].

On the other hand, the combination of the prolonged crisis and the negative effects of the enacted austerity policies have caused a devastating social situation in Europe, with unemployment and long-term unemployment persisting at record highs, and alarming rates of inequality, poverty and in-work poverty, which are putting under stress the bases of the social cohesion (especially, in the peripheral Southern countries hit hardest by the crisis).

European trade unions have repeatedly demanded for the last years a change of course for Europe[36]. A new path that should be implemented from a truly European perspective, taking into account that the European economy is more than the sum of national economies, as it is a quite closed economy with high spill-over effects (especially the more integrated Eurozone).

Against this background, the findings and conclusions reached by the various national reports included in the present work, allow us to pose some considerations and proposals to this debate.

A first point of discussion concerns to the ***reform of the European Economic Governance***. In this regard, four changes are suggested to the current NEEG by *Georg Feigl* in his contribution[37]: (a) to change its logic of neoclassical rule-based and supply-side-oriented economics, towards a more demand-side approach; (b) a further

[33] European Commission (2010): *EUROPE 2020. A strategy for smart, sustainable and inclusive growth*. Communication of the European Commission (3/3/2010).
[34] European Commission (2014): *Taking stock of the Europe 2020 strategy*. COM(2014) 130 final/2 (p.20).
for smart, sustainable and inclusive growth
[35] Stiglitz, J. (2014): "Europe's Austerity Disaster", *Social Europe Journal*, 29/9/2014 (accessed on October 10, 2014).
[36] Kowalsky, W., andr Scherrer. P. (Eds) (2011): *Trade unions for a change of course in Europe. The end of a cosy relationship*. ETUI.
[37] See chapter 1 (pp 32-34).

democratisation of the economic-policy making at European level, with a strong level of involvement of the European Parliament and the social partners; (c) to end the uncoordinated financing of Member States via financial markets, without lender-of-last resort; and (d) in the field of fiscal policy, the abolition of the pro-cyclical, recession-enhancing 3%-threshold, as it is still the biggest single problem arising from the actual governance arrangement (although, a point of medium- and long-term orientation for a viable fiscal policy should be in place).

The need for a change in the economic governance has been also stressed by the European Trade Union Confederation (ETUC). Thus, the ETUC signed in 2010 a Joint Declaration with the other European social partners pointing out, among other aspects, that "involving social partners in the elaboration and implementation of policies affecting directly or indirectly employment and labour markets all along the different steps of the European semester is essential with the view of taking into account their position. Social partner consultations should be timely and meaningful, allowing the necessary analysis and proposals and fitting within decision making processes"[38].

In more substantive terms, the ETUC has launched its alternative proposal for a "new path for Europe"[39]. Its basic premise is that, in order to ensure a sustainable way out of the crisis, a short-term stimulus plan −as advocated in 2009− is no longer sufficient. According to the ETUC, it is needed a longer-term perspective to overcome the deepening difficulties and divisions in the EU. So, it is proposed a plan recovery plan based on a target of investing an additional 2% of EU GDP per year over a 10-year period. This plan should be aimed at stimulating the recovery of the economic activity in the short run, and also at laying the grounds for the transition towards a more sustainable economic model (including the creation of decent jobs).

Finally, it is clear that the room to manoeuvre at the national level inside an integrated economic region like the Eurozone is quiet limited. Nevertheless, a new strategy seems to be necessary in the countries hit hardest by the crisis to tackle the trends identified above, based in a more job-centred approach and devoting special attention to the most disadvantaged groups. If it is not the case, the consequence would be unavoidable the risk of a further deterioration of the social cohesion and a growing social unrest and disaffection among the population.

A second and particularly controversial element of debate is related to the ***new supranational interventionism in the field of collective bargaining***, developed under the NEEG.

This process raises the question of the tension between the new regulations and country-specific orientations drawn at European level, and the existing autonomy enjoyed by the collective bargaining at national level[40]. In this regard, the European Trade Unions have strongly emphasized two points: on the one side, EU institutions should to strictly adhere to the principles of the Treaty, by respecting autonomy of social partners and

[38] *Social Partner Involvement In European Economic Governance. Declaration by Social European Partners*.
[39] ETUC (2013): *A new path for Europe: ETUC plan for investment, sustainable growth and quality jobs.* Adopted at the meeting of the ETUC Executive Committee on 7 November 2013.
[40] For a detailed overview of this debate, see Kohl, W. (2013): *The new economic governance arrangements and autonomous collective bargaining in the European Union*. IMK Studies, nº 30.

diversity of national industrial relations. On the other, the reforms to strengthen wage formation systems can be undertaken only through social dialogue and negotiations with social partners at national level[41].

With regard to decentralization of the collective bargaining, the assessment is not unanimous. As example, it has been noted that the decentralized collective bargaining has been a key instrument of adaptive concerted efforts on a micro scale, as shown by the importance of negotiations involving topics which range from functional flexibility to wage flexibility[42].

Nevertheless, the comparative analyses clearly shows that in those countries with majority of small and micro-size companies −like the Southern European Members States− the reforms aimed at encouraging a unilateral process of decentralization opens up the risk of a labour market in which the only real collective bargaining may take place in a small number of companies, leading to spill-over effects of significant declines of the coverage rates and even of wage dumping.

Against this background, the issue here is to which degree decentralization should be expanded and how it should be organized, taking into account the specific frameworks of industrial relations at national level. In this regard, two key proposals arise from the findings of the present research: (a) the need to keep the multi-employer bargaining arrangements, as a cornerstone of labour market regulations in various European countries[43]; and (b) the reinforcement of the coordination and articulation through the different levels of the collective bargaining, in order to favor a fair trade-off between the demands of higher flexibility at company-level, and the preservation of the substantive standards established by sector and inter-sector agreements.

Another element of debate arises from ***the role of wages in the anti-crisis policies***. One key finding conformed by the present report is that wage dynamics have simply collapsed in those Member States that have been reforming the most (as in Greece, Portugal and Spain).

This process, as noted above, has had negative consequences both at microeconomic level −due to the decline of the incomes of people and households− and at macroeconomic level, due to the accumulative effect over the aggregate demand, leading to the current risk of deflation.

Wages should be considered not only as production cost and a price to "clear the market", but also as an engine for demand, growth and jobs and as an important circuit breaker in the process of deflation and depression[44]. According to this alternative view, the European trade unions have demanded that "real wages should grow at least in line with productivity in all countries in order to protect purchasing power, but also to

[41] ETUC (2014): *Statement of the ETUC Collective Bargaining Committee on Country Specific Recommendations 2014 concerning wages and collective bargaining systems* (June, 4, 2014). Available at http://www.etuc.org (accesed on October,10, 2014).

[42] Glassner, V., Keune, M., and Marginson, P. (2011) "Collective Bargaining in a Time of Crisis. Developments in the private sector in Europe", *Transfer* 17 (3): 303-321.

[43] On this point, see Marginson (op.cit.).

[44] Lavoire, M., Stockhammer, E.; International Labour Office (2013) *Wage-led growth: an equitable strategy for economic recovery*. Palgrave Macmillan.

contribute to reduce inequalities and gender pay gaps, fight against increasing poverty, and prevent social dumping and unfair competition"[45].

In addition, public policies aimed at strengthening social security/protection are urgently required, in order to tackle the dramatic worsening of the social situation caused by the prolonged crisis and the most negative effects of the austerity policies.

To sum up, the time has come for a significant change of course in Europe because, after four years of the launching of the NEEG, it is "clear above all else that the current focus on austerity and deregulation is failing to deliver what Europe citizens are entitled to expect"[46].

The reformulation of the European Economic Governance, whatever the form finally adopted, should be based in any case in a further democratization of the economic policy-making, taking into account the role of the social dialogue ─and hence the involvement of the social partners─ as a centerpiece of the management of anti-crisis policies, at European and national level.

This is an crucial element in a historical juncture especially critical because the crisis, and the incompetence manifested in promoting a cooperative outlet thereof at the supranational level, have contributed to increasing public disaffection with the European project.

[45] ETUC (2014, op.cit., p. 2).
[46] Segol, B.; Jepsen, M., and Pochet, Ph (2014) "Foreword", *Benchmarking Working Europe*. ETUI (p. 5).

Chapter 1

The New EU Economic Governance: a critical overview

Georg Feigl[47]

INTRODUCTION

During the first phase of economic recovery after the great recession, the new economic governance's main cornerstones in the European Union have been established. Although one might think that the latter had taken the roots of the crisis into account, or at least the new active role of governments (such as economic stimulus packages or tripartite short working time schemes), this was not the case. To the contrary, the new design was inspired by the programme in reaction to the crisis of 1992/93: austerity and fostering competitiveness by structural reforms (mainly by deregulating labour relations).

This time the initiative gained momentum by the uncertainties concerning credit ratings of Greece at the beginning of 2010. The *New European Economic Governance* (NEEG) focused mainly on further restrictions to national Economic policy making. Since doing so without a major change in the European legislation would create several juridical problems, the reform focused on already existing instruments, mainly the so-called stability and growth pact (SGP). It was followed by the fiscal compact, which was a new kind of multilateral contract between the member states of the European Union (without GB and CZ) created by European assembles outside the System of European Legislation. All contractors are obliged to further restrict their economic policies, especially in the field of public accounts, usually by changing their national constitutions. Some member states were not able to re-finance on financial markets at reasonable conditions, and thus had to find alternative resources to finance their fiscal requirements. They were forced by a new intervention mechanism – the so-called Troika – to austerity policies well known from the IMF conditionality. Market pressure was exchanged for political pressure. On top of that, new procedures, informal multilateral meetings, political agreements (e.g. Europe 2020, Euro Plus Pact) and active political communication formed national economic policies. First steps towards tighter financial market regulation completed the NEEG. The results vary and are subject to controversial discussions, which even begin with the definition of the term NEEG.

Parallel to the implementation of the NEEG the Eurozone lost economic momentum, which resulted in a double-dip recession in 2012. Contrary to the first recession, a similar development was not seen in the USA, where the economic policy mix remained more expansive. As a consequence of the renewed slowdown in economic activity, the Eurozone has not returned to the pre-crisis levels of real GDP. Even the German economy as the new role model for the rest of Europe has grown more slowly than the USA. As a consequence, unemployment in Europe remains very high, and the ongoing lack of demand led to extraordinary current account surpluses of the Eurozone as well as deflation at least in some member states. Furthermore, private and public debt quotas remained high due to the lack of growth of the denominator (GDP).

[47] Economist. Austrian Chamber of Labour (Austria).

This contribution aims to give an overview of the NEEG concerning "normal" treatment of member states, its economic consequences and propose some alternatives. The main research interest concerns the question of the member states' room for manoeuvre, especially in opting for an alternative economic policy. The article will not provide an overall assessment, and neither will it contain an analysis of non-Eurozone-members (as the NEEG contains less strict rules for them and the degree of necessity for a common economic policy is lower), nor Eurozone-members under the Troika-Regime, which is more binding and per definition some kind of special regime. Regarding examples, the main focus will be on Spain and Austria as some kind of expected range of interventionism: The former as a big economy on the border to a Troika-Regime and the latter one as a small economy which is comparatively well-off regarding unemployment rate or GDP per capita.

The idea to be tested is that, although the NEEG (re)produces the restrictive economic policy orientation, the prevailing factor still is each concrete political decision at least on the European level. Or to express it in a different way, that there is still room to manoeuvre, even though the economic policies are decided within and enforced by the narrower new governance framework. To achieve alternative economic policies, mainly alternative political decisions would be required, not so much another reform of the European Economic Governance reform – although such a reform could certainly help. But as the new as well as the old EEG and the political decisions are shaped by the same economic ideas, there is a need for various political actions anyway.

In the first part of the contribution I will give an overview of the new European Economic Governance after the last reform. Part 2 will focus on the NEEG's economic consequences. Finally I will draw some conclusions, including a brief draft of an alternative Governance concept.

1. THE NEW EUROPEAN ECONOMIC GOVERNANCE (NEEG) AT A GLANCE

1.1. Definition and reflexion

Before I will go into detail about the NEEG, I want to clarify what the term contains. For example Lukas Oberndorfer[48] – and sometimes the European Commission (EC) itself – is referring just to the reforms of the SGP, the so-called six-pack and the two-pack, consisting of seven regulations and one directive. Others have very broad definition. Especially the EC in its white book[49] defined governance as "rules, processes and behaviour that affect the way in which powers are exercised at European level, particularly as regards openness, participation, accountability, effectiveness and coherence". Therefore, the NEEG would the new manner of how economic policy is made on the European level (or within the Eurozone) by self-organisation of self-

[48] Oberndorfer, L. (2014): "A New Economic Governance through Secondary Legislation? Analysis and Constitutional Assessment: From New Constitutionalism, via Authoritarian Constitutionalism to Progressive Constitutionalism", in: Bruun, N; Lörcher, K; Schömann, I. (Eds.): *The Economic and Financial Crisis and Collective Labour Law in Europe.* Hart. (pp 25-54).

[49] European Commission (2001): *European Governance - a white paper*. Available in: http://aei.pitt.edu/1188/1/european_governance_wp_COM_2001_428.pdf (accessed on August 5, 2014). (p. 8).

reflexive interdependent actors. It contains the new forms and mechanisms of economic policy's coordination as well as the new institutional setting.

What the term governance do not contain explicitly are the concrete policy decisions themselves. To give an example, the basis for European recommendations on the Spanish fiscal policy as well as the process of their formation is matter of governance, while the concrete decision (to reduce the Maastricht-deficit at least to 2.8 % of GDP in 2016) is not. However, one has to demonstrate that the final value as well as the time limit is a discretional decision or it is a quasi-automatic result of the new regulation.

Furthermore, from the perspective of a critical governance approach it is not so clear if the governance reform does not contain implicitly at least to a large extent the core of the policies as well.[50] Every governance reform itself is subject of intentional political decisions (constrained by meta-governance) and aims at producing a certain discourse, which constrains policies at least in the period directly after the reform. Furthermore a new governance always leads to shifts in power relations and therefore acts structural selective.[51] To continue the example, although a less restrictive recommendation would have been possible by the formal governance setting, in practice such alternatives have not even been discussed due to the austerity focus.

If one wants to minimize governance failure, governance reformers have to evaluate the specific selectivities resulting of the different modes of governance. All the relevant actors must be included, otherwise they will not accept the reform, which weakens the legitimacy not only of the reform itself, but their future outcomes as well. To evaluate pros and cons of certain governance settings, from a more specific economic point of view we have to ask which economic paradigms or basic principles are guiding the governance reform and which economic actors will be strengthened by the reform. This would allow a transparent and informed debate, leading to a more coherent and more accepted ways of binding national economic policies. This would also allow to draw conclusions from the long term shift of less binding principles for economic policies such as the "magical rectangle" influenced by Keynesianism to the stricter forms with less equilibria of interests, which can be observed for example in the German constitution.[52]

It would also allow reflecting on the consequences of the crisis. For example one of the prevailing governance constituting principles on the European level is the assumption that discretional fiscal policy leads to inefficient outcomes and therefore has to be impeded by restricting rules such as the 3%-threshold. Although the effectiveness of countercyclical policies have been proven by the fact of constraining the recession in 2009, the assumption of harming expansionary fiscal policy is still very dominant and have been inspiring the NEEG. On the other hand, if the basic assumption would have been that active policy intervention is necessary to stabilize the economy in a severe downturn, the reform should have been driven by the question of how the room to

[50] Sack, D. (2009): *Governance and Politics.* Nomos.
[51] Jessop, B. (2014): *Capitalism and its Future: Remarks on Regulation, Government, and Governance*. Available in: http://bobjessop.org/2014/06/11/capitalism-and-its-future-remarks-on-regulation-government-and-governance/ (accessed on August 20, 2014).
[52] Cf. Vesper, D. (2013): *Wirtschaftspolitische Ideen und finanzpolitische Praxis in Deutschland.* Available in: http://library.fes.de/pdf-files/wiso/09874.pdf (accessed on July 25, 2014).

manoeuvre could have been expanded (for example by including more actors to create more stable solutions or the improvement of material opportunities).

1.2. Overview of the new instruments and procedures

The core of the NEEG was clearly the six- and the two-pack, which basic elements have been made even more binding by the "Treaty on Stability, Coordination and Governance in the Economic and Monetary Union", better known as the fiscal compact. While the basic numerical requirements (3%-threshold for public deficits in the short term and the "closed to balance" reference in the medium term as well as public debt level below 60 % of GDP in the long term) remained, required institutional changes on the national level, new sanctions, less possibilities for pragmatic decisions, tighter timetables and a more stringent process should guarantee that the member states' fiscal policies will be further constrained. With the fiscal compact (which constitutes a new way of decision-making as it is a legal construction outside of the European Institution setting although created by European intuitions), dissuasions of fiscal policy can even be brought to the court by every other member state. This change is quiet strange, as the Council never has tried to sanction a member state.

From an economical point of view, the most binding fiscal rule – at least in normal times – is the "new" so-called "debt brake" introduced by the fiscal compact. In fact, this was not really a change, as the old so-called medium term objectives (MTOs, introduced in 2004) were quiet similar. Although the requirements for member states with public debt above 60 % of GDP are stricter now, decreasing the maximum deficit limit from 1 to 0.5 % of GDP, the change has no practical significance, as in practice the self-restriction with the country-specific MTOs were mostly at 0.0 %, with a weighted average for the Eurozone of 0.2 % of GDP[53]. What really changed with the NEEG were three points: First, the reformed SGP contains sanctions in the form of interest-bearing deposits of 0.2 % of GDP which can be transformed in non-interest-bearing deposits if the council decides to start an excessive deficit procedure. Although the "sanction" is a very soft one, the supposed public pressure resulting from a decision to sanction a member state could create a strong effect. Second, the fiscal compact obliges contracting states to implement the debt brake in national constitutions at best, therefore increasing internal pressure to comply. Third, the speed of converging to the MTO has increased from a structural improvement of 0.5 % as a rule" (but less in economic bad times) to "more than 0.5 % of GDP" in the fiscal compact, which has been interpreted by the EC as 0.6 percentage points[54].

However, during and after bad economic times, it is very likely that the old 3%-threshold and the new so-called 1/20-rule are the most binding ones. The new rule obliges to a reduction of the public debt quote exceeding 60 % of GDP by 1/20 on average per year within a period of three years (the last three years or within the three most resent years according to the ECs economic forecast). It can be shown

[53] Cf. European Commission (2010): *Public finances in EMU*. Available in: http://ec.europa.eu/economy_finance/publications/european_economy/2010/pdf/ee-2010-4_en.pdf (accessed on August 20, 2014) (p. 54).

[54] European Commission (2014): *Commission Opinion of 16.5.2014 on the Updated Draft Budgetary Plan of AUSTRIA*, C(2014) 3389. Available in: http://ec.europa.eu/economy_finance/economic_governance/ sgp/pdf/dbp/at_2014-05-16_co_en.pdf (accessed on July 20, 2014). (p. 4).

mathematically that this rule – at least considering the exceptions mentioned in the regulation such as recessions or transfers to stabilize the financial system – will always be complied if the debt-brake is fulfilled and the economy grow nominally at least near the long term average. What make the 1/20-rule important are the consequences of non-compliance, as the sanction at the end of the process could be the same as in the case of breaching the deadline to correct the excessive deficit: a fine of at least 0.2 % of GDP. But as a fine has never been imposed and remains unlikely in the future, the consequences of this difference are probably negligible, although the new – from a democratic and juridical point of view problematic – decision procedures increase the likelihood.[55]

The last new rule is dedicated to public spending and quiet paradoxical from today's point of view: As it is very hard to measure exactly the structural deficit and even more difficult the exact year-on-year-change,[56] the expenditure rule was introduced to operationalize the adjustment path to the MTO. That means it was introduced to replace exactly the rule that was later made more binding via the fiscal compact. Therefore the new expenditure rule became redundant shortly after its introduction. Numerically it holds that the increase of public spending should be one percentage point below nominal GDP growth: As public expenditure accounts for nearly 50 % of GDP, this would correspond approximately with an improvement of the structural budget balance of 0.5 % of GDP. Revenue increasing measures can compensate higher expenditure growth, while decreasing taxes must been recompensed by further austerity measures.

Besides the new rules, there have been important procedural changes, which in fact were made to increase the intervention power of the EC respectively other European actors. They focused on public budget's reporting standards, unified and quicker processes of budgetary planning, an ex-ante surveillance of draft budgets by the EC, changes in the decision modes, national fiscal councils for supervision by non-elected experts, a regulation to clarify the Troika (but only in 2013, after the programmes in Greece, Ireland and Portugal entered into force) and last but not least a weaker form of Memorandum of Understand in case of new or changed excessive deficit procedures, the so-called economic partnership agreements. Concerning the latter there is further an ongoing discussion if the EC should start a new initiative to create contractual agreements to oblige all member states to implement structural reforms.

The NEEG not only restricted to fiscal policy making. To the contrary, one of its main aspects has been its extension to all economic areas. To foster an integrated European economic policy, the so-called European Semester has been launched. Starting with an overall analysis of the European Economy (the annual growth survey), a coherent process for the coordination of economic policies in Europe should follow, concentrated in spring. Second, in parallel to the excessive deficit procedure (EDP) in the SGP, a "further procedure of competitive restructuring"[57] has been introduced focusing on

[55] For example by reversed majority voting, which means that the commission proposals enter into force semi-automatically, only stoppable by a qualified majority in the council against the proposal within a short period of time.

[56] Cf. European Central Bank (2012): *Cyclical Adjustment of the Government Budget Balance*. ECB Monthly Bulletin March 2012. (pp. 102-105); Truger, A. and Will, H. (2012): *Die deutsche Schuldenbremse in der Detailanalyse*. Available in: http://www.boeckler.de/pdf/p_imk_wp_88_20121.pdf (accessed on July 20, 2014).

[57] Wöhl, St. (2014, draft version): *The Crisis of Social Reproduction in Spain and Ireland – A gendered international political economy perspective*. Available in: http://momentum-

excessive macroeconomic imbalances. This instrument created means of potential intervention in all the economic policy areas remaining on the national level. Instead of focusing only on one central indicator as the EDP (and proposed by trade-union-related IMK in Germany for the current account balance)[58], the macroeconomic imbalance procedure (MIP) is much less clear. On the one hand, it focuses on the so-called scoreboard[59], a set of indicators containing public and private debt, housing prices, unemployment, current account balance, net international investment position and a various competitiveness indicators, first of all the change of unit labour costs. On the other hand, the scoreboards results just influence the main tool, the country-specific in-debt-review of countries suspicious of having macroeconomic imbalances. The selection as well as the review is done by the EC, giving her the power to define the severe economic problems which must be tackled on the national level, with formally hardly any chance of resistance by any government, social partners or other actors. This reveals the implicit assumption that 1) problems are mainly country-specific and 2) the EC's experts should decide on their own as they know what to do (instead of involving all relevant actors to reach a more consensual, democratic and therefore legitimized solution). If a severe macroeconomic imbalance is detected, a warning mechanism[60] starts and the respective government has to take measures to rebalance the national economy. If it resists implementing the ECs economic advices, it risks a fine of 0.2 % of GDP.

Apart from that core NEEG there was the attempt to govern by political agreements. At least in theory the most important one was the Europe 2020 Strategy, which should provide medium-term economic policy priorities (as its legacy, the Lisbon Strategy). However, in practice it seems less important than for example the annual growth surveys short-term priorities. Although the latter should be deduced from the former, in areas of social policy, the short-term agenda sometimes even seems to counter the Europe 2020 Strategy, especially concerning the goal of reducing the risk of poverty or the creation of employment.

Another agreement also headed in that direction, namely the Euro Plus Pact of 2011 enforced by the German government. Its nature is better described by the name of the draft version "competitiveness pact". The heads of state or government of the Eurozone thereby committed themselves to "achieve a new quality of economic policy coordination",[61] which should serve the aim of increasing competitiveness – as if the crisis would have been triggered not by financial markets, unequal distribution and other factors, but from too high social standards hindering the economy to grow. It had

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kongress.org/cms/uploads/PAPER_Wöhl-Stefanie_The-Crisis-of-Social-Reproduction-in-Spain-and-Ireland.pdf (accessed on October 2, 2014).

[58] Horn, G; Niechoj, T; Tober, S; van Treeck, T. and Truger, A. (2010): *Reforming the European Stability and Growth Pact: Public Debt is Not the Only Factor, Private Debt Counts as Well*. IMK Report 51. Available in: http://www.boeckler.de/pdf/p_imk_report_51e_2010.pdf (accessed on July 20, 2014).

[59] European Commission, DG Ecfin (2014): *MIP Platform*. Available in: http://ec.europa.eu/economy_finance/indicators/economic_reforms/eip (accessed on July 20, 2014).

[60] 2014 Poland, Austria, the Czech Republic and Slovakia together with the Baltic States constituted the one fourth of countries without undergoing an in-depth analysis. From the other three fourth, the EC excluded the Troika-countries Greece, Portugal, Cyprus and Romania and found macroeconomic imbalances in 14 countries. In Italy, Slovenia and Croatia they were considered "excessive", while in France, Spain and Ireland they just require "decisive policy action".

[61] Heads of State or Government of the euro area (2011): *A pact for the euro*. Available in: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/119810.pdf (accessed on July 20, 2014).

the form of a non-binding political statement, as it included highly sensible areas such as labour standards and other social rights and policy areas explicitly excluded from the European Agenda since the Maastricht-Treaty such as wage policy. Schulten and Müller describe the Euro Plus Pact as the beginning of a "new European interventionism in the area of wage policy".[62] With the discussed so-called convergence and competitiveness instruments or competitive compact(s), there is the threat that further and more binding obligations will be introduced, eventually following the example of the fiscal compact.[63]

As Christoph Degryse points out, this orientation was inspired more by ideological models than real shortcomings, so that "in this way the EU seems to be acting as if the crisis represents a window of opportunity for imposing its reforms."[64] Furthermore, the new interventionism brought not only an imbalance between supply and demand side policies and between economic and social policy in general, but also a shift of forces benefitting DG ECFIN inside the EC and the financial and economic ministries at the national level respectively, increasingly taking charge of the formulation of social policy. Rather than protecting the vulnerable from the market, the new interventionism aims at forcing them to adapt to the market.[65]

Other changes concerning the NEEG are new, more or less informal meetings by formations of the Eurozone members, with the Eurogroup and the Euro summit probably as the most important ones, where representatives of the Euro member states, the ECB and the EC take far-reaching economic policy decisions, marginalizing the role of the parliaments and largely impeding a broader public discussion or reconciliation of interests. Furthermore, there are ex-ante talks and meetings with preliminary decisions between the ECB, the EC and the two to four biggest member states.[66]

From 2010 to 2013, various forms of "rescue mechanisms" have been developed for member states facing difficulties meeting there financing needs: After bilateral credits, there has been the European Financial Stabilisation Mechanism (EFSM) together with the European Financial stability Facility (EFSF), leading in the end to the European Stability Mechanism (ESM). Instead of introducing some kind of common financing instruments (e.g. Eurobonds), there has been a very restricted support by limiting the reform to credits in case of emergency. The use of the instruments was decided mainly by the Eurogroup in liaison with the institutions forming the Troika (EC, ECB and IMF), leading – from an economical, juridical[67] and social point of view – to problematic forms of conditionality.

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[62] Schulten, T. and Müller, T. (2013): "A new European interventionism? The impact of the new European economic governance on wages and collective bargaining", in: Natali, D. and Vanhercke, B. (eds.): *Social developments in the European Union 2012*. ETUI/OSE, (pp. 181-213).

[63] See for example Stierle, St. (2013): *Convergence and Competitiveness Instrument*. Available in: http://www.troikawatch.net/convergence-and-competitiveness-instrument/ (accessed on July 20, 2014).

[64] Degryse, Ch. (2012): *The new European economic governance*. ETUI Working Paper 2012.14 Available in: http://www.etui.org/Publications2/Working-Papers/The-new-European-economic-governance (accessed on July 20, 2014). (p. 73)

[65] Cf. Hyman R. (2011): *Trade unions, Lisbon and Europe 2020: from dream to nightmare*. 'Europe in Question' Discussion Paper 45, London School of Economics and Political Science.

[66] Cf. Rodríguez Zapatero, J. L. (2013): *El dilema. 600 días de vértigo.* Planeta.

[67] Fischer-Lescano, A. (2014): *Human Rights in Times of Austerity Policy*. Available in: http://ak-europa.eu/_includes/mods/akeu/docs/main_report_de_330.pdf (accessed on July 20, 2014).

In 2012, the ECB announced its so-called Outright Monetary Transactions (OMT) Programme. Without having started, this was enough to bring down interest rates and stop at least the acceleration of the crisis in the Eurozone. Although it was a minor institutional change, it has more economic impact than the reform of the SGP.[68] Not only by these measure, the ECB got a much more important role in the NEEG than it have had before the crisis. This has also to do with the last effected policy area of the NEEG, which is the financial sector, where we have seen at least the first steps to a more comprehensive form of regulation.[69]

2. THE NEEG IN PRACTICE

After the first phase of the NEEGs implementation, a lot of contradictions have appeared. First, to some extend it seems to be redundant: the bigger the perceived economic problems shaped by the international economic press, the stronger the pressure to act and the more strictly are the recommendations. Therefore, the NEEG seems to reproduce and reinforce this pressure ex post instead of diminishing it ex ante.

Furthermore, the NEEG leads to a standardized programme only on the level of the single member state instead of starting from a truly European point of view. Neither the European dimension of national policies is a topic – with the consequence of blanking out possible specific supportive European measures to tackle those problems at the national level and vice versa. For example if domestic demand shrinks due to economic recommendations such as cutting labour costs not only in one country, but the same demand-depressing programme is applied in all the countries at the same time, negative spill over effects will be the consequence, counteracting the export-led strategy. The headlines and the overview of the CSR show clearly that the "reform and cuts" approach is enacted in all countries, not only in the one's facing massive and pressing problems.

Second, the implementation of the NEEG was not in the manner of an "openness, participation, accountability, effectiveness and coherence"[70] as it should have been according to the ECs white paper on governance. To the contrary, the main decisions were taken outside of the European Semester's process especially by the Eurogroup and the ECB, both neither accountable nor open for a public debate. For example the most drastic consequences in the field of fiscal policy of Spain have not been the specific requirements in the excessive deficit procedure. First it was the resistance of the German minister of finance to approve liquidity to decrease market pressure on Greece without preventive further austerity measures taken by the Spanish Government;[71] Second the new interpretation that Spain has to accomplish deficit targets and not the recommended structural efforts at the beginning of 2012; And third ECB's secret letter in 2012[72]. Even though Austria has already stabilized its public finances, there has also been an intervention by the Eurogroup followed by an informal letter of the EC[73].

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[68] De Grauwe, P. and Ji, Y. (2013): *The Legacy of Austerity in the Eurozone*. Available in: http://www.ceps.be/book/legacy-austerity-eurozone (accessed on July 20, 2014).
[69] For an overview see Schuberth, H. (2013): *Finanzmarktregulierung in der Europäischen Union – Fünf Jahre nach Lehmann.* Wirtschaft und Gesellschaft 4/2013, (pp. 509-543).
[70] European Commission (2001, op.cit.).
[71] Cf. Elkaizer, E. (2012): *Indecentes. Crónica de un atraco perfecto*. Espasa. (p. 106).
[72] Rodríguez Zapatero, J. L. (2013, op.cit.). (p. 248ff).
[73] European Commission (2014, op.cit.).

Furthermore, the decisions on fiscal policy have been erratic. For example in the case of Spain, the changes of the initial recommendation to improve the structural budget balance by initially 3.75 % of GDP in the years of 2010 to 2012 have been various: the effort, the years, and even the method (from structural to non-structural). This not only increased the political and economic instability, but was exactly the contrary of a rule-based policy.

Box 1.1.[74] European discretionary fiscal policy obligations to Spain, 2009-2013[75]

Date	**Main obligation**	**Meeting**	**Spanish' central governments reaction**
spring 2009	improvement of the structural deficit (SI) by 1.25 % per year 2010-2012; Maastricht deficit (MD) < 3 % by 2012	ECOFIN (proposed by DG ECFIN)	First consolidation measures (KM) with the draft budgetary plan for 2010 (autumn 2009)
Nov./Dec. 2009	SI: 1.5 % per year 2010-2013; MD < 3 % 2013	ECOFIN (pr. by DG ECFIN)	New KM of 0.5 %
Mai 2010	Further austerity measures	Eurogroup	further KM of 0.5 % 2010 and 1 % 2011
spring 2011	Further measures if economic perspective worsens	ECOFIN (pr. by DG ECFIN)	*Immediately none*
August 2011	Immediate austerity measures, min. 0.5 %	ECB und BdE-presidents	Immediate KM of 0.5 %
December 2011	MD 2012 max. 4.4 %	*Unclear*	new KM Dec. '11/Jan. '12
March 2012	MD 2012 max. 5.3 %	Eurogroup	Immediate KM
Mai 2012	MD 2012 max. 6.3 %	DG ECFIN	Further KM
spring 2012	MD 2012 max. 6.3 %, < 3 % postponed to 2014; concrete obligations for the SIs of 2012, '13 u. '14 (each 1.9 to 2.7 %)	ECOFIN (pr. by DG ECFIN)	new KM; strict obligations to the regional and local levels of government; budgetary plan for 2014
spring 2013	MD < 3 % postponed to 2016; concrete obligations for the SIs of 2013-2016, (whereby 2013 and '14 have been relaxed significantly)	ECOFIN (pr. by DG ECFIN)	*Immediately none*

Third, the NEEG's new tools were hardly used. There has been no decision by reversed majority voting, no new sanctions have been imposed and not even an excessive imbalance procedure has been started. This created a discrepancy between the threats of

[74] Feigl, G. (2014): „Auswirkungen der neuen europäischen Wirtschaftspolitische Steuerung am Beispiel Spaniens und Österreichs", in: Hagemann, H. and Kromphardt, J. (forthcoming): Schriften der Keynes-Gesellschaft, Band 8. metropolis.
[75] All numbers as a percentage of GDP.

strict enforcement on the one hand and an unchanged unwillingness to sanction deviations on the other.

3. A SHORT ECONOMIC EVALUATION

In economic terms the NEEG did not achieve the intended objective of fostering economic policies for a strong and stable economic development. Probably the main fault was the narrow focus on austerity and structural reforms respectively ignoring (or at the beginning even neglecting) their negative effects on aggregate demand.[76] The coordinated austerity led to a new recession in 2012, harming public finances even further: Budget deficits only decreased in structural terms and the public debt rose even faster as the negative consequences on the quotas denominator. Due to hysteresis effects, long-lasting damages going beyond the recession are likely. Therefore, the improvement of structural deficit will be destroyed to some extent, especially if the cuts include public investment in productive infrastructure or education, which should have the most positive long-term effects on growth.[77] This has been the case in Spain.

In fact public investment was in general one of the most decreasing spending categories in the last years. In the Eurozone, public investment was going down from 2.6 % of GDP in 2007 to just 2.1 % in 2013, while other areas kept rising. The EC estimates that the quota will slightly drop by 2014. Furthermore, there are very large differences between member states. The ones hitting hardest by the crisis – and from an anti-cyclical/Keynesian point of view the ones which would be especially in the need of stimulation investments – have large drops in public investments (e.g. Spain –2.5 percentage points to 1.5 % of GDP or Greece –1.5 percentage points), while Germany remains stable but on a too low level (around 1.6 % of GDP) according to recent studies.[78]

This is one of the side-effects of a NEEG, which focuses on austerity, while it is weak in coordinating other desired policy outcomes. The rules of the SGP are far more important than the priorities in the annual growth survey, where the public investment is at least an indirect topic, as the guideline is to pursue "differentiated, growth-friendly fiscal consolidation"[79]. However, the multiplier effects of public revenue and spending categories never played an important role in the analysis of the commission. Exactly in areas were the results of diverse economic studies would expect the most negative effects, the European austerity policy led to cuts. If we look for example at the meta-study of Gechert[80], we see multipliers above 1 for public investments, consumptions

[76] See for example Baker, D. and Rosnick, D. (2014): *Stimulus and Fiscal Consolidation: The Evidence and Implications*. IMK Working Paper 135. Available in: http://www.boeckler.de/pdf/p_imk_wp_135_2014.pdf (accessed on September 20, 2014).

[77] IMF (2014): *Is it Time for an Infrastructure Push? The Macroeconomic Effects of Public Investment.* Available in: http://www.imf.org/external/pubs/ft/weo/2014/02/pdf/c3.pdf (accessed on September 30, 2014); Cournède, B; Goujard, A. and Pina, Á. (2014): *Reconciling fiscal consolidation with growth and equity*. OECD Journal: Economic Studies 1. Available in: http://dx.doi.org/10.1787/eco_studies-2013-5jzb44vzbkhd (accessed on September 20, 2014). (p. 20).

[78] DIW Berlin (2013): *Investment for More Growth—An Agenda for Germany's Future*. Economic Bulletin No. 8. Available in: https://www.diw.de/documents/publikationen/73/diw_01.c.425757.de/diw_econ_bull_2013-08.pdf (accessed on September 20, 2014).

[79]. European Commission (2013): *Annual Growth Survey 2014*, SWD(800). Available in: http://ec.europa.eu/europe2020/pdf/2014/ags2014_en.pdf (accessed on September 20, 2014).

[80] Gechert, S. (2013): *What fiscal policy is most effective? A meta regression analysis.* IMK Working Paper 117 Available in: http://www.boeckler.de/pdf/p_imk_wp_117_2013 (accessed on Sept. 20, 2014).

and employment. It is quiet astonishing that the EC still tries to defend its expenditure focused consolidation strategy and has even criticised the robust results of IMF economists[81] and others.

Another problem with the European economic policy was the focus on competitiveness and structural reforms. The basic idea was that too high current account deficits constituted the second pillar of the crisis; and that the only way to overcome these shortcomings would be to gain cost competitiveness. Although former crisis in other parts of the world have demonstrated that the thesis of arising problems from high current account deficits respectively a highly negative net international investment position is right due to the resulting need for continued capital inflows, the link between cost competitiveness and current account balances is rather week, especially if focused only on labour costs[82]. However, at least since the Euro-Plus-Pact – and in the longer run already since the white book "growth, competitiveness, employment" from 1993 – the reduction of labour costs in countries with current account deficits was probably the most important policy focus after austerity. At least in spring 2010, the two basic premises for the European Economic policy guidelines became once again "reforms and cuts", as the former Spanish prime minister pointed out.[83]

This "obsession"[84] with cost competiveness did not help a lot to boost the economies or at least the exports. To the contrary, this policy has created new and probably more severe problems. This has to do with the negative effect on demand resulting of the "reforms and cuts" approach and the proportions of the European economy. Even in a globalized world, extra-EU-exports represent only approximately 12 % of the EU's final demand[85]. Even if the cuts in labour costs would boost export, this effect hardly can outweigh the depressing effect of "reforms and cuts" to the 88 % of final demand, which is domestic demand. As the most important trading partners for EU-members are other EU-members and domestic demand is more important as total exports even on the national level, the likelihood of the strategy's success in individual countries is not much better. Furthermore, cuts in labour costs need not translate into decreasing export prices. Even if they do, the price elasticity of exports could be not high enough to boost the total value of exports. If we look at the numbers, we see that export growth actually did not increase in most countries. In Spain the average nominal increase (2010-2013) were a bid lower as in the time period between the effective start of the monetary union (1999) and the crisis (2008), namely 6.9 % compared to 7.2 % per year. In Portugal

[81] Blanchard, O. and Leigh, D. (2013): *Growth Forecast Errors and Fiscal Multipliers.* IMF Working Paper 13/1. Available in: http://www.imf.org/external/pubs/ft/wp/2013/wp1301.pdf (a. on July 20, 2014).
[82] Feigl, G. and Zuckerstätter, S. (2013): *Wettbewerbs(des)orientierung.* WWW for Europe Policy Paper 2. Available in: http://www.foreurope.eu/fileadmin/documents/pdf/PolicyPapers/WWWforEurope_Policy_Paper_002.pdf (accessed on Sept. 20, 2014); Estrada, B; Paz, M. J; Sanabria, A. and Uxó, J. (2013) *Que hacemos con la competitividad?* Akal.
[83] Rodríguez Zapatero, J. L. (2013, op.cit). (p. 36).
[84] Cf. Krugman, P. (1994): *Competitiveness: A Dangerous Obsession.* Foreign Affairs 73/2, (pp. 28-44).
[85] The usual variable to measure the importance of exports, the exports to GDP relation, is misguided as it is comparing the total value of exports with just the added value created in an economy, were imports are subtracted. A better comparison is the share of exports in final demand, as all its components add up to 100 %. Unfortunately there is no data available in the national accounts for the extra-EU-share of total exports, so it has to be estimated. The value of 12 % is based on the ECs AMECO database and two assumptions: The first one is that the statistical difference between trade statistics and the national accounts is neutral concerning the ratio of extra- and intra-EU-exports. Secondly, I assume that the extra-EU-share of services (which is not available) is the same as for exports.

export growth indeed was higher (7.6 % compared to 6.2 %), while in Greece the growth rates dropped significantly (from 8.8 % to only 2.4 %).

Therefore the drop in domestic demand due to cuts in public finances, shrinking real wages and falling private and public investment not only led to a further recession 2012 and 2013, but increased other economic problems which the European economic policy rhetorically wanted to deal with: public, private and external debt quotas, which increased further. Additionally the first recession loss of employment could not be recuperated (in 2013 employment in the Eurozone was only slightly above the level of 2005, which represents a loss of 3.5 % compared to 2008) and the inflation rate is far below the ECB's reference value. Instead of increasing the "well-being of its peoples", the NEEG was the tool to foster a policy leading to a decrease in real wages in most of the Eurozone countries.[86] Last but not least this policy, which should decrease macroeconomic imbalances, led to a current account surplus of the Eurozone which is the highest in the world in absolute terms, therefore increasing global imbalances.

In sum, it is likely that the "reforms and cuts"-approach at the European level has brought more problems than solutions. The NEEG was the way to develop and enforce this strategy. From a critical point of view it is therefore important to contrast the actual EEG with an alternative governance framework that will foster alternative policies. Moreover, if the current economic policy leads to bad results we have to ask to what extend the actual EEG at least allows for alternative policies and what are the crucial barriers to policy changes.

4. CONCLUSIONS

The aim to further limit the possibilities for deviations from the neoclassical oriented European economic policy on the national level has been achieved with the NEEG, especially concerning public finances. As long as the debt brakes are not fulfilled, the consolidation will continue. However, two contradictions have emerged: First, there have been dissuasions from the rule-based policy on the European level with consequence of a confused discretionary policies oscillating between extreme rigidity and relaxations. Second, the announced – and by the EC supported – tax cuts in various member states will prove whether the European focus lies on stable public finances or more on an ideological agenda of shrinking the state.

The NEEG's second pillar "structural reforms" (respectively gaining competitiveness by decreasing labour standards), has been important for the Troika-intervened countries, but less for the others, as the national governments – widely irrespective of their ideological orientation – so far broadly shared the supply-side- respectively competitive-focus and therefore not even tried to enact alternative policies. The ongoing debates concerning competitiveness compacts similar to the fiscal compact suggest that as long as the new instrument is not enacted, a more balanced economic policy still could not be stopped by the NEEG.

But even if a more reasonable economic policy still is possible, it is clearly not fostered by the NEEG. As the outlook for the Eurozone once again got more pessimistic after the

[86] Janssen, R. (2013) *Real Wages in the Eurozone: Not a Double but a Continuing Dip.* Available in: http://www.social-europe.eu/2013/05/real-wages-in-the-eurozone-not-a-double-but-a-continuing-dip/ (accessed on July 25, 2014).

weak economic results of the second quarter 2014, the unemployment remains high and the threat of deflation continues, another governance-reform would be helpful to achieve better economic results.

A first step would be to start from a truly European perspective, or at least from the higher integrated Eurozone[87]. Although the name is European Governance, a more proper one would be European-wide ruled-based national governance. Policymakers have to recognize that the European economy is more than the sum of the national economies, as it is a quiet closed economy with high spill-over effects, especially the more integrated Eurozone. Such a reorientation to the Eurozone as a whole would reveal that the "cuts and reform"-approach is clearly the wrong policy orientation in a situation where all economic indicators hint at a need to boost domestic demand in the Eurozone: the levels of employment, GDP, investment and real wages still are below their pre-crisis-levels; the projected structural deficit just 1.1 % of GDP; the inflation rate below 1 %; and the current account surplus has reached nearly 3 % of GDP.

This overall orientation has to be translated into specific policies on the national level. A far better coordination of economic policies, shifting from surveillance to facilitation, is needed. The crisis, the ongoing disintegration and cases like France show that the room to manoeuvre at the national level inside an integrated economic region like the Eurozone is quiet limited. This creates the necessity to create common institutions, processes, norms and means for economic policy-making. The higher the common standards should be, the more coordination will be necessary in the long run. Therefore we need a new governance setting. The actual one basically was formed in the early 1990ies, when the principles of the economic and monetary union were formulated. This setting was inspired by liberal concepts of governance, which give a priority for free market solutions and tend to restrict policy-making to political interventions in favour of markets and by restricting money supply. With the exemption of monetary policy, economic policy-making remained mainly on the national level with a variety of national economic governances and only soft forms of coordination plus some rules which poses certain limits on the European level. With the NEEG this limits have increased significantly by a strengthening of the rule-based economic policy approach, with the tendency to shift the core of economic policy-making to the European level, but without further democratic legitimacy.

4.1. Reform proposals for an Alternative European Economic Governance

I suggest at least four changes of the actual EEG. The first one is to change its logic of neoclassical rule-based and supply-side-oriented economics. An alternative governance concept can be oriented on the work of John Maynard Keynes, who developed some basic requirements after the failure of liberal governance in the last great recession. Probably the clearest expression of a Keynesian Governance design was the German constitutional obligation to achieve a macroeconomic balance, created in 1967 by a coalition government of CDU and SPD[88]. This law was called the "stability- and growth law" (which shows quiet clearly the connection with the EEG). It stated that the aim of economic policy was to achieve a "magic rectangle" (especially through targeting effective demand for example by fiscal policy), consisting of four pillars: stable

[87] Cf. De Grauwe, P. and Ji, Y. (2013, op.cit.)
[88] Cf. Vesper, D. (2013, op.cit.).

economic growth, high level of employment, price stability and an external equilibrium. In practice, the inclusion of economic agents especially in the form of social partnership was another important pillar. On the European level, an alternative economic governance should be based on a modernized version of the magic rectangle especially fostering investment, employment and stable financial markets. For example Dullien and van Treeck suggest the four cornerstones material well-being, ecological sustainability, social sustainability and viable public activity;[89] Feigl et al. propose a magic polygon aiming at full employment, quality of living, stable public activities, faire distribution, price stability, external balance and an intact environment.[90] This focus could be combined with the international discussion on measuring well-being and beyond-GDP-projects[91], which still is on the European agenda (but without priority so far). Subordinated to this general and long-term view should be a medium-term strategy like Europe 2020 strategy. Next, there should be a common short-term focus.

Secondly, economic policy making must be democratised. Instead of posing restrictions to member states as if the economic experts at the EC and the ECB would be the better national governments, the main focus should be the right policy for the Eurozone or the EU as whole and only afterwards discussions on the operationalization on the national level. In contrast to the actual procedure, all the decision have to be discussed broadly and then decided upon at least as well by the parliaments – first of all the European Parliament. Instead of strict rules with sanctions, there should be realistic ranges for orientation broadly discussed including the main economic agents, especially the social partners.

The third institutional change proposed is to end the uncoordinated financing of member states via financial markets without lender-of-last-resort. Although the need has already decreased by the ECB's OMT-programme, the actual structural arrangement can aggravate economic problems as financial markets tend to react strong, exaggerated and only if it is too late to act politically. This reduces the possibilities of governments to act in times of crisis, so exactly when the necessity for decisive political action is extraordinary high. Also bigger own European resources – for example to support investment and regional integration – would be as helpful as a better tax cooperation to strengthen financial power on the national level.

Forth, in the field of fiscal policy, the pro-cyclical, recession-enhancing 3%-threshold should be abolished, as it is still the biggest single problem arising from the actual governance arrangement. However, a point of medium- and long-term orientation for a viable fiscal policy should be in place. As long as they are no immediate sanctions for small and in fact not exactly measurable deviations, the structural budget balance could serve as such an indicator. The actual problems arise not by the indicator, but it's too restrictive reference value of (close to) zero, leaving no space for public investment and therefore creating negative consequences. However, if public investments are excluded

[89] Dullien, S. and van Treeck, T. (2012): *Ziele und Zielkonflikte der Wirtschaftspolitik und Ansätze für Indikatoren und Politikberatung*. Available in: http://www.ratswd.de/download/RatSWD_WP_2012/RatSWD_WP_211.pdf (accessed on July 25, 2014). (p. 13).

[90] Feigl, G; Marterbauer, M; Rossmann, B; Schlager, Ch. and Schweitzer, T. (2014): *Budgetanalyse 2014-2018.* Available in: http://media.arbeiterkammer.at/PDF/AK_Budgetanalyse_2014-2018.pdf (accessed on July 25, 2014). (p. 13).

[91] see for example Stiglitz, J; Sen, A. and Fitoussi, J.-P. (2009): *Report by the Commission on the Measurement of Economic Performance and Social Progress.* Available in: http://www.stiglitz-sen-fitoussi.fr/documents/rapport_anglais.pdf (accessed on July 25, 2014).

from the deficit calculation – as discussed recently by the IMF[92] and being the standard in economic textbooks for decades –, no legislative change has to be made concerning the structural budget balance in the SWP or the fiscal compact. In fact, the SWP already explicitly contain that "the Commission shall also take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors"[93] if a Member State does not fulfil the European fiscal rules. Although a reform of the SWP would be better, at present a more flexible use of the SWP could serve as a second-best strategy to achieve a more balanced fiscal policy.

As the negative consequences of the actual economic policy can hardly be denied in the long-run, there is the hope that the dominance of neoclassical rule-based concepts will be weakened. This is a precondition not only for a governance reform, but also that more balanced policies will succeed at the European as well as at the national level. Increasing public investment and tackling unemployment by boosting demand should be on the top of the new agenda. Through the created expansionary effect, at the end this will even help to stabilize public finances, private debt and last but not least the European project itself.

[92] IMF (2014, op.cit.). (p. 36ff.)

[93] EUR-Lex (2008): *Consolidated version of the Treaty on the Functioning of the European Union, Article 126 (3)*. Official Journal 115. Available in: http://eur-lex.europa.eu/legal-content/EN/ALL/;ELX_SESSIONID=bPFfJxhCGjR1Qch8XQQHVjFvcvW1hWkVZlDfmfnQ1p3Dh5pXsg5G!842326646?uri=CELEX:12008E126 (accessed on July 25, 2014).

Chapter 2

The New EU Economic Governance and its social impact in Bulgaria

Lyuben Tomev[94]

1. NATIONAL MACROECONOMIC/EMPLOYMENT BACKGROUND

1.1. Main macroeconomic indicators

Over the 2006-2008 period the Bulgarian economy achieved a remarkable annual growth of over 6%. At the same time however there were tangible signs of "overheating" of the Bulgarian economy:

- Gross fixed capital formation increased nearly two times higher than the rates of GDP growth and through investments were financed primarily construction projects with no manufacturing function;
- Increase in inventories was 4 times more intensive than GDP growth suggesting structural imbalances, while production losses were the most direct evidence of broken links between producers and their excessive credit indebtedness;
- Increased foreign trade negative balance, leading to unstable balance of payments that is highly dependent on foreign investment and remittances;
- Rising inflation rendered some manufacturers uncompetitive and made them face the urgency of technological renovation.

The facts above show slackened internal factors of economic growth in Bulgaria and "overheated economy" imbalances. That wide range of domestic issues further combined with the impact of the external financial crisis bringing about the deep recession in which the Bulgarian economy has fallen since the beginning of 2009.

The 2009 GDP decline by 5.5% was a product of gross value added decrease in almost all sectors. The lower volumes of agricultural production, industrial output and construction activities, and the collapse in real estate operations had the highest effect. In 2010 and 2011 GDP growth rates were 0.4% and 1.8% respectively (see Annex 1)[95].

Expectations that the upward drive of the economy would continue and accelerate after 2011 did not materialise. Europe's debt crisis and distrust of domestic and foreign investors thwarted the recovery process. Also volatile economic growth during the 2012 and 2013 quarters was more an indication of a state of stagnation than a distinct trend of an upward development.

The sharp decline in foreign direct investment (FDI) had a particularly negative impact on the Bulgarian economy. From EUR 9 052 million in 2007 (the unsurpassed peak in the last 10 years) and EUR 6 728 million in 2008, their volume dropped to EUR 2 437 million in 2009 and EUR 1 151 million in 2010 (the lowest level in the past 10 years). The FDI share in GDP of over 20% in the period before the crisis shrank 5 to 6 times and over the last four years remained at the rate 3 to 4% of the GDP (see Annex 2).

[94] Doctor Degrees in economics Research Associate and Director of ISTUR (Bulgaria).
[95] All the annexes can be found at the end of the chapter.

All through the crisis the internal factors for economic growth had an impact of disincentive. Gross fixed capital formation collapsed catastrophically from +21.9% in 2008 and reached negative values in the following three years (-17.6%, -18.3% and -6.5% respectively). Growth in 2012 reached +4%, however it registered another decline of -0.3% in 2013. Internal investment activity was very weak to compensate, at least partially, for the lack of foreign investments.

In the first recession year (2009) final consumption fell by 7.3 per cent and completely failed to recover in the next years. Squeezed household consumption had a negative impact on demand, hence productivity remained stagnant. In 2013 household consumption marked a new drop of 2.3%.

For the time being exports are the main engine of timid economic growth with a highest impact in 2010 (14.7%), 2011 (12.3%) and 2013 (8.9%). For small Bulgaria however that impact can hardly be taken to be a strategic priority in the future. January 2014 data show exports falling sharply by 10.9% on annual basis. To ensure sustained economic growth particular attention should be paid to domestic demand while stimulating investment and household consumption. Underestimation of the internal factors is one of the main reasons for the delay of the cohesion process. GDP per capita in PPS represents only 47% of the average EU 28 level and that ratio remains lowest among all member states (Annex 1).

The 2004-2008 policy of budget surpluses under the currency board left about BGN 7.7 billion in the fiscal reserve inherited by the newly elected government in mid-2009. In the meantime however, under the impact of the recession in early 2009, tax revenues dropped sharply and failed to cover the high expenses as planned. That fiscal trap led to a budget deficit of -4.3%, unprecedented in recent years. It was a subject of criticism and recommendations from the European Commission. In that situation the government tried to influence both the revenue and the expenditures parts of the budget. As a result the deficit steadily declined over the next three years (2010-2012), while in 2013, despite budget updating in the middle of the year, stayed within its regular limits: minus 1.8% of GDP (see Annex 3).

Initially, the policy of fiscal consolidation envisaged gradual state budget transition to balanced levels over the period up to 2015-2016. In February 2013, after the Fiscal Pact being signed by Bulgaria, the Parliament adopted the *Public Finance Act* (PFA) effective since early 2014. It contains three major restrictive regulations:

- Annual budget deficit in the consolidated fiscal programme (CFP) cannot exceed 2% of GDP.
- Highest CFP expenditures share cannot exceed 40% of GDP.
- The nominal amount of consolidated government debt at the end of each year cannot exceed 60% of GDP.

In compliance with the requirements of that law in April 2013 the care-taker government approved the medium-term budget targets for 2014-2016. The new government in power since mid 2013 updated those targets already in November the same year. The medium-term estimate envisages budget deficit amounts as shown in Table 2.1.

The updated estimate shows a slight fiscal policy shift - from consolidation measures towards steps to stimulate the economy. Envisaged deficits stay within the fiscal constraints but the change is to follow measured and balanced steps for fiscal consolidation.

Table 2.1. Medium-term estimate of the budget deficit

Budget deficit %	April 2013 Targets	November 2013 Targets
2014	1.3	1.8
2015	1.0	1.5
2016	0.8	1.1

Source: Ministry of finance

2014 CFP expenditures share amounting to 38% of GDP (April estimate) were raised to 39.7%, but still remain within the PFA limitations.

Bulgarian government debt is at one of the lowest levels in Europe. The continuous trend towards smooth and safe growth taking shape over the past 6 years will continue over the next 3 years (see Annex 3). In 2016 the expected increase of public debt is to reach about 22% of GDP set as a target. Over the 2014-2016 period government securities issued on the domestic and international capital markets will continue to be the main source of debt financing of the budget.

1.2. Labour market developments

The labour market situation over the past six years has been determined by several fundamental factors:

The demographic crisis beginning as early as in the end of 1980s deepened, especially in the transition period. It was influenced both by soaring immigration outflow of predominantly young and highly educated and qualified people and by delayed processes of transformation and restructuring of the national economy that led to negative impacts on the living standards of the population and, consequently, on their reproductive activity. That situation had lasting effects on the quantitative and qualitative aspects of the workforce at the labour market.

The mismatch between workforce demand and supply has been deepening and that makes ***the Bulgarian labour market structurally weak***, with a high relative share of discouraged persons, long-term unemployed and contingents that have accumulated several features of vulnerability. All that ultimately implies low workforce competitiveness and adaptability to labour market changes. The failures of the current education system reform had added effects. On the one hand, the relatively sustained rate of early high school levers has been constant, and, on the other, there has been a structural mismatch between supply and demand for occupations and practical skills.

Despite all efforts and interventions to limit ***the informal economy and "undeclared" employment in particular,*** they persisted as the most stable segment of the labour market in the last 20 years. That fact reinforces the current uncertainty of the real economic processes and their coverage with adequate statistical measurements and indicators. The informal labour market is not only competitively positioned against the formal labour markets (primary and secondary) but it is also largely a part of those markets. Depending on the economic situation, the informal labour markets manage to both absorb and drive specific workforce contingents towards formal labour market.

The aforementioned features predetermine the low-level of the economic activity, even in periods of economic upswing. As shown in Annex 4, the recession deepened the negative trends in the economic activity, but the changes (within 1-2 per cent) are not high enough compared to the rates of employment and unemployment.

After 2008 the number of employed persons dropped rapidly and at the end of the period under review it fell by 426 thousand. That major blow against employment was devastating for industry and construction: the absolute decrease of employed in those sectors was by 336 thousand, or about 30%. Much lower job losses were recorded in most service sectors and agriculture. On the other hand, the commercial, energy and water sectors managed to keep on their employment levels and, in some years, to even increase employment (see Annex 5).

In terms of occupation the highest employment decline, as expected, was in the occupations not requiring any special qualification (elementary occupations): minus 29% as in a period of crisis low-skilled workers are the first to be fired. The decrease in the number of the skilled production workers and machine operators (plant and machine operators, and assemblers) was much lower: 19.2%. Employment rate of specialists (professionals) increased by 10.6%. Employment growth in the services for the population, commerce and security (service and sales workers) was even higher: 16.6%.

The employment structure by status was not affected by any serious changes. However, the decrease in the number of employers was lowest (minus 6.4%), while self-employed declined by minus 14.7% and employees – by minus 12.4% respectively.

Table 2.2. Structure of the employed by employment status

Employed by employment status	2008	2013	Decline (%)
Employers (in thousands)	122.9	115.1	-6.4
Self-employed (thousands)	259.9	221.6	-14.7
Employees (thousands)	2943.8	2578.7	-12.4

Source: National statistical institute

Overall, the male employment rate before the recession was higher by about 9-11% (see Annex 6). The gender employment gap, however gradually narrowed down to reach 5-6% in the age brackets 20-64 years old. This indicates that lower employment level was accompanied by certain gender differences arising mainly from the high employment drop in the construction and manufacturing (sectors with strong male presence).

The ratio of regular and atypical employment does not provide statistical evidence of abrupt changes over the past six years (see Annex 8). However, in 2013, there is a trend towards gradual increase of part-time employment, as well as the growing number of workers on temporary contracts (including temporary agency work).

The Labour Force Survey data (Annex 7) prove the dynamic changes in unemployment. After the level of 5.6% in 2008 being defined by the experts as equilibrium (or "healthy") for Bulgaria in macroeconomic terms, subsequent recession caused the first wave of mass layoffs in early 2009, leading to a higher rate of unemployment at 6.8%. That trend went notably up in 2010, rising sharply to 10.2% and reaching 12.9% at the end of the period. Several features in the unemployment dynamics and structure can be identified:

- The problem of youth unemployment came to the fore after the years of good performance (in 2008 the rate had dropped to 12.7%). In just two years the unemployment rate within the age bracket 15-24 jumped more than twice and in 2013 it came close to 30%. Undoubtedly young people were especially affected by the crisis as they found it increasingly difficult to find employment upon completion of high school or higher education.
- In just 6.5% of cases unemployment can be defined as frictional, i.e. related to dissatisfaction with working conditions and decision to change the employer. In most cases (37.6%) unemployment was caused by layoffs and dismissals and for 23.1% of the unemployed - by completion of temporary or seasonal work (data for 2013). The unemployed seeking their first job have been in a difficult situation too. Their share has been 15.3% of all unemployed. Typically these are young people seeking realisation in the labour market upon graduation from high school or university.
- Quality characteristics of unemployed have largely deteriorated. That is a vivid proof of low competitiveness of the Bulgarian labour market. About 30% of the unemployed have primary or lower education. The unemployment rate of people with basic education is 27%, while for those with primary or lower education it is at 47.9% (data for 2013). Accordingly, the employment rate of such people is extremely low: only 19.3% for those with basic education and just 9.9% for those with primary or lower are in employment. In practice that means that their chances for finding jobs on the primary labour market are void.
- As a result of negative labour market trends the share of the registered long-term unemployed (12 to 23 months) was 21.4%, and of those with two or more years out of work - 35.9%. Thus, already a total of more than 57% of the unemployed largely lost their work habits and skills, which means that adaptation and reintegration into the labour market will require more resources and efforts. The long-term unemployment rate has risen from 2.9% in 2008 to 7.4% in 2013 and it is much higher for men (8.1%) than for women (6.6%).
- The regional differences in unemployment rates have widened. These asymmetric trends cause depopulation of entire regions, constant mass labour migrations abroad or increased internal labour mobility leading to concentration of the active population in the capital and several other major cities. This is accompanied with all negative consequences (demographic, social, infrastructure, etc.).

1.3. Industrial relations development

At the background of the crisis and austerity measures the development of industrial relations in the last years has been marked by contradictions and uneven development, namely at national level. Industrial relations face enormous domestic and external challenges. On the one side, Europe 2020 Strategy sets up rather ambitious objectives before each member state in the fields of labour, incomes and employment, but on the other – the new economic governance makes the social dimension of Europe pointless, putting under question the national systems for social protection and the progress achieved so far through social dialogue and collective bargaining.

The effect for Bulgaria was new tightening of the austerity policy, urgent initiation of painful reforms (dismissals, increase of the retirement age) and growth of social tension and dissatisfaction in the long run. The restrictive fiscal policy is confronted by the

priorities to surmount poverty and alleviate the sharp social inequalities, which means that there are deep controversies between the aims and instruments of the policy itself. There is a clear trend of asymmetry between the economic and social dimension of the policy followed by Bulgarian government, which took a direction of limitation of the role and scope of social dialogue and led to changes in the processes and content of the collective bargaining.

2. NATIONAL DEBATES ON THE NEW ECONOMIC GOVERNANCE

2.1. Public debate on the new economic governance

There was no a preliminary debate on the new economic governance and its implementation tools in the country. The government joined the Euro Plus Pact and Fiscal Compact without prior debate in the parliament and with the public. It also did not launch meaningful consultations with the social partners on the ways for the implementation of the new economic governance and on how to deal with its consequences.

The government's decision Bulgaria to join the European pact "Euro Plus" which is imposing a set of steps to coordinate economic and financial policy in the euro zone member-states and in the countries applying for accession to it met resistance from both the left and right wing opposition parties in the Parliament and distrust by the experts.

The discussions held post factum, including MPs and representatives of the social partners showed some differences in the positions. According to some representatives of right-wing parties in the Parliament, the Pact means that the poorest countries in the EU have to pay the bill of the large EU countries and it is bearing also a risk to the country financial sovereignty. In their views, the EU can not decide what pension system to have, what taxes to pay, what are our income and how to increase it. This is a wrong model, and the country has to protect the national interest.

Some of the employers' organisations supported the Pact in principle, but expressed concerns about the ambiguity of the financial commitments involved with the country participation in the Pact. The financial burden expected would be unbearable for such a poor country as Bulgaria is. Joining the "Euro Plus" pact would take away the only competitive advantage that Bulgarian economy has, i.e. the lower taxation. According to the unions, the Pact could strike on the rights of hired labour. According to representatives of the CL Podkrepa, if we agree with the Pact, we risk to experience destabilisation and remain in the EU porch as the poorest country.

The Coordinating Council of the Confederation of Independent Trade Unions in Bulgaria (CITUB) issued a special Statement. According to the Confederation the Pact "Euro Plus" is entering into areas of exclusive national competence and responsibility, such as labour, wages and social protection. While there are some positive ideas related to promotion of competitiveness, employment and financial stability, the Pact is mainly oriented towards competitiveness and convergence, and the tools to achieve this symbiosis are internally inconsistent: high labour productivity - while at the same time reducing unit labour costs; preserving the autonomy of the social partners in collective bargaining – at the background of pressure on the public sector and negotiations on

wages; free choice of policy actions for each Member State – but recommending possible package of measures.

Overall, according to the Confederation, the document addresses the constraints and idolisation of macroeconomic equilibrium and financial stability, and this inevitably leads to cuts in entitlements and wage and pensions freezing. The only instrument for trade union participation, according to the Pact, is expressed in the *calling on governments "to consult its social partners" when implementing significant economic reforms.*

The position of CITUB was explicit:

- One-man improvised decision of the Prime Minister Borisov, without the necessary preliminary national consultations, both at the political and public level, to join the Pact "Euro Plus" and the European Financial Stability Facility is premature and risky action for social stability. There was no reason, no objective necessity or obligation of Bulgaria to take up such responsibility.
- Financial commitments associated with the country's participation in the establishment of the European Financial Stability Facility, the result of inadequate government ambitions for speedy inclusion in ERM II is unnecessary and undue burden for the Bulgarian citizens, which the Confederation categorically rejects.
- CITUB will firmly oppose with all legal methods and trade union actions to the measures and policies aimed at further flexibilisation of labour legislation, reduction of wages and social benefits (pensions, benefits, allowances, and the like). The Confederation will oppose as well as to the fiscal constraints and policies that "tie the hands" of the government to take appropriate and urgent measures in the field of employment, social protection, education, health and others.

Confederation will uphold strict adherence to the policies of the Treaty of the Establishment of the European Union, including Lisbon Treaty, which set as inviolable national responsibility areas of employment, labour and social security systems.

The preliminary discussions with the social partners would be important because some of the commitments question the agreements reached between the social partners in the country, in particular the 2010 Agreement on anti-crisis measures, including pension reform. In particular:

- Commitment to freeze pensions and salaries until 2013;
- Commitment to linking wage growth to only one indicator - labour productivity;
- Commitment to a new pension reform, which obviously provides seriously raising the retirement age - earlier than the already fixed deadlines in the Agreement of the government and social partners (2010);
- Commitment to coordination of the tax policies, which can eliminate the only competitive advantage in Bulgaria: the record low corporate tax rates and the flat tax on personal income (10%), etc.

2.2. Debates on the Treaty on Stability, Coordination and Governance in Economic and Monetary Union, the so-called Fiscal compact

The debate on Fiscal compact was also conducted post factum, after the government, in the person of the Prime Minister, in principle already consented to join the Compact.

Parliament consented to the participation of Bulgaria in the negotiations and signing of the Fiscal compact, but under certain conditions related to economic policy. According to the Parliamentary position, our country should be incorporated into the part of the Pact, which is related to fiscal discipline, but should postpone joining the part which will oblige the country to consolidate its economic policy with other EU countries. The parliamentarian group of socialists abstained in the voting. According to them, the Fiscal compact does not solve any vital question of the crisis. According to the leader of the Socialists, "*We can not support this draft decision. Bulgaria does not need to hurry with the ratification of this treaty. This policy is a long term one and does not exclude the possibility to put it on a referendum.*"

- The Government of Bulgaria has signed the Fiscal Compact, but with a clear message that it will accept the terms of tax harmonization and financial commitments to the pact only after its entry into the Euro zone.
- Parliamentary support for the European fiscal pact was expressed by the approval of two key indicators - 2% budget deficit and the ratio of government revenue to GDP of 35% (after discussions increased to 40%).
- The third element of this fiscal policy of the government is freezing all parameters of the current tax system, provided that the change in the future will be possible only with a qualified majority vote in the Parliament.

2.3. The civil society and social partners' participation in the European debate

The civil society participation should be carried out by the ***Council for Public Consultations***, which was established in March 2010 as an auxiliary advisory body of the Parliamentary Commission on European Affairs and Monitoring of the European Funds. The objectives of the Council are to advise the Commission in carrying out its functions relating to parliamentary supervision and control on issues related to the European Union and EU funds. With more than 60 organizations members of the Commission, including employers, trade unions, NGOs, academic institutions and others, it is clear that the achievement of common and consensual positions is difficult. However, the new economic governance was not high on the agenda of the discussions in the Council.

The lack of thorough parliamentary debate was compensated by discussions organised by the European Commission Representation in Bulgaria in cooperation with the Economic and Social Council of the Republic of Bulgaria. Discussions were organised also by some NGOs and academia.

In recent years, the Economic and Social Council (ESC), comprising at parity basis representatives of social partners and NGOs sector, issued a number of resolutions on issues related to the new economic governance. In early 2013, the ESC adopted a resolution on the Communication from the European Commission 'Annual Growth Survey 2013'. ESC warns that excessive emphasis on the fiscal consolidation and

austerity policies can hinder the implementation of the objectives of growth and employment as well as education, science, research and the reduction of poverty and social exclusion. As far as the EU recommendation on the pension reform is considered, the ESC believes that the gradual abolition of early retirement and alignment of statutory retirement age for men and women must be initially an issue of broad social and civil dialogue in the context of a longer-term vision on the development of the pension reform in Bulgaria.

Summarising,

- The country lacked a parliamentary debate and wider discussion on key issues related to the new economic governance and the European agenda in general.
- There was a lack of transparency in relation to the participation of the country in the EU processes. Decisions are taken quickly, sometimes by the prime minister alone without previous information and consultation with the Parliament and social partners.
- Bulgarian Parliament and the Bulgarian public are not informed in detail about the commitments on behalf of Bulgaria and their consequences for the country. Government positions were not discussed broadly enough nor gained publicity. Even for members of national parliaments access to them was difficult.
- One of the challenges the future implementation of the new economic governance requirements in Bulgaria will face is to conduct more regular and meaningful public discussion, and particularly with the social partners.

2.4. Form of supranational intervention, the country specific recommendations on social field

In the framework of the European semester 2013 the Commission made a comprehensive analysis of the economic policy of Bulgaria. The Commission assessed its Convergence Programme and National Reform Programme and presented an in-debt review. According to the Commission, despite the progress made by the government in the implementation of its budget program, the most pressing challenges the country faces remain largely unchanged from 2012 onwards: the labour market, education, health, business environment, public procurement and energy and resource efficiency.

There are seven Country Specific Recommendations (CSRs) in the period 2013-2014, three of which are on the social field:

- ***CSR 2 on pension reform:*** *Phase out early retirement options, introduce the same statutory retirement age for men and women and implement active labour market policies that enable older workers to stay longer in the labour market. Tighten the eligibility criteria and controls for invalidity pensions.*
- ***CSR 3 on labour market:*** *Accelerate the national Youth Employment Initiative, Reform the Employment Agency. Enhance active labour-market policies. Undertake a review of the minimum thresholds for social security contributions to ensure that the system does not price the low-skilled out of the labour market. Ensure concrete delivery of the National Strategies on Poverty and Roma integration.*
- ***CSR 4 on education and healthcare***: *Education reform through better aligning outcomes to labour market needs and strengthening cooperation between education,*

research and business. Improve access to inclusive education for disadvantaged children, in particular Roma. Ensure effective access to healthcare.

The remaining four recommendations concern the preservation of sound budgetary position, tax collection and combating the informal economy; improving the business environment and reducing administrative regulations; accelerating the use of EU funds and strengthening the role of independent regulatory bodies and administrative capacity, particularly in transport and energy sectors.

3. ENACTED MEASURES AFFECTING NATIONAL COLLECTIVE BARGAINING SYSTEM

3.1. Typology of measures

A brief summary of the main enacted measures related to collective bargaining can be found in box 2.1.

Box 2.1. Enacted measures affecting collective bargaining in Bulgaria

Objective	Measures
Promote *decentralization of collective bargaining*	- Facilitating derogation of firm-level agreements from sectoral agreements - Since 2011 there are no cases of extension of collective agreements - Refusal of employers organizations in some sector/branches to conclude collective agreements
Other measures related to *wage-setting*	- Recommendation for referring to productivity as the only reference - Freezing the minimum wage - Freezing of public sector wages - Government refusal to increase the minimum social security thresholds for the sectors in which the social partners failed to reach an agreement (it was usual practice in the previous years)
Other measures related to *industrial relations developments*	- Diminishing of the role of tripartite social dialogue institutions – National Council of Tripartite Cooperation – the government has taken unilateral decisions and just informed the social partners - Breaching the national agreements (on pension reform) and taking unilateral decisions - More stringent criteria for social partners organisation representativeness

3.2. Impact on the social dialogue at national, sectoral and branch level is developing unevenly and contradictory.

On several occasions during the period under review, trade unions or employers withdraw the National Council for Tripartite Cooperation (NCTC), because:

- The government took unilateral decisions on a range of issues, incl. freeze on public sector wages, breach of obligations under the *Economic and Social Development Pact 2006-2009* (in 2008 and 2009);
- A breach of Agreement on pension reform (in 2011);
- The introduction of requirements to disclose information about the incomes and property of social partners leaders (employers organisations, in 2013);
- Due to ineffective social dialogue (CL Podkrepa, in 2013).

The social partner opinions were undermined and not considered in many cases. The government has taken unilateral decisions and just informed the social partners. The decisions related to the new economic governance have not been consulted with the social partners as well.

The lack of effective and fruitful tripartite social dialogue and the imposition of unilateral decisions by the government led to ***increased autonomous dialogue of employers and trade unions at national level***.

In 2010, the social partners signed two autonomous national agreements on telework and home working and agreed relevant legislative changes providing the labour and social security rights of home workers and distant workers (teleworkers).

In late 2012 and early 2013, the social partners held negotiations and signed agreement on proposals for social security system reform, improvement of the social dialogue and development of industrial relations.

However, at the end of 2013 and beginning of 2014, one of the employers' organisations −the Bulgarian Industrial Association (BIA)− unexpectedly attacked the labour legislation and collective bargaining with a package of 28 proposals under the motto of "reducing the administrative burden on businesses," which actually represents an unprecedented attack on labour and social rights of workers and undermines the future social dialogue and trust between social partners.

3.3. Trend of decentralisation of collective bargaining

The trend of decentralisation of the collective bargaining is observed since the beginning of 2000 but it is further accelerated due to austerity.

- In some branches it is grounded on the objective situation – lack of employers organisations or not enough powerful trade unions
- The refusal of sector/branch employer organisations to enter into negotiations using as an excuse the financial constrains
- Changes in outcomes of collective bargaining – provisions related to employment, training, social benefits instead of wage increases

Enacted measures related to collective bargaining systems

- Tightening criteria for social partners' representativeness - Pressure on the social partners (expressed in an attempt, though disguised, to limit their influence through the introduction of more stringent criteria for social partners' representativeness.

(Consequently, two employers' organizations have been excluded from the national social dialogue, and others were also endangered)
- Freeze of the minimal wage (2009-2011)
- Freeze of salaries in the public sector
- Mass lay-offs and new pay system in the public administration without meaningful discussion with trade unions (public servant do not have the right to collective bargaining and strike)
- Cuts in public expenditures and freeze the funds for social assistance
- For the first time were used opt-out clauses related to wages (payment of minimal wage, the rest amount is due) – construction, machine building, retail trade, branches of the light industry, etc.

4. SOCIAL IMPACTS ON WAGES, INEQUALITY AND INDUSTRIAL RELATIONS

4.1. Collective bargaining on wages

The analysis of the content and consensus reached in the collective agreements at various levels in times of crisis gives the opportunity to draw several general conclusions:

- The chances to negotiate new, higher levels of wages are narrowing down and the compromises in the sectoral and company negotiations are on the increase;
- The social partners, albeit with some difficulty, succeeded in keeping the basic arrangements and limits from the earlier negotiation cycle;
- There are trends towards deregulation and decentralisation of collective bargaining (denial of automatic tiers for wage indexation, implementation of open clauses, growing importance of collective agreements at company level);
- In many cases the "trade-off" effect comes into play: negotiation of measures in the field of employment, education and training, holidays and working time, new benefits and more, at the cost of withholding wage levels (where a breakthrough is very difficult to make).

These general findings concerning the process of collective bargaining on wages have been heavily influenced by the European policies of decentralisation of negotiations, non-use of automatic income indexation schemes and linking wage increases to labour productivity growth only.

An additional negative impact was exerted by *two EC recommendations* under the European Semester, which in turn resulted in the findings of the in-depth reviews under Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances:

- EC recommends *preventing further rapid growth in labour costs per unit of output, measured by the Nominal Unit Labour Cost Index (NULCI).* "High labour costs growth above the agreed levels" was initiated in 2007 (19%) and reached its peak in 2009 (38.5%). Since then the trend went down. As a matter of fact since 2012 Bulgaria stayed below the admissible limit (12% for non-Euro area countries): 9% in 2012 and 6.8% in 2013.

- According to EC in times of crisis the *minimum social security thresholds (MSST)* for part of the economic activities have risen unreasonably**.** The assumption is that the bipartite negotiation system created to combat undeclared employment may be a practical burden for workers in some regions and for low-skilled segments of the labour market and may dramatically cut their chances of employment.

These recommendations were introduced *first,* in the government policy of "income freezes", *second,* in the refusal to carry out government determination of minimum social security thresholds MSST when the outcome of bipartite negotiations is void, and *third,* in refraining to continue the practice of extension of sectoral collective agreements to all enterprises in industry.

4.2. Wage developments

Overall these measures slowed down the process of nominal and real wage growth. The data in Annex 9.2 show average wage increase (AW) throughout the period. However that was largely due to the dynamic changes in the structure of employment and the method of calculating the average wage. Companies first released unskilled workers, which are low wage workers. Thus those remaining in employment formed higher AW levels without receiving individual wage increases. That is an artificial statistical effect observed at all levels of estimate - from enterprise, branch, and sectoral to national level.

The nominal growth of 26.5% of the average wage in 2008 gradually decreased over the next three years, while an upward trend took shape in the last two years: 6.6% and 10.4% increase at annual base respectively. In real terms the average wage increases over the years were mainly due to lower levels of average annual inflation: a fact that was largely determined by the recession and the decline in consumption.

It is worth mentioning, that certain industries and sectors however were not affected by the recession or by that artificial effect. They really enjoyed actual growth in wages, even when the number of employees increased. Examples in this respect are: the IT sector, the pharmaceutical industry, the paper industry, wood processing, and some branches of engineering.

Typical for Bulgaria is the high wage differentiation along the line of occupational class and branch/sector. According to Eurostat data 27% of workers in the country are *low paid,* with wages below 67% of the median. That indicator sets Bulgaria among the three countries with the highest proportion of low-paid workers. During the period under review the differentiation between the lowest and highest average wage across the individual sectors and industries has increased. That indicates a high degree of labour income polarisation, implying deepening social inequalities. The ratio between the lowest AW (at BGN 398 in "Buildings and Gardening Servicing") and the highest AW (at BGN 2561 in "Manufacture of coke and refined petroleum products") was 1: 6.4 in the third quarter of 2013. In comparison with earlier periods such cross-sector correlations between AW minimum/maximum amounts remained within the ratio 1:5, 1:6.

As far as the AW level (EUR 413 in 2013) is concerned, Bulgaria continues to rank last among the EU-member states. That position is complemented by its AW in purchasing

power parity (PPP) compared to most EU countries: for example, it represents 25% of the average wage (PPP) in industry and services in Germany, 26% of that of the Netherlands, 31% - of Finland, 41% - of Malta and 50% - of Portugal (Eurostat 2011). The low level of labour incomes in Bulgaria can also be seen in the share of compensation of employees within the GDP: for a long period of time that proportion was in the range of 35-38% and it was only in 2013 that it exceeded 40% (see Annex 9.3).

In line with the officially declared policy of "income freeze" the minimum wage remained unchanged at the level of EUR123 for over two and a half years. Then on 1st September 2011, under a strong pressure from the trade unions, it was raised in several steps to EUR 174 at the beginning of 2014. Nonetheless its ratio to AW remained at very low levels throughout the period and was 38.2% in 2013. The MW in Bulgaria is one of the lowest in the EU (only Rumania has lower MW – at EUR 157.50). The minimum wage in purchasing power parity is very low as well representing: 25% of MW (PPP) in Belgium, 26% of that in Ireland, 32% of that in Greece, 35% - in Malta and 47% - in Portugal.

4.3. Social inequalities and poverty

The crisis and the measures undertaken to freeze incomes have deepened social inequalities and ruled out the chance for nearly half of the population to get out of the trap of poverty and social exclusion.

Over a long period in the 1990s ***the Gini-coefficient*** had remained 25-30%, but over the past five years it was already in the range of 33-36% and reached the highest levels in EU, along with Romania, Spain, Greece and Portugal (see Annex 10). Unpopular measures heightened income differentiation and made the poor poorer and the rich richer.

Income polarisation between the 20% poorest and the 20% richest has sharply risen. In the period of 2002-2006 income quintile share ratio (S80/S20) was in the range of 3.6-5.1 times. Later on it permanently settled within the range of 6-7 times (see Annex 10). By that indicator Bulgaria is again in the group of countries with the highest degree of income polarisation between the rich and the poor.

Bulgaria is among the countries where the ***risk of poverty or social exclusion of the population*** is above the average for the EU (see Annex 10). According to the EU-SILC survey in 2012 the proportion of people living in poverty or social exclusion was 49.3% - the highest level for the country in the period of 2008-2012 and the highest in EU. For young people aged 15-24 the proportion is 51.3, and for age group 15-29 it is 48.7%.

People living ***at risk of poverty*** **(i.e. monetary poverty)** are 1,558 million or 21.2%.

The following groups are at highest risk:

- By age: those from 0 to 17 and 65 and above - 28.2%;
- By types of households: two adults with three or more dependent children (61.0%), single woman in the household (55.8%), and a single person in a household aged over 65 (55.1%);

- By economic activity: unemployed (48.5%), people seeking work (31.3%), retired (26.2%), *"working poor"* (7.4%).

Bulgarians ***living in material deprivation*** are 44.1%, or 0.5% increase as compared to the previous year. The percentage of people living in material deprivation is 45.5% for those aged 15-24, while for those aged 15-29 it is 43%.

4.4. Main indicators on the industrial relations developments

The experts evaluation on ***collective agreements coverage*** is based on the changes in the number of signed collective agreements, the approximately numbers of the covered persons and the employees total number. In this case the indicator for a coverage rate is influenced rather by the number of the employees than the other factors which play not such significant role (the number of the concluded collective agreements and the approximately number of the covered persons remain relatively stable). Data from nationally representative empirical studies, however, show a significantly lower degree of coverage of employees by collective agreements (below 30%), which can be explained by the low level of popularity of the process of collective bargaining in the public.

Table 2.3. Collective agreements coverage rate (in %)

2008	2009	2010	2011	2012
30	32	35	38	29*

Source: Experts evaluation – ISTUR of CITUB
*Data from National representative survey "Work-climate-index" (ISTUR of CITUB)

The explanations about the changes in the collective agreements coverage are valid as well for the ***trade union density***. As a rule, when having a higher employment rate (as we have had it in 2008) the relative share of the trade union members is lower. When the number of the employees in the national economy decreased the trade union density has increased because the majority of the dismissed are not trade union members. Data from sociological studies show slightly higher union density (about 21-22%), but generally the downward trend of the trade union membership is continuing.

Table 2.4. Trade union density (number of trade union members to the number of all employees – in %)

2008	2009	2010	2011	2012	2010	2012
16.9	17.3	18.9	18.9	19.0	21.2*	21.9*

Source: Experts evaluation – ISTUR of CITUB, *Data from National representative survey "Work-climate-index" (ISTUR of CITUB)

5. SOCIAL UNREST ASSOCIATED WITH AUSTERITY MEASURES AND STRUCTURAL REFORMS

5.1. Labour conflicts

Among the main reasons for the protests and strikes in many companies in recent years are:

- Unpaid wages for months and even years (long lasting problem, but aggravated by the austerity policies)

- Mass lay-offs, in some cases liquidation of the company (Kremikovtzi)
- Restructuring or privatization (Bulgarian railways, big companies in the metallurgy, mining, military-industrial complex, health care, Bulgarian academy of sciences, Bulgartabak, Bulgarian posts)
- Claims for higher wages and budget allocations (health care, social assistance agency, police, prisons and places for detention)

5.2. Mobilisations against austerity policies

Public protests, rallies and demonstrations organized by trade unions against austerity measures imposed under the European Semester.

Two separate demonstrations were held by the two largest unions in the country - Confederation of Labour Podkrepa and CITUB in June 2009, which aimed to express the workers concern about the crisis and its impact on employment and income. Along with this, the CITUB presented its demands to the future government in view of the upcoming parliamentary elections.

In Bulgaria, as in many other European countries under the austerity policy and new economic governance the government undertook a reform of the pension system, whose proclaimed goal was to create financial sustainability of pension funds. The trade unions strongly resist attempts to make changes to such an important for every Bulgarian citizen system without dialogue with the social partners. CITUB held a national protest in October 2010 under the slogan "No to pension and health reform that cut people rights". The protestors opposed to government plans to extend the required period of insurance by three years. The protest gathered more than 15,000 union members, young people and seniors. As a result of the protest negotiations were carried out with the social partners and an Agreement providing that the increasing of the retirement age will start from 2021.

Under the pressure from the European Commission and in response to the country-specific recommendations under the European Semester, in 2011 the government violates the signed agreement on pension reform and decided to start since the beginning of 2012 increasing each year the insurance period and retirement age by one year, and to take certain measures with respect to early retirement. In response to that unprecedented undermining of the social dialogue and lack of respect of the social partners, in November 2011 CITUB and CL Podkrepa mobilized over 35,000 union members and citizens of Bulgaria to protest against government plans and the violation of Agreement. The unions demanded a broad discussion and implementation of reforms only after achieving social consensus. Though not completely, the government retreated and adopted a decision to increase the retirement age not by one year but by 4 months each year until it reaches age 65 for men and 63 years for women. In the area of pension reform the battle is forthcoming, as the country-specific recommendations insist on levelling retirement age for men and women at 65 years.

In November 2013, at the eve of the adoption of the state budget for 2014, CITUB, after discussions of the budget in the NCTC, organized a protest against restrictions in the budget and continuation of a policy of austerity in the name of fiscal stability. CITUB strongly opposed to the way of distribution of resources in terms of the macro framework. The Confederation criticized the draft budget in terms of: lack of concern

for the public companies, NEC and Railways; the cuts in the budget of a number of ministries. According to the union, measures for updating the uniform cost standards are insufficient. The main concern of the union is the lack of the necessary social measures for employed Bulgarians, particularly for the working poor. In this regard, the Confederation calls for tax-free minimum floor up to BGN 400. Other demands are: freezing the retirement age, at least 10% increase of the salaries in the public sector, legislative changes to criminalize non-payment of social security contributions by the employer, guaranteeing the rights to association, collective bargaining and to strike. Some of the demands of CITUB were taken up in the final version of the budget.

5.3. New social movements

The civil protests in the country intensified in response to the deep economic, social and moral crisis. At the same time, there is an unprecedented confrontation and division of citizens who support or oppose the government.

2011 was marked by protests against the banks and high interest rates on loans. In the autumn of 2012 protests against government policy were almost continuous, but not particularly massive, representing different classes, farmers, greens and mothers with children, disabled patients, police and military, pensioners and young people ... In many cases, they were organized by the opposition parties.

The protests launched in early 2013, were economically motivated: Bulgarians rose in revolt against the monopolies. Spontaneously initiated in many cities throughout the country the protests were against the unbearable electricity bills that exceeded by 50 to 100% that in the previous winter season. Discontent was mainly focused on the Czech company CEZ. The discontent with the monopolies was translated also in discontent with the government. Street unrest led to the resignation of the government in February 2013.

The protests that started in mid-year, almost immediately since the election of the new government, were politically motivated - against the government and the oligarchy. They were massive and daily and continued until the end of the year. The main demand was for the government's resignation and a new morality in politics and more transparent policy decisions. In October they were joined by students who occupied the largest university in Bulgaria and attempted to occupy also other universities. Protesters set demands for citizen participation and empowerment of the people.

Protests in Bulgaria, as in most countries in the world in recent years, are related to the lack of „real democracy", with the growing awareness that austerity policy pursued in recent years, does not meet their agenda. The anger of the people in the streets is an expression of frustration with politics and lack of trust in politicians from across the whole political spectrum. This clearly indicates a crisis of political representation related to the political system that is deaf to the needs and attitudes of ordinary people

The profile of the protestors also changed. These are not only traditional protestors - trade unions, farmers, pensioners, representatives of the middle class and young working people also joined the protests.

Expanding also is the framework of the protests – the daily blockage of streets and headways, blockage of buildings, happenings, etc. are also an integral part of the protest. The worst part is that in many cases, the protests have gained extreme and tragic forms - hunger strikes and self-immolations as an expression of the lack of perspective, were also part of protests in the country.

The protests were primarily against the governments for the lack of transparency and accountability of politicians, the accretion of the oligarchy and the politics, the rampant corruption and the lack of adequate economic and social policy. They were an expression of the great anger gained over the years, against the arrogance of the ruling class, against the thefts, against the demonstrative incompetence of entire institutions and the carelessness of officials and institutions who should care for the citizens of Bulgaria.

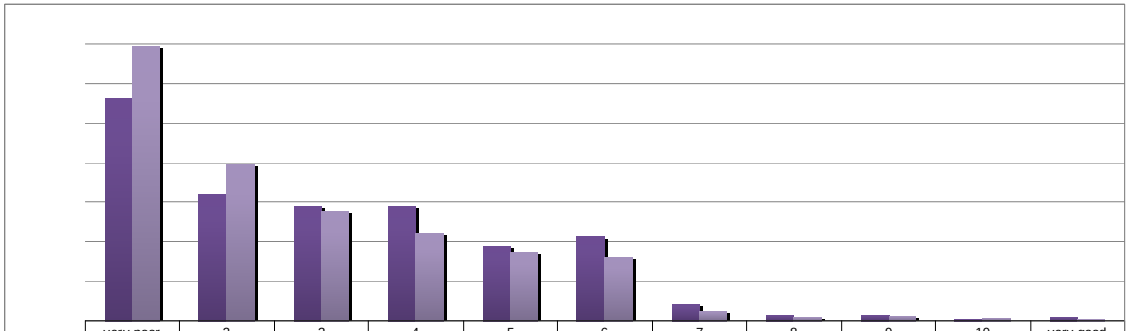
Generally speaking however, clearly articulated ideas about the future development have been missing, missing were also identified leaders and to some extend this is related to organisation of the protests through the social networks.

Typical of the protests was also the division of people – in the last year we witnessed the daily anti-government protests and counter - protests in support of the government.

5.4. Distrust and disaffection with institutions, particularly EU institutions

The findings of the nationally representative surveys 'Trade union Barometer' conducted in August 2013 and in January 2014 among employees in the country aged 15-64 show a strong deterioration of the socio-economic situation in the country. This is namely true for the political situation. These data prove the practically exhausted trust in politicians, political institutions and their party composition.

Figure 2.1. Assessment of the political situation

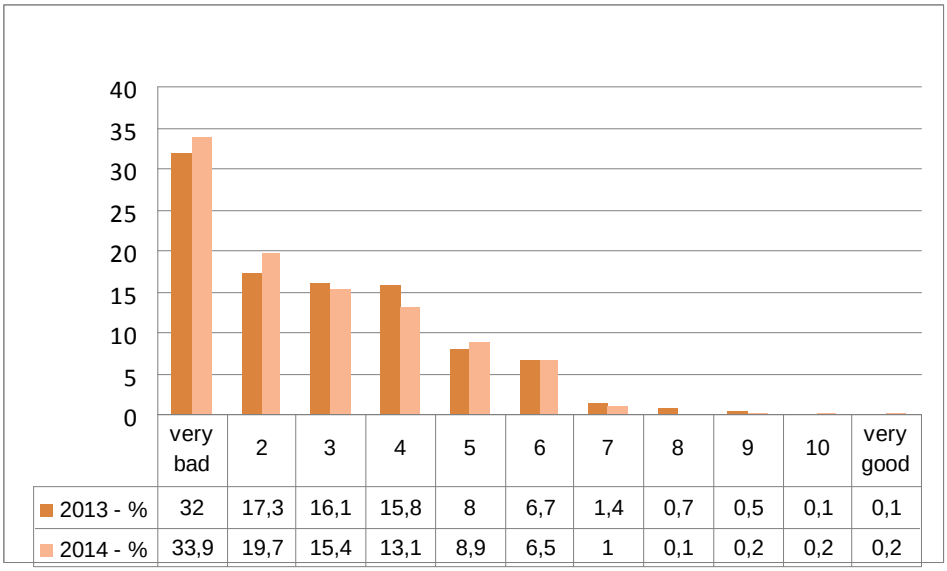


	very poor	2	3	4	5	6	7	8	9	10	very good
2013 - %	28,1	16	14,5	14,4	9,5	10,6	2,2	0,7	0,7	0,2	0,5
2014 - %	34,7	19,7	13,8	11,1	8,6	8	1,2	0,4	0,6	0,3	0,2

Source: Trade Union Barometer, 2013 and 2014

The public negativism towards the economic situation in the country is also strongly expressed. It is obvious that despite the emergence of some positive indications of slow "off the bottom" of the crisis (statistical indicators for smooth economic growth, increased industrial production, employment and economic activity) the population did not experience even minimal improvement in the standard of living and in the labour market situation. Uncertainty still remains.

Figure 2.2. Assessment of the economic situation

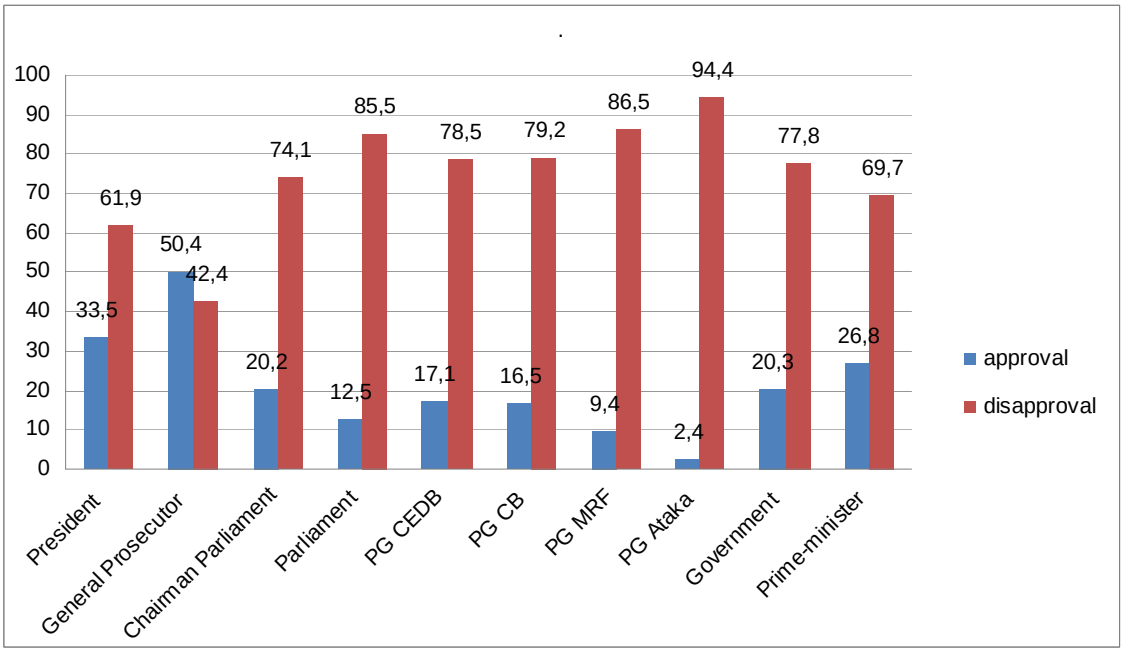


	very bad	2	3	4	5	6	7	8	9	10	very good
2013 - %	32	17,3	16,1	15,8	8	6,7	1,4	0,7	0,5	0,1	0,1
2014 - %	33,9	19,7	15,4	13,1	8,9	6,5	1	0,1	0,2	0,2	0,2

Source: Trade Union Barometer, 2013 and 2014

The expressed negativism in terms of socio-economic situation naturally leads to very low assessments of the political leaders and institutions, meaning that cosmetic changes in the political ruling are impossible and the change of the status quo requires new actors.

Figure 2.3. Assessment of the work done by



Source: Trade Union Barometer, 2013 and 2014
PG - Parliamentarian Group

Highest is the approval of the activities of the Prosecutor General of the Republic (50.4%) and the President (33.5%), but the latter has very limited powers in the political system. Parliament receives the worst "conviction" of the respondents (85.5% disapproval of its work). The same is true for the particular parliamentary groups and

the Chair of the Parliament (over 74% disapproval). This is a clear signal that the situation is intolerable and there is an urgent need for changes.

Government assumes all negatives of the parliamentary crisis. The Prime Minister personally receives the approval of 26.8% of the respondents, but the government as a whole receives the approval of just 20.3%.

The Bulgarians still have greater confidence in the European institutions than in Bulgarian. Free movement and greater opportunities for work in the EU are considered as the biggest benefits of the EU membership. Beyond this general consensus, however, there is an accumulated disappointment. While 55% of the respondents express a positive attitude towards accession to the EU, only 34% think that EU membership has brought more benefits to the country and 15% are those who feel that they have personal gains (data of sociological agency Alpha Research from March 2014).

Although Euroscepticism in Bulgaria is growing, it is not as strong compared to some other EU member-states. With 35% voting activity in the 2014 European elections Bulgarian voters did not allow the Eurosceptics and other radical formations denying European integration to enter the European Parliament.

6. SOME CONCLUDING REMARKS

- **The new economic governance and the European semester** are put up as the main instrument for conducting 'coordinated policies', which are in fact a pure economic dictation. Bulgarian economy is far from being a threat to the EU financial and monetary stability, but it is constantly subjected to recommendations, as a result of a statistically imperfect early warning system for macroeconomic imbalances.
- CITUB considers the **budget restrictions** which the Bulgarian government adopted as absolutely unsuitable; they are far below the Maastricht criteria or the usual European practice.
- **The conclusion of the Fiscal Compact** was an attempt to exclude EU citizens and the European Parliament from serious economic governance participation and discussions in the framework of the European semester. This should not only be prevented, but the present economic governance should be bound to a wider system of really applicable minimum social standards and structural indicators, as a counterpoint to the monitored fiscal parameters.
- **Europe needs an updated employment strategy** and CITUB fully supports the ETUC in its attempts to adopt an ambitious European investment plan for quality employment, which could generate up to 11 million new jobs. The plan leans on a new European industrial policy based on innovations, research, education, training and sustainable development.
- On a national scale, **policies and measures generating economic growth through increase of employment, incomes and social inclusion** should be elaborated and implemented. National financing should prioritize the target groups of young people up to 29 years, unemployed above 50 and regional programs in areas with high unemployment.
- **The high income and wage differentiation** in Bulgaria combined with low absolute levels of labour costs leads to the high relative share of low-paid workers, widespread monetary poverty and increasing risk of poverty and social exclusion.

The most important levers for overcoming these negative phenomena are to be found in the sphere of distribution and redistribution and this is our main priority.

- For CITUB **recognition and promotion of collective labour bargaining and social partners' autonomy** is the most important criterion for the incomes policy of any government and political power.

In response to the above challenges and with view to extend the tools to influence the European and national policy both trade union confederations - the Confederation of Independent Trade Unions in Bulgaria and the Confederation of Labour "Podkrepa" jointly with the Anti-Poverty Information Centre - Bulgaria (member of EAPN - Brussels) and other NGOs dealing with specific problems of the pensioners, youth, gender and environmental policies established a *National Pilot Alliance for a democratic, social and sustainable European Semester*.

The main objective of the Alliance is to achieve a greater coverage and effectiveness of public debate through:

- Elaboration of critical analyses of main documents of the European Semester, such as the Annual Growth Survey, Country-specific recommendations, the National Reform Programmes and others.
- Distribution of opinions and messages to key actors and stakeholders using different channels at different stages of the European semester cycle.
- Inclusion of the mainstream media (traditional and social networks) to extend the debate among the general public, organizing thematic discussions and elaboration of alternative solutions.
- Expanding opportunities and tools for influencing the decision-making and the development of national policies and documents.

7. ANNEXES

Annex 1: Gross domestic product (GDP)

	2008	2009	2010	2011	2012	2013*
Real GDP growth rate (percentage change on previous year)	6.2	-5.5	0.4	1.8	0.6	0.9
GDP per capita in PPS (Index EU28=100)	44	44	44	47	47	-

Source: EUROSTAT and National Statistical Institute

** Preliminary data*

Annex 2: Foreign direct investments

	2008	2009	2010	2011	2012	2013*
In Ml. EUR	6 728	2 437	1 151	1 330	1 480	1 229
In % of the GDP	19.0	7.0	3.2	3.5	3.7	3.1

Source: Bulgarian National Bank

** Preliminary data*

Annex 3: Government deficit and debt (% of GDP)

	2008	2009	2010	2011	2012	2013*
General government deficit/surplus	1.7	-4.3	-3.1	-2.0	-0.8	-1.8
General government gross debt	13.7	14.6	16.2	16.3	18.5	17.9

Source: EUROSTAT and National Statistical Institute

* Preliminary data

Annex 4: Economic Activity. Activity rate (in %)

Calculated on the basis:	2008	2009	2010	2011	2012	2013*
Population aged 15 years and over	53.8	53.0	52.0	52.5	53.1	53.9
Population aged 15-64	67.8	67.2	66.5	65.9	67.1	68.4

Source: National Statistical Institute. Labour force survey.

* Preliminary data

Annex 5: Employed (in thousands) by economic activity groupings (2008-2013)

Economic activity groupings	2008	2009	2010	2011	2012	2013*
Total	**3360,7**	**3253,6**	**3052,8**	**2965,2**	**2934,0**	**2934,9**
Agriculture, forestry and fishing	251,2	230,7	208,1	201,0	189,0	195,5
Mining and quarrying	35,0	34,0	33,0	26,3	26,0	26,0
Manufacturing	769,7	713,9	637,4	593,0	603,5	576,4
Electricity, gas, steam and air conditioning supply	42,1	41,2	42,7	42,9	44,2	39,9
Water supply, sewerage, waste management and remediation activities	37,0	34,9	33,6	41,7	39,2	36,7
Construction	340,3	322,5	268,5	228,7	206,0	206,9
Wholesale and retail trade; repair of motor vehicles and motorcycles	530,0	527,9	531,1	544,4	526,9	525,5
Transportation and storage	189,5	187,6	177,3	173,7	176,3	180,8
Accommodation and food service activities	168,8	168,7	159,7	159,2	152,7	146,1
Information and communication	71,2	70,8	70,3	67,5	68,9	75,3
Financial and insurance activities	57,0	61,5	52,7	55,0	52,7	51,6
Real estate activities	14,1	13,1	10,1	9,3	7,8	9,7
Professional, scientific and technical activities	83,9	87,7	84,8	81,5	78,8	84,9
Administrative and support service activities	73,9	72,4	76,0	83,0	106,2	118,8
Public administration and defence; compulsory social security	235,3	235,1	226,2	224,1	230,4	228,6
Education	205,6	191,2	184,4	187,5	188,2	184,8
Human health and social work activities	158,1	164,1	159,4	153,2	145,0	153,4
Arts, entertainment and recreation	43,8	40,8	39,0	38,9	39,3	40,4
Other service activities	54,1	55,4	58,4	54,3	53,0	53,6

Source: National Statistical Institute. Labour force survey.
* Preliminary data

Annex 6: Employment rate (in %)

Calculated on the basis:	2008	2009	2010	2011	2012	2013*
Population aged 15 years and over						
total	**50.8**	**49.4**	**46.7**	**45.6**	**46.6**	**46.7**
men	56.5	54.9	51.3	49.6	50.8	51.4
women	45.5	44.4	42.4	41.9	42.6	42.8
Population aged 15-64						
total	**64.0**	**62.6**	**59.7**	**58.5**	**58.8**	**59.5**
men	68.5	66.9	63.0	60.9	61.3	62.0
women	59.5	58.3	56.4	56.2	56.3	56.8
Population aged 20-64						
total	**70.7**	**68.8**	**65.4**	**63.9**	**63.0**	**63.6**
men	76.1	73.8	69.1	66.6	65.8	66.4
women	65.4	64.0	61.7	61.2	60.2	60.7

Source: National Statistical Institute. Labour force survey.
* Preliminary data

Annex 7: Unemployment rate (in %)

Calculated on the basis:	2008	2009	2010	2011	2012	2013*
Population aged 15 years and over	5.6	6.8	10.2	11.2	12.3	12.9
Population aged 15-64	5.7	6.9	10.3	11.3	12.4	13.0
Population aged 15-24	12.7	16.2	23.2	25.0	28.1	28.4
Long-term unemployment	2.9	3.0	4.8	6.3	6.8	7.4

Source: National Statistical Institute. Labour force survey.
* Preliminary data

Annex 8: Normal work / atypical work. Relative share of the employees (in %)

	2008	2009	2010	2011	2012	2013*
By the length of working time:						
Full time	98.5	98.4	98.3	98.2	98.0	97.8
Part time	1.5	1.6	1.7	1.8	2.0	2.2
By contract type with the employer:						
Labour contract	96.2	96.4	96.8	97.5	97.5	97.0
Civil contract (for a determined work)	1.4	1.5	1.2	0.9	1.0	1.2
Without any contract	2.4	2.1	2.0	1.6	1.5	1.8
By type of employment:						
Permanent job	95.0	95.3	95.5	95.9	95.5	94.4
Temporary/agency work	5.0	4.7	4.5	4.1	4.5	5.6

Source: National Statistical Institute. Labour force survey.
* Preliminary data

Annex 9: Wage developments

Annex 9.1: Average monthly wage – total and by economic sectors (in EUR)

	2008	2009	2010	2011	2012	2013*
Total	**278**	**311**	**331**	**351**	**374**	**413**
Public sector	333	344	383	389	405	430
Private sector	260	279	312	338	363	408

Source: National Statistical Institute
* Preliminary data

Annex 9.2: Average annual wage (BGN), average annual inflation (%), nominal and real wage growth (percentage change on previous year)

	2008	2009	2010	2011	2012	2013*
Average annual wage (BGN)	6538	7309	7777	8230	8773	9690
Average annual inflation (%)	12.3	2.8	2.4	4.2	3.0	0.9
Nominal wage growth (%)	26.5	11.8	6.4	5.8	6.6	10.4
Real wage growth (%)	12.7	8.7	3.9	1.6	3.5	9.5

Source: National Statistical Institute
* Preliminary data

Annex 9.3: Compensation of employees

	2008	2009	2010	2011	2012	2013*
At current prices (in % of the GDP)	35.2	37.8	38.5	37.9	38.6	40.7

Source: EUROSTAT
* Preliminary data

Annex 9.4: Statutory monthly minimum wage in the country (in EUR)

From 1.1.2008	From 1.1.2009	Without change 2010	From 1.9.2011	From 1.5.2012	From 1.1.2013	From 1.1.2014
112	123	123	138	148	158	174

Source: National Social Security Institute

Annex 10: Inequality and poverty

	2008	2009	2010	2011	2012
Income quintile share ratio (S80/S20)	6.5	5.9	5.9	6.5	6.1
Gini coefficient	35.9	33.4	33.2	35.0	33.6
At-risk-of-poverty or social exclusion rate (%)	44.8	46.2	49.2	49.1	49.3
At-risk-of-poverty rate (%)	21.4	21.8	20.7	22.2	21.2
In-work at-risk-of-poverty rate (%)	7.5	7.4	7.7	8.2	7.4

Source: EUROSTAT, SILC

Annex 11: ***Changes in the legislation and social partners' agreements related to the new governance and the anti-crisis labour market measures 2010-2013***

Legislation/ Agreement	Content of the changes
2010	
- National agreement of the social partners on Regulating home work in the Republic of Bulgaria; - National agreement of the social partners on organising and applying distant work (telework).	- The first is related to the ratification of the Home Work Convention of ILO of 1996 which was enforced in Bulgaria on 17 July 2010. - The second agreement relates to the Framework Agreement on Telework adopted on 16 July 2002 by the ETUC and the European employers' organisations.
- **Labour Code**	Amendments to the Labour code introducing institutionalisation of social dialogue at district level through establishment of District Councils for Tripartite Cooperation
National agreement on a new pension strategy and provision of financial sustainability of the pension system, signed by the government and social partners	The expert consultative council on changes of the pension system (with the active participation of social partners' experts) elaborated a National agreement on a new strategy and improvements of pension law, where the main benchmarks are: Criminalizing non payment of social security contributions as of the beginning of 2011; Increasing the pension contributions by 1.8 percent as of the beginning of 2011; As of 2012, annual increase by 4 months of the required insurable period until it reaches 37 years for female and 40 years for male workers; Until the end of 2014 there should not be changes in the conditions for retirement of the special categories of labour entitled to early retirement – miners, pilots, military, police employees, etc.; As of 2021, the retirement age should be increased by 6 months every year until it reaches 63 years for women and 65 years for men.
Labour code **Social Security Code**	Some important changes were undertaken in the area of payment for the sick leave (the burden of paying for the first three days of sickness was transmitted to the employer), planning annual leave and the usage of previously accrued unused leave from past years.
Law for Employment Promotion	In the area of the passive Labor market policies the ceiling on the unemployment benefit was abolished and it is now 60% of the insurable income. Previously, the maximum unemployment benefit was set at BGN 240, which was not fair to the majority of the people who paid contributions on higher wages
2011	
Social Security Code	In violation of the National Agreement signed in 2010 for a new pension strategy, the government and the parliamentary group of the ruling party GERB initiated urgent measures for speeding up of the pension reform (in line with the EC Country specific recommendations). The measures include: an increase of the retirement age for all categories of work by one year as early as from 2012 and an annual increase of the retirement age by 4 months as of 2015, so that it reaches 65 years for men and 65 years for women by 2021. This decision provoked mass discontent and protests in the country. Trade Unions organised a national protest demonstration in front of the Parliament.
Labour Code	- Amendments to the Labour code (new chapters) following the social

	partners agreements in 2010 for regulating employment relations and working conditions of home workers and teleworkers - Amendments to the Labour code (new chapter) for regulating employment relations and working conditions of temporary agency workers in line with the ILO Convention 181 and EU Directive 2008/104/EO for temporary agency work. - New more stringent criteria for social partners' organisatioons representativeness adopted through amendments to the Labour code
2012	
Commercial Law	The deteriorated situation as well as the necessity for effective implementation of the European Directive on combating wage arrears motivated the changes in the Commercial Law. The new regulation envisages a maximum term of two months, within which period the state should pay off its debts to the business, and a 30 days term for settling accounts among the firms/companies. CITUB insisted on the urgent approval of a legislative text in the Code of Civil Procedure concerning the issuance of a bailiff order for unpaid remuneration or workers employees' compensations.
Ordinance of the Council of Ministers for connecting of all cash devices to the National Revenue Agency	This legislative measure aims at better collection of revenues. The mandatory connection of the cash devices of all commercial sites and petrol stations to the database of the National Revenue Agency (NRA) alone brought additional BGN 250 million into the budget. It is considered also as an effective measure to combat informal economy (in line with the Country specific recommendations)
National Agreement "First Job" concluded in June 2012 between the government and the social partners	Aiming to promote youth employment and facilitate youth transitions from education to work. It is in line with the Youth Guarantee
2013	
Public Finance Act (PFA) effective since early 2014.	The provisions of the Fiscal Compact, adopted by 25 EU countries this spring, are becoming part of Bulgaria's national legislation via the Public Finances Act (PFA). Apart from the Fiscal Compact, with this act the country meets the recommendations of the Council of EU finance ministers to improve the management of public finances, implements the directive on budgetary frameworks of Member States (part of the legislative package on the enhanced EU economic governance) and makes the national budgetary procedure consistent with terms and procedures provided in the mechanism for enhanced prior coordination of economic policies (European Semester). With the Public Finances Act national fiscal planning is becoming consistent with preventive and corrective arm of the Stability and Growth Pact.
Ordinance of the Council of Ministers for increasing the MW **LAW on state budget 2014**	In the LAW on state budget 2014 an increase of the MW is envisaged (BGN 340) as of 1 January 2014. Upon the CITUB proposal, a tax refund of the paid annual tax by workers receiving the MW will begin as of 2015.
Labour code **Law for employment promotion**	Regulations for the so-called "trainee contract". This is a kind of specialized employment contract with remuneration not less than the minimum wage (340 BGN as of the beginning of 2014). (in line with the Youth guarantee)

Chapter 3

The New EU Governance and Industrial Relations in Italy

Salvo Leonardi[96]

INTRODUCTION

In the last five years the Italian system of industrial relations is living through a prolonged phase of transition which does not seem to have reached the end. The numerous events which have hit it in recent times are rapidly and profoundly changing the traits that for a long time had marked this peculiar national model.

As we'll see, reasons and causes of such turmoil are exogenous and endogenous; economic and institutional at the same time. Among the exogenous factors we can certainly consider the globalization, the financial crisis and economic downturn, the role of the international and European institutions, with their unprecedented interventionism into the sphere of national domestic policy (Muller and Schulten, 2013). A scenario in this case partially shared with other countries (especially those in deficit), which exerts today pressures towards a convergence of historically divergent models of industrial relations (Katz and Derbyshire, 2000) towards neoliberal policies (Baccaro and Howell, 2011). Among to the endogenous factors, we can include the structural and long standing structural weakness of the Italian economy, with its territorial and social dualisms, the macroeconomic imbalances, the stagnating productivity and declining competitiveness, inadequate human capital, a segmented labour market and, last but not least, a highly voluntaristic model of industrial relations. All factors which the crisis of these years has exacerbated.

Collective bargaining has repeatedly been the subject of reforms, undermined either from the top, by European interventionism, with the Fiscal Compact and its National implementation between 2011 and 2013, and from the bottom, as in the case of Fiat to be described in this chapter, offering employers a regressive exit strategy from a model that we could otherwise define as 'organized decentralization' (Traxler, 2001). The most recent Italian governments have been active in implementing the austerity measures required by notably the ECB, adopting cuts on public expenditure, increasing taxes, and using labour costs in a mere logic of competitive devaluation.

Considerable tensions have characterized the relationship between the various trade union pillars, as testified by the several agreements signed excluding the General Italian Confederation of Labour (CGIL), the largest union confederation. This critical situation improved only in the last few years, when – first in June 2011 and again in May 2013 and in January 2014 – three new framework agreements were signed by the largest employers' association (*Confindustria*) and all representative union actors, CGIL included, in order to define who and how can be considered sufficiently representative to sit at the collective bargaining tables and sign agreements binding for affiliated employers and employees.

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1. NATIONAL MACROECONOMIC/EMPLOYMENT BACKGROUND

1.1.Economic developments

Italy is floundering in an acute economic and social crisis, characterized by continuous stagnation and recession, induced by a fall of industrial investments and production, domestic demand and savings. GDP contracted for six years, by 8,7 per cent, from 2008 to 2013. The depth of the recession is unprecedented in Italy, with 9 continuous negative trimesters still in the last two years, registering negative rates in its main economic variables (see Table 1). In May 2014, even the timid signs of trust for growth expectations, were surprisingly frozen by the GDP trend of the last trimester – minus 0,1% (ISTAT bulletin) – worsening the forecast for the end of the year. The inflation rate in the last is just near to zero (+ 0,4), with the concrete risk to enter in deflation.

Table 3.1. Percentage yearly growth of macro-economic indicators, Italy, 2007-2014

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014** (*)
GDP	1.7	-1.2	-5.5	1.7	0.4	-2.4	-1.9	0.6
Gross annual wages	2.2	3.4	1.8	2.8	1.3	1.0	1.4	1.3
Productivity (value added per hour worked)	0.4	-0.7	-2.3	2.4	-0.2	0.6	1.5	1.5
Investments (Gross fixed capital formation)	6.4	1.8	-3.7	-11.7	0.6	-1.8	-4.7	1.9
Inflation (HICP)	2.6	2.0	3.5	0.8	1.6	2.9	1.5	0.7
Consumption deflator	3.2	2.3	3.1	-0.1	1.5	2.9	1.3	0.7
Unemployment rate	6.0	6.7	7.8	8.4	8.4	10.7	12.2	12.7

Source: ISTAT, "Italy's Economic Outlook", 2014.
(*) Projected

The government debt-to-GDP ratio – the fourth of the world – rose up to 133 per cent in 2013 (it was 103 per cent in 2007), while its reduction will not start, very slightly, before 2015. Meanwhile, through a significant fiscal adjustment, the government deficit fell from 5,5 per cent of GDP in 2009 to under 3 per cent now. Inflation is very moderate, also over the forecast horizon. The stagnating productivity is considered "at the root of Italy's loss of external competitiveness and weighs on the sustainability of the high public debts" (EC, 2014, 23). Since 2000 export performance has remained below that of competing countries, suggesting that low labour productivity growth is linked with decreasing export growth due to reduced price competitiveness of the Italian economy after the adoption of the Euro. Since euro adoption, export performance has remained below that of competing countries, losing share of international market. Productivity has hardly increased in the last 15 years, with negative consequences on wages, whose development have been some of the worst among the industrialized economies.

Data clearly show that since 1992 the growth of aggregate demand has been much weaker in Italy than on average in the EU, in particular 5 years, with a fall of 12 per cent (ISTAT and EUROSTAT).

The crisis has affected thousands of construction companies, manufacturers, and servicers; only a few exporting firms have escaped from writing red figures. The banking system suffers from lack of liquidity and does hardly lend out to businesses.

According to European austerity policies, low inflation and strong exchange rates would contribute to the recovery of economic growth, employment and trade balances of the countries in the Eurozone. "High public dept is a major source of vulnerability for the Italian economy" (EC, 2014, 23). It requires to be reduced. But not at the speed and conditions required by the Fiscal Compact, which would imply measures 'blood, sweat and tears' for 40-50 billion euro per year. Policies of monetary and fiscal rigor and the related rise in unemployment rates put a brake on the recovery of domestic demand of European countries, and may widen income inequalities. The negative effects of such policies will be particularly marked in countries that already lack competitive power in investment in innovation and knowledge over a longer span of time – like the countries of southern Europe, eg. Italy. Undoubtedly, policies of public spending cuts, although induced by the very high ratio between sovereign debt and GDP of the country, have contributed to exacerbate these problems, enlarging the risk of a vicious circle from which it will be increasingly difficult to escape. Even imagining a recovery in this international context, a return to pre-crisis levels (2007) of GDP, employment and wage will take quite some years: following ISTAT forecasts and – without elaborating original econometric models – optimistically projecting the average annual growth rates in 2000-2007 of GDP (1.6%), employment (1.4%) and real wages (0.4%), recovery to 2007 levels would not occur before 2025.

We assume that even a modest recovery cannot be attributed to a simple reversal of trends. The centrality of work in economic policy must meet the gap of domestic demand, which is plaguing the Italian economy, as the country's weak demand growth has been a constant factor over the last two decades. Cutting welfare, freezing wages and liberalizing fixed-term contracts cannot be a sustainable exit strategy. It would only worsen the domestic demand and so the macroeconomic imbalance. A paradigm shift in economic and social policies is needed to finally leave the crisis behind and boost potential growth.

1.2. Labour market developments

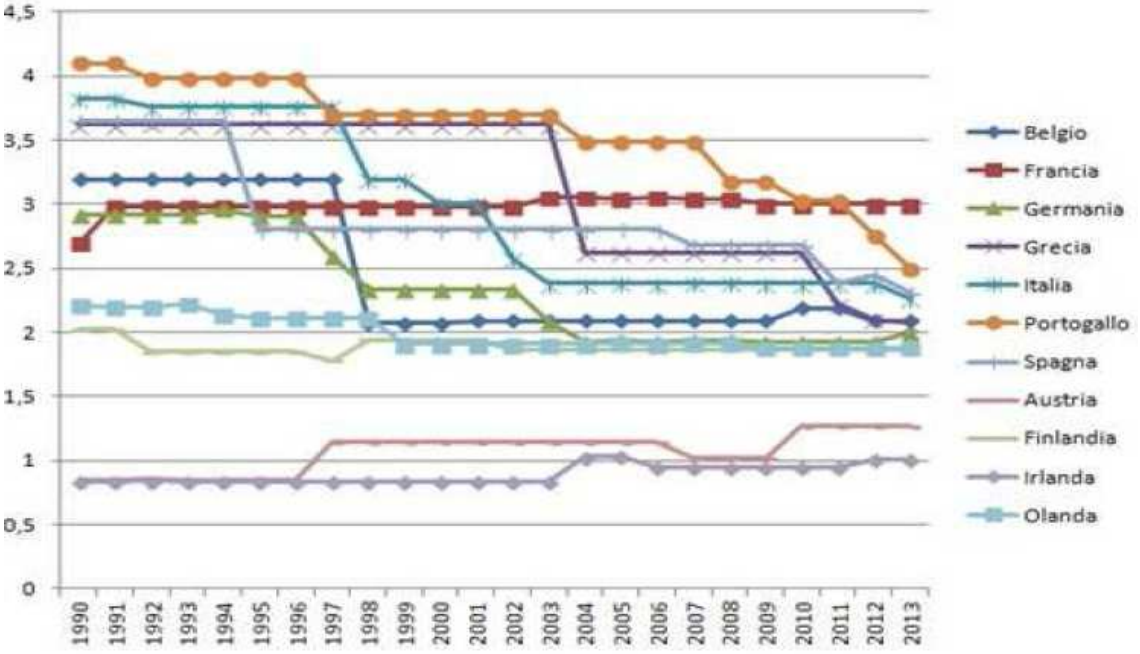
Between 1995 and 2008, before the crisis but in a national situation of stagnant productivity, around 3 million jobs were created but most of them were not open-end subordinated works. In the years of the crisis these jobs were the first to be lost (Comito et al., 2014). Today, 3,3 million people are unemployed (12,7 per cent; it was 6,1 per cent in 2007), with a striking 46 per cent unemployed among youth under 24 of age and 3,25 million people are in search of a job. A very high share of 24 per cent of the population is "NEET": not in employment, education or training. These figures should be projected against the backdrop of the Italian labour participation rate (LPR) of 55,4 per cent, in particular women's LPR (46,6%), the lowest in the European Union, after Malta (ISTAT, the Italian National Institute for Statistics 2014)[97]. The inactivity rate is equal to 36,5%. There's a huge number of discouraged people who do not search a job any longer and, reaching not the very selective eligibility criteria for acceding to unemployment benefit, remain completely out from unemployment statistics.

In 2013 one billion hours were paid by the fund for temporary work suspension (*cassa integrazioni guadagni*), a quite peculiar shock absorber of the Italian system of social protection, paid through the workers and employers' social contributions.

[97] EUROSTAT figures are a bit better, since they don't take in consideration unemployed people under 20y.o.

The employment protection index has fallen down, as effect of the various reforms of the labour market legislation, oriented to a higher flexibility and liberalisation of fixed term contracts and individual dismissals.

Figure 3.1. Employment Protection Index at the Euro zone. 1990-2013



Source: OECD

Labour market is extremely fragmented and polarized between insiders, more and more weak, and outsiders, excluded either by the labour law and social protections. Today, in Italy, there're 46 different legal typologies of employment contracts, most of which very flexible and precarious, even out the scope of labour law (economically dependent self-employees). 70 per cent of new contratcts are some kind of fixed-term. More than 4 million workers had no permanent contract (IRES, 2013). Between 1995 and 2008, in a situation of stagnant productivity, around 3 million jobs were created but most of them were not open-end subordinated works. In the years of the crisis these jobs were the first to be lost (Comito et al., 2014).

Formally, Italy boasts an average of atypical rates equal to or lower than elsewhere in the EU, if we look at part-time, fixed-term, and temporary agency work. In the same period, atypical work increased significantly, to between 16 and 17 per cent of the labour force, whereas the share of standard jobs in total employment fell from 79.4 to 77 per cent The remaining percentage is about typical work but still not-standard: apprentices, collaborations, etc.).

Temporary agency work, introduced in Italian legislation in 1997, represents only 1.2 percent of the overall workforce (headcount, even only 0.7% in FTEs). Part-time work is also relatively limited. Part-time jobs include 12.5 per cent of employees though over 24 per cent of the female labour force. It should be noted that a majority of part-time workers did not choose such a form of contract (source: ISTAT and ISFOL).

In May 2014, the centre-left Government of Matteo Renzi has reformed once more the legal discipline of the fixed-term contract, aiming a further liberalization of its use. Now an employer can hire a worker with such a kind of contract, without giving any objective justification, for a max of 36 months and 5 different renewals, without any time break between one and the other. Fixed-term workers, agency temporary workers included, cannot be over 20% of the workforce. In case of violation of such a limit, the employer will get an administrative penalty, but collective bargaining can derogate to such a ceiling.

Yet, the labour market situation is greatly aggravated by the large incidence of economically dependent or even bogus self-employed, almost completely excluded by labour and social law, with low compensation, absence or scarcity of unemployment benefits. Self-employed workers represent 17 per cent of the dependent workforce (24 percent, if we also include the employers). This growing subgroup, currently amounting to 1.5 million people, is composed by so-called 'coordinated and continuous assistants' and 'on project workers': a kind of 'para-subordinated workers', legally autonomous but economically dependent. This subgroup represents one of the peculiarities of the Italian way to flexibility and precariousness, as they are excluded by labour law protection. Not all the new self-employed need the traditional collective forms of representation; most of them are high-skilled professionals and really self-employed. Those really in need of collective forms of representation are estimated to be around 700,000. According to trade unions sources (NIDIL-CGIL), around 80 per cent of them have just a single employer; contracts of 6-7 months per year; working similar hours like their stable colleagues in stable employment but with much lower (40-50%) incomes, less rights and less opportunities (career, training, pensions perspectives). The other peculiar trait of the Italian labour market is the large share of undeclared work. Italy is one of the EU and OECD countries topping the list for the plague of undeclared work. For 2012-13 the added value of so-called 'underground economy' was estimated at about 17.4 per cent of the Italian GDP, equal to € 246 billion. In 2011 there were about 2.8 million irregular standard *units of labour* (*ULA*) covering nearly 13 per cent of all employees (ISTAT datawarehouse).

The crisis has affected thousands of construction companies, manufacturers, and servicers; only a few exporting firms have escaped from writing red figures. Public sector was very affected by this massive loss of jobs, passing in ten years, from 3,2 million employees to 2,8 million. The banking system suffers from lack of liquidity and does hardly lend out to businesses. Even imagining a recovery in this international context, a return to pre-crisis levels (2007) of GDP, employment and wage will take quite some years: following ISTAT forecasts and – without elaborating original econometric models – optimistically projecting the average annual growth rates in 2000-2007 of GDP (1.6%), employment (1.4%) and real wages (0.4%), recovery to 2007 levels would not occur before 2025. Undoubtedly, policies of public spending cuts, although induced by the very high ratio between sovereign debt and GDP of the country, have contributed to exacerbate these problems, enlarging the risk of a vicious circle from which it will be increasingly difficult to escape.

1.3. Industrial relations

The Italian system of industrial relations presents, historically, a peculiar level of voluntarism in the private sector, while in the public sector law rules most of its aspects. The 1948 Constitutional provisions concerning the registration of trade unions and the attribution of bargaining capacity at sectoral level in proportion of the number of members, the legal regulation of the right to strike and workers' rights to participate in company decision-making, have never been implemented. After the Fascist era, in the new democratic system trade unions remained reluctant to be subjected to state control over their internal organization, while concerning strike and collective bargaining they opted for collective autonomy, refusing state interventionism by law: the state should not interfere with the autonomous and volunteer activities and self-regulation of social partners, which mutually decided to recognize each other. Nevertheless, as a result of the spectacular increase of union power after the 'hot Autumn' of 1969, with the Workers' Statute (Law no. 300, 1970) legislation came into being in order to strengthen union rights in the workplace, promoting indirectly the role of company-level bargaining.

There is no Italian law regulating one of the cornerstones of any industrial relations system: a mechanism that establishes how to measure and decide upon union representativeness to sign agreements to be extended *erga omnes*. The exception here is the public sector, where since the late 1990s a law is in existence for the selection of representative unions entitled to bargain (Legislative Decree no. 296/1997 and 165/2001, art. 43). Unions need to pass a threshold of 5 per cent consensus to take part in national collective bargaining, whereas a final agreement is binding if signed by unions representing at least 51 per cent of the relevant workforce. These thresholds are calculated as a weighted average between votes and members. This model is largely reproduced into the three framework agreements – signed by CGIL, CISL and UIL on one side and Confindustria on the other – in June 2011, May 2013, January 2014.

In the private sector, industrial relations are fully regulated by tripartite social pacts and inter-confederate agreements. Since the early 1990s for almost a decade social pacts were signed yearly on practically all major social issues, from income policies to collective bargaining procedures, from workplace representation to pensions and labour market reforms. Tripartite social dialogue was widespread also at territorial level, through so-called negotiated planning and territorial pacts. After long being described for their confrontational order and attitude, Italian industrial relations were now regarded an example of the 'revival of neo-corporatism' (Crouch 1998; Baccaro 2002). Social concertation in Italy has never assumed the institutional traits of what scholars defined as 'neo-corporatism', but over the years its evolution and outcomes did not differ much from that (Carrieri 2008). The political orientation of governments in office conditioned the general climate of consensus around social dialogue to a substantial extent: high during the first technical executives (1992-93) and with centre-left governments (1996-2001: 2006-08); low and controversial with the center-right in charge (1994; 2001-05; 2008-2011), the latter including the signing of some important social pacts with the exclusion of CGIL (2001; 2009); still low in the most recent times (2012-13), with the so-called technical Mario Monti's executive, under the prescriptions of the Fiscal compact and ECB "secret" letter (see below, section. 3.4). It's still very low and tense now (2013-14), with the *Matteo Renzi Government*, despite the fact to be formally a centre-left cabinet.

Collective bargaining

Till now, collective bargaining has been depending on social partners' mutual recognition only; agreements are not legally binding and their contents are only formally enforceable by the signatories' affiliates. They are acts of 'private law', considered as expressions of the signatories' self-regulation capacity and regarded only under the general provisions applied by the Civil Code of 1942 to contracts. Rights and minimum standards fixed by the law cannot be worsened by collective bargaining, though recently the trend has been towards legally enlarging bargaining power, either collective and individual, in terms of top-down delegation and bottom-up derogation. The lack of a legal extension mechanism has not impeded high collective bargaining coverage: it is esteemed by all the National and International sources around 80 per cent of the whole wage earners.

Since the milestone framework agreement (Protocol) of 23 July 1993, Italian collective bargaining is based on a two-tier system, with on the one hand national-sectoral collective labour agreements (*Contratti Collettivi Nazionali di Lavoro*, CCNL), and on the other hand decentralised collective agreements at company or territorial level if companies are too small and unions too weak -- like in agriculture, construction, retail, tourism, and in many craft industries. Sectoral bargaining is the core of the system. Thanks to about 400 national industry-wide agreements, wage-earners of all possible branches and companies have their own agreement. The number of these agreements reflects the fragmentation of employers' associations, which are more numerous than in most European countries. They are associated according to size (large, small and medium) and typology (private, cooperatives, craft). In the mid-1990s the organisations of public companies – very influential until the 1980s – have been absorbed into the largest private employers' association, *Confindustria*.

The second level of collective bargaining is not compulsory: social partners can negotiate at that level but are not obliged to. In practice, depending on the presence of works councils and on the power relations in each firm or plant whether meaningful negotiations may take place. Second-level agreements are almost completely absent among small enterprises. Recently decentralized bargaining covered approximately 54 per cent of employees employed in enterprises with more than 20 workers. These firms accounted for over 70 per cent of employees in manufacturing industry, and almost 60 per cent in the sector of non-financial services (Banca d'Italia, 2013). Coverage is esteemed to be much lower in the largest majority of workplace, in the SMEs far below that threshold (Tronti, 2010). The two tiers are organized hierarchically, according to principles of coordination and specialisation. The national agreement establishes a basis of rights and standards, including minimum wages, for the industry workforce at large. Social partners, at company or territorial level, are being given a further possibility to improve pay and working conditions through the facultative second level. Since the former fix the minimum pay levels, taking into account purchasing power, at company level the rise in pay – as variable remuneration – depends heavily on performance incentives (productivity, profitability, quality, attendance). Since the 1990s, the impact of second-level agreements has been decreasing. Combined with low or even lacking productivity increases and the related variable pay, this provides a major explanation for the slow growth of wages of the mass of Italian workers (Megale et al. 2011). The national industry-wide collective agreements cover around 80 per cent of gross wages. The remaining share is variously composed by collectively or individually negotiated

pay (*restricted wage-gap*) and/or other elements, as overtime pay. The share of wages paid at decentralized level was for 2012 estimated at about 18 per cent of total wages per capita; only a fraction of this share is really variable (Birindelli and Leonardi 2012).

Trade Unions

According to the Italian Constitution, 'trade union organisation is free' (article 39, clause 1). State law does not regulate the requisites to be formally recognised as a union. Similar to other Mediterranean countries, the Italian system is based on the principle of trade union pluralism, rooted back into ideological conflicts emerging from the ruins of World War II (Ebbinaghaus and Visser, 2000; Gumbrell-McCormick and Hyman 2013). Since the late 1940s, three major union peak organisations are in existence: the General Italian Confederation of Labour (CGIL, *Confederazione Generale Italiana del Lavoro*); the Italian Confederation of Workers' Unions (CISL, *Confederazione Italiana dei Sindacati Lavoratori*), and the Italian Union of Labour (UIL, *Unione Italiana del Lavoro*). They represent different political orientations and union cultures. The CGIL has always been linked to the parties of the left (the former communist and socialist parties, PCI and PSI, disappeared in the early 1990s) and still is today with the new leftist parties (basically democrats, with a minority referring to the post-communist parties). The CISL, historically close to the Christian Democrat party (DC) that also disappeared in the 1990s, today includes members sympathising for parties throughout the political spectrum. Since its birth in 1948, diverting from the unitary CGIL, CISL got inspiration from American business unionism, and focused on free collective bargaining and participatory approaches at firm level. The UIL was mainly associated to the non-communist, 'reformist' left (social-democrats, republicans) and today is nearer to the democrats. The three main confederations are affiliated to ETUC and ITUC. Unions of minor importance include UGL, originally close to the post-Fascists; a plethora of professional unions, strong only in banking, some public services and transport; and radical left-wing groups, significant only in individual branches or plants.

Despite their diverging backgrounds and orientations, since the mid-late-1960s the three main confederations have realized a sort of unity of action, temporary interrupted by controversies, as in the mid-1980s on the reform of labour costs. More recently, divergences concerned labour market flexibility and contractual decentralization, with CISL and UIL ready to accept Berlusconi's reforms or in some cases derogations by companies (like at FIAT), while CGIL opposed both. In the new climate of divides between unions, the shortage of binding and effective norms concerning the most representative unions and collective bargaining effects gave way to uncertainty and bitter disputes, both political and in the courts. Besides voluntarism and pluralism of organisations, other elements that characterise the Italian model of trade unionism are: a strong confederational primacy over a network of a dozen medium-sized industry-wide federations; a significant role played by horizontal and territorial/local structures; a substantial single channel system of workplace representation; a relatively high rate of industrial unrest, and an equally strong propensity for social concertation.

Compared to other EU member states, Italy maintains a comparatively medium-high union density rate and the decline over the years, slower than in other industrialised countries (Bryson A., Ebbinghaus B., Visser J., 2011). In 2012 the rate of unionization was estimated in 35 per cent and, that is quite surprisingly, even slightly higher than the

average 34 per cent of the 2000s, and returning to the 1998-99 level (Visser 2013). A crucial contribution to union membership has come from migrant workers, with constant growth year after year. According to the ITUC List of affiliates, in 2013 CGIL had 5,542,677 members, CISL 4,507,349, and UIL 2,174,151. With over 12 million union members in 2013, Italy is by far the first 'unionized country' in the EU and also one of the most unionized in the world. CGIL is the third largest union confederation in Europe, behind DGB and TUC; CISL is the fourth. These figures include pensioners/members, in the Italian unions weighting more than elsewhere (almost half of all members in two of three main confederations), but exclude the members of unions other than the three main confederations. According to recent figures, nearly 1.16 million migrants are unionized, equal to 8 per cent of all and to 14 per cent of active membership (Caritas e Migranti 2012).

At workplace level, Unitary Unions Councils (*Rappresentanze Sindacali Unitarie - RSU*) can be elected by all workers in every production unit with more than 15 workers: until today, two thirds by universal suffrage with several competing lists, and one third from the lists of unions signing the national sector contract applied in the relevant production unit. Now things are going to change after the recent framework agreements (*Confindustria*) of June 2011 and May 2013, where such a partition is near to be abrogated. The RSUs have power on exclusive information and consultation rights, but they share the company collective bargaining power with the sectoral/local unions who signed the national contract applied in that unit.

2. NATIONAL DEBATE ON THE NEW EUROPEAN ECONOMIC GOVERNANCE

Despite the many and deep reforms of the years before, especially in the labour market and pensions policies, the mainstream narrative is that they still "appear to be insufficient. Italy has for too long postponed much-needed structural reforms" (EC, 2014).

According to the European austerity narrative, low inflation and strong exchange rates would contribute to the recovery of economic growth, employment and trade balances of the countries in the Eurozone.
When the Fiscal compact was transposed into the Italian legislation, the debate, in the Parliament and in the Country was very poor. Absolutely inferior to what had to be, considering the big impact the new policy was going to produce for years and years. Only before the recent European election there was something like a debate about Fiscal compact and its implication on the Country budget of the next decade.

Policies of monetary and fiscal rigor and the related rise in unemployment rates put a brake on the recovery of domestic demand of European countries, and may widen income inequalities. The negative effects of such policies will be particularly marked in countries that already lack competitive power in investment in innovation and knowledge over a longer span of time – like the countries of southern Europe, eg. Italy.

3. ENACTED MEASURES OF THE GOVERNANCE AGENDA RELATED TO COLLECTIVE BARGAINING SYSTEMS

During the last two decades the collective bargaining system, though quite rational and well designed in theory, met practical limits and quite some criticism. Since the end of the 1990s a debate about a revision of the system has involved experts and social partners. In spite of several bills in Parliament and union drafts of reform, nothing really happened until 2009. Then, with the centre-right government back in office, industrial relations deteriorated. On January 22, 2009, a tripartite Framework Agreement for the Reform of Collective Bargaining (FARCB) was signed without CGIL and against the view of this union confederation. The new rules formally safeguarded the two-tier structure, with sectoral agreements continue to set basic protections nationwide. Their duration was set at three years for both the normative and economic parts, whereas they were respectively four and two years. The new system aimed to strengthen and enlarge the second level of collective bargaining, at company or territorial level. Decentralised collective bargaining will last three years (against the previous four) and will cover topics defined by sectoral agreements or legislation and which do not concern those already regulated at other bargaining levels. A controversial aspect of the new system was the possibility to introduce opening clauses. Before the FARCB, an opening clause only existed in the sectoral agreement for the chemical-pharmaceutical sector. These clauses can be temporary and experimental, and can partially or entirely derogate single norms or economic items, like on pay. Until recently, downward derogations were allowed only in territorial pacts as to cope with economic underdevelopment and/or a high level of undeclared work; yet, until recently they have hardly been practiced (Burroni and Pedaci 2011).

Recently, and in spite of the divides between the union confederations, national agreements were jointly signed nearly everywhere, though with some important exceptions: metal manufacturing and commerce and services, covering jointly about 5 million workers, where agreements were signed excluding the sectoral federations of CGIL, like FIOM-CGIL in the metal and FILCAMS-CGIL in the trade/commerce sector. Concession bargaining dominated; rights *at* work were exchanged for the right *to* work, with the unions managing restructuring in order to avoid collective dismissals as much as possible. Overall, numerical and employment flexibility increased, while the use of the wage guarantee funds (short time work/lower wage) in order to mitigate the impact of the crisis was huge.

At company level, most controversial, also as they regarded the country's most important private employer, were some agreements signed for Fiat plants (Pomigliano-Neaple and Mirafiori-Turin) in 2009 and 2010 (Leonardi 2010; Cella 2011). Without the consent of FIOM-CGIL, they introduced downward derogations on pauses, working time shifts, and overtime, as well as limitations to the right to strike. At Fiat Pomigliano a 'New Company' was virtually created, where all workers had to apply for the job again with FIOM members discriminated against. In order to definitively exclude FIOM from all its plants, Fiat even left the national employers' association and signed a first-level agreement apart from the national metal agreement. FIOM opened a broad campaign, appealing to public opinion and claiming courts against anti-union discrimination. Courts at different levels repeatedly upheld FIOM's arguments.

At last, aware of the risks of chaos, social partners gradually re-established co-operative relations, signing new framework agreements concerning trade unions representativeness and collective bargaining. The agreement of June 28, 2011 – signed by Confindustria and CGIL, CISL and UIL – confirmed the two-tier system and the primacy of the industry-wide level, with the possibility to adopt 'modifying agreements' at company level, but only when permitted by the sectoral agreement. Moreover, such modifications need to be signed by the majority of the works councils (RSUs). The key issue of the relation between a certified level of representativeness and the validity of the collective agreements effects, more in details, was the core of a new bipartite agreement signed on May 31, 2013. Representativeness now was measured through a double system (like, by law, in the public sector), calculating a mix of number of members and votes obtained in the works councils (RSU) elections. Once the weighted average would pass the threshold of five percent, organizations are admitted to the national negotiation tables. National industry-wide agreements are considered binding if signed by unions representing 50+1 percent of the relevant workforce. Workers have the right to be consulted in useful time on the draft agreement and their vote has to be kept in consideration by their unions, before to sign. Once it should be finally supported by the majority, the agreement will be considered binding for all, also for the dissenting workers and organizations, who will be not allowed any longer to organize forms of industrial unrest. Then sanctions could be given to those dissenting unions who do not adequate to the will of the majority. For employers they will consist in economic penalties. For the unions (never for the single workers), they will be decided and listed into the sectoral agreement and will basically consist in a strong restriction of access to the trade unions facilities. A very controversial and unprecedented clause, against which the metalworkers federation of CGIL (FIOM) is now in conflict with its umbrella Confederation, refusing to ratify such a principle.

This model has the limit to cover the industry sector only, while the 3-year duration of the contracts risks to be too long to adjust unexpected changes in cyclical conditions.

General analysis of the main trends fostered by the enacted measures under the EU governance framework

Regressive changes are required in deficit countries, by the new interventionism of European institutions (Muller and Schulten, 2013). The new governance of the Euro Plus Pact / Fiscal Compact require to achieve very specific goals, through monitoring, coordination, sanctions. In a nutshell, they're the following:

- to reduce public deficit under the thresholds of 3% of the GDP and the government debt-to-GDP ration below 60% (at a rate of 1/20° per year)
- to revise wage agreements and the degree of centralization of negotiations and indexation mechanisms
- to encourage the decentralization of collective bargaining
- to relate to the public sector wage dynamic to the private sector
- progressing in the "flexicurity" approach to labour market
- reforming pension systems, limiting early retirement schemes

Undoubtedly, policies of public spending cuts, although induced by the very high ratio between sovereign debt and GDP of the country, have contributed to exacerbate these problems, enlarging the risk of a vicious circle from which it will be increasingly

difficult to escape. The effect of the Fiscal compact implementation could be extremely heavy on the Italian economic growth and in terms of social costs. In Italy the public debt-to-GDP ratio is 134 per cent. In order to respect the objective of reducing it 60% we have to find 1,120 billion which – devided for 20 – give us two unreachable possibilities: to find 56 billion euro per year, or to increase GDP at a rhythm of 4% a year. Everyone can easily understand how this is going to impact on public expenditure and welfare state, feeding a big people concern and discontent about the EU and its policy.

In the summer of 2011, the Italian economic situation seemed to precipitate. The value of bonds over 10 years rises to nearly 7%, while the spread with the German ones rears up to more than 500 points. Private foreign capital withdraws and the country seems to portend the need for an IMF intervention. The Berlusconi government is weakened by its internal and there's a great mistrust either in the markets and European institutions. Italy – the third economy of the Eurozone (16,5% of euro-area GDP) – is at that moment the main preoccupation of the European policy makers..

On August 5, 2011, a 'secret' ECB letter (Trichet and Draghi) ask the Italian government to do a very precise list of things to do:

- to reform the pension system on the issues of the eligibility criteria for seniority pensions and the retirement age;
- to reform collective bargaining, allowing firm-level agreements to tailor wages and working conditions to firms' specific needs, and increasing their relevance with respect to other levels of negotiation.
- a « careful review of the rules governing the hiring and firing of employees

Since then, Italian governments (first Berlusconi, later on Monti) took their homework seriously, adopting a broad austerity package including all measures requested by 'Europe'. The timeline was the following:

- Freezing civil servant pay for 3 (+ 2) years;
- Reform of the collective bargaining (Act no. 148/2011), with a radical de-centralization and power to derogate
- Pension reform (Act no. 135/2011), delaying the age for retirement
- Reform of fiscal policies, with the obligation to balance the budget in the Constitution
- Reform of the labour market (Act no. 92/2012), relaxing rules about individual dismissals and
- the shock absorbers scope

The ECB evaluate positively the commitment shown by the Italian Government and, already at the end of summer 2011, buys Italian bonds for a value of 100 billion euro, trying to remedy the leak of private investors.

For the European institutions, in Italy contractual wages are considered to much centralized; they have been so far less responsive on labour market conditions and productivity performances (European Commission, 2014). Act no.148/2011 (art. 8) was the immediate answer of the Italian government to the ECB letter. It establishes that 'specific agreements' at "proximity level" may derogate on many issues: new

technologies, work organization (including classification systems), short-term contracts, working time, employment contracts, and dismissal, allowing also to establish working conditions below legal standards. From exceptional, derogations from national collective agreements or even from law became 'normal ', the only limit left not being in contrast with international or constitutional fundamental rights or principles. Scholars are in large majority against such a very dangerous norm and, together with the CGIL, they ask for an abrogation of it, which – nevertheless – is still not in the agenda of any of the main political parties.

Role of the social dialogue in the process of design and implementation of the actions (with particular focus on labour market reforms)

What here is important to underline is that the role of the social dialogue was quite completely marginalized. Unlike during the 1990s – when social pacts were a stepping stone of the reforms of the labour market, welfare and industrial relations system – now social partners were merely consulted and their opinions scarcely considered. Surprisingly enough, social mobilization and unrest was far below that one could expect: 3 hours only of strike for a reform of the pension system which postponed the age for retirement of some years.

However, for what in particular concerns the industrial relations, we can say that in spite of the new norms (art. 8; Act 148/2011), social partners haven't seemed to be very interested in adopting its model of radical decentralisation of collective bargaining. Signing the already mentioned three bipartite framework agreement of 2011, 2013 and 2014 (*Confindustria*) they have confirmed the two levels and the important role of coordination of the national sectorial collective agreement. Although weakened by the new possibility for derogations, we can still describe the Italian way to the decentralization of of collective bargaining as a coordinated and organized one. According to someone, Italy is probably the only country, together with France, where the National sectorial collective agreement still play a pivotal role. An important difference with other comparable countries (the so called Piigs, for instance), where one of the main outcomes of the austerity measures has been to completely dismantle the central coordination of collective bargaining.

The new centre-left premier, Matteo Renzi, has repeatedly declared that he hasn't any intention to open a tripartite concertation with the social partners, since they're considered as a collective actor just as many others in the civil society. His model, at such a regard, is Tony Blair, who with the unions didn't establish any particular form of social dialogue.

4. SOCIAL IMPACTS OF THESE MEASURES

4.1 Wage setting

Italy belongs to a group of European countries where the minimum wage (MW) is not fixed by law but through collective bargaining (Vaughan-Whitehead 2008; Kampelmann et al. 2013; see for Scandinavia Chapter 16). According to Article 36 of the Italian Constitution, 'every worker has the right to wages in proportion to the quantity and quality of his work, and in any case sufficient to allow him and his family a free and dignified existence'. This 'proportionate' and 'sufficient' pay, as interpreted

by the courts, consists of the minimum set by the national sector agreement with which the worker relates. Since such contracts do not have formally a subjective *erga omnes* binding effect, thanks to case law the MW as laid down in sectoral agreements is commonly extended to all workers. Although no member of the signatory union, any employee must receive as a MW the equivalent to that envisaged by that agreement and applicable in its sector for the same type of work. To the MW concept was preferred that of 'fair' pay, based on the combined effect of the 'sufficiency' and 'proportionality' principles, as laid down in the Constitution. The principle of sufficiency requires that the MW is higher than the mere minimum subsistence level, in order to guarantee a certain freedom from the need to work through that - political and legal approach that has inspired the Constitution – is the true condition of access to citizenship.

According to a recent study comparing micro-level wage data with the available data on wages in the lowest category in pay scales in national sectoral collective agreements for those European countries that do not have statutory MWs, Italy ends up as the European country with the highest level of the Kaitz index. The MW thus calculated[98] would be at approximately 80 per cent of the corresponding median wages, across EU member states coming closest to the median national pay level. For example, in 2009 the sectoral hourly MW was on average € 10.62, against a median hourly wage of € 11.72 (Garnero 2013; Kampelmann et al. 2013, 45). Thus, the Italian case may demonstrate that a system in which MWs are set through collective bargaining, is not per se inferior to systems with statutory MWs; by contrast, a system based on collective bargaining may even be preferable from a workers' point of view. Yet, some caveats remain. First, in Italy large differences in MW levels are recorded across sectors. Second, the country is also at the top of the ranking concerning the share of persons uncovered by any form of MW. In spite of the collective bargaining coverage of approximately 80 per cent, the research just cited found that in 2007-09 31 per cent of Italian workers were paid below the rates fixed by sectoral-level collective agreements, implying that the high Kaitz ratio should be interpreted with caution (Kampelmann et al. 2013, 69). The high Kaitz ratio is probably (at least partly) due to the comparatively low levels of median and average wages, at which levels wages are strongly compressed.[99]

4.2 Evolution of nominal/real wages

Wages, how we've just seen, have been suffering a long stagnation, as effect of some erosion of the power of purchasing, precarization of the employment contracts and a very weak dynamic of productivity.

In spite of many common places, cost of labour in Italy is not higher than in other comparable countries. Actually, according to resent EUROSTAT figures (2014), one hour of the Italian workers costs 28,1 euro, while in the Eurozone is equal to 28,4. Italy is far behind Sweden (40 euro), Denamrk (38,4), Belgium (38), France (34,3), the Netherlands (33,2), Germany (31,3).

[98] Based on wages in 2007, 2008 and 2009, and on 240 collective agreements (Kampelmann et al. 2013, 42).

[99] An indication is that, with an estimated 11-16 per cent, in 2007 and 2009 in Italy the sectoral-level share of low-wage workers (earning less than two-thirds of the national median gross hourly wage) was comparatively low (Kampelmann et al. 2013, 73).

As noted, one of the most striking features of the Italian economy over the last two decades has been the very poor performance in terms of productivity growth. Since 2005, its productivity development lags behind that of peer comparative countries, notably Germany, France and Spain. The reasons of such bad performance are manifold. Major constraints likely reside in the small average size of companies, with a large share of companies where unions and collective bargaining are excluded, and investments in research and innovation are very low. Surveys have demonstrated that in medium-large enterprises, with over 50 employees and union representation, productivity is higher; so are wages. In this category, in 2012 the yearly average value added per employee was € 53,440, and average gross earnings were € 24,690 (Megale et al. 2011). In small enterprises, with less than 20 employees and no union representation, productivity and wages are remarkably lower: here, average added value in 2012 was € 28,770, and the average gross wage € 16,510 (ISTAT 2013).

Between 1993 and 2009, wage dynamics were determined by the 'planned inflation rate', as expected and fixed in regular tripartite sessions between government and social partners taking place twice yearly. That rate was assumed by social partners as the ceiling for industry-wide collective bargaining, in order to safeguard purchasing power. Gaps between the planned inflation rate and the real rate could be recovered after two years, when a new round of sector negotiations would have been established, just with this aim and with the purpose of fixing the new increases for the next two years. Other possible increases were left to the company or territorial level, and were related to productivity and profitability as collectively agreed targets. The variable wage was the object of negotiation at decentralized level, with criteria, parameters, and objectives to be achieved. With the 2009 Framework Agreement, a new indicator should replace the planned inflation rate. It would be based on the European Harmonised Index of Consumer Prices (HICP), excluding imported energy costs, and calculated by ISTAT. The significance of the gap between the HCPI and the actual inflation rate, calculated in the same fashion, would be assessed by a bilateral committee at multi-sectoral level and no longer at sectoral level. The recovery of the gap, just in case, would be effectuated within the duration of the industry-wide agreement. According to the CGIL, the new system will erode real wages, as energy prices are excluded from the adjustment mechanism, and significantly reduce the autonomy of collective bargaining at sectoral level since the only possible wages rises would be those linked to inflation. Besides, as noted, the system will ease the use of downward derogations through opening clauses.

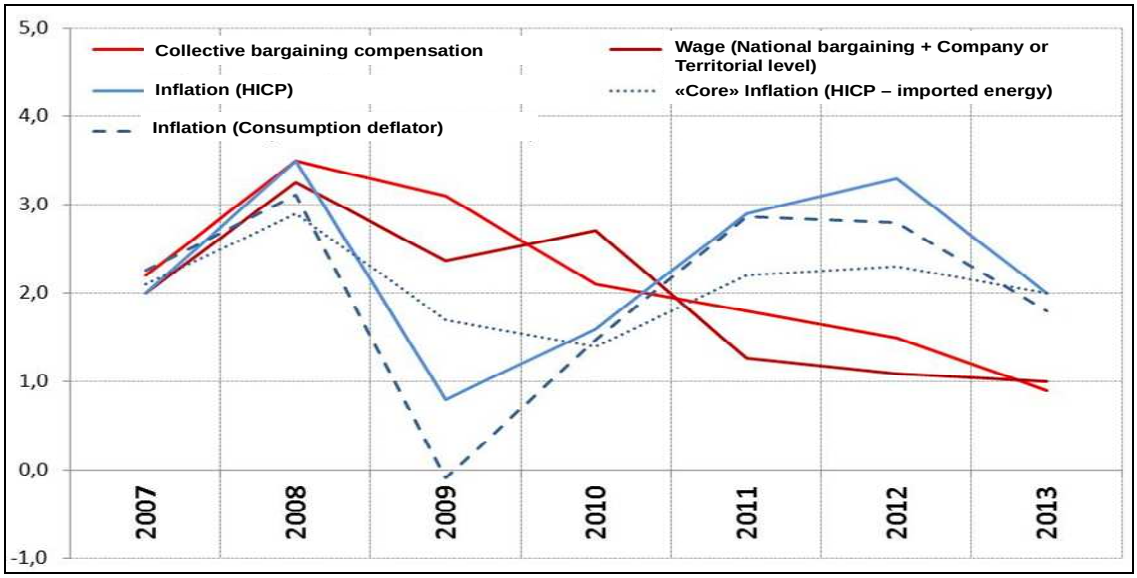
With the abandonment of the *Lira* and the adoption of the Euro, currency devaluation as a variable for macroeconomic adjustment was no longer available for national politics. Since then, the Italian economy would have to achieve significant structural adjustment of its production capacity, fostering 'high road' and innovative options; instead, Italian companies have generally chosen adjustment paths based on the reduction of production costs and, in particular, labour costs. National reforms have mainly, albeit not exclusively, focused on the labour market, with a series of measures designed to increase labour market flexibility. Structural adjustment of product markets has remained modest, without strong public intervention to ensure a fair (re)distribution of income. Inflationary pressures, rather absent in other European countries, have remained high: despite strong wage moderation, Italian consumer prices have continued to rise more than those of most other Eurozone countries. Jointly with changes in the distribution of the tax burden this has caused a strong compression of middle class incomes at the expense of domestic demand.

The dynamics of income distribution can be sketched as follows. During the 1980s, an increase in real labour costs, quite close to that of real value added and higher than that of productivity, led to a substantial stagnation of the distribution share. In the first half of the 1990s, the slowdown in wage growth and falling employment determined an initial fall in the labour share. From 1993 until the outbreak of the crisis in 2008, collective bargaining, both national and decentralized, ensured an increase in gross wages in line with inflation (Megale et al. 2011). In these years, and in spite of low productivity growth and modest redistribution, purchasing power was basically defended. In the pre-crisis years 2000-2007, the average annual gross collectively agreed wages related to actual inflation grew, on average by a mere 0.3 per cent yearly and 0.4 per cent in manufacturing industry and in public administration.

During the crisis, collectively agreed wages could no longer keep up with inflation rates. Observing the annual change in gross agreed wages 2008-2013, we notice a progressive decline in actual increases, due primarily to the exhaustion of old national collective agreement in place. In the first phase of the crisis (2008-2010), this led to a modest real wage growth while in the last period, with the slowdown in collective bargaining as a consequence of the recession, real wages fell substantially. Data indicate that in particular in 2012 the annual average growth in collectively agreed wages per employee could not keep pace with inflation, and resulted in the largest annual loss of purchasing power since 1995. According to the latest ISTAT figures, this decline may have continued until at least the end of 2013, generating a three years' cumulative loss of 3.6 points.

The downward rigidity of real wages – basically ensured by national bargaining – has allowed a relative preservation of wages even throughout the period 2000-2013. Yet, over the past three years this mechanism no longer could maintain purchasing power. As a result of the wave of unemployment and underemployment, including the massive use of the wage redundancy funds, the increase in part-time work and the reduction of working hours and overtime, obviously connected with the widespread setback of second-level wage bargaining, nominal wages actually increased, for the first time since 2011, less than contractual, marking a growth rate far below actual inflation. Graph 1 illustrates these developments. We add that OECD and Eurostat data mirror the relative stagnation of Italian wages (OECD; Eurostat). In 2011, the Italian gross average wage is equal to € 22,088, and the net average € 15,610 (OECD, 2012).

Figure 3. 2: Italy. Wages and inflation, Italy (annual percentage changes): 2007-2013



Source: ISTAT.

4.3. Inequality

Even before the deregulation of markets and the degeneration of finance, the rise of income disparities can be recognized as one of the root causes of the crisis. From the 1980s to 2008 the labour share in Italy's GDP lost ten percentage points, more than 130 billion of euro. A huge amount of wealth, which has not been reinvested in productive activity and real economy. Some indicators that we can take as a reference: Gini coefficient; Income quintil share ratio (S80/S20). In Italy, income inequality as measured by the Gini coefficient is quite high: with over 0.36 in 2010 the Gini coefficient calculated over disposable incomes was one of the highest among the EU member states (Acciari and Moccetti, 2013). Classifying the 30 OECD countries through the index of income concentration, Italy was the sixth most unequal country (OECD 2011).

Beside, social mobility in Italy is one of the more static, as it is stronger more than elsewhere the intergenerational transmission of inequality.

The richest 10 per cent of the population own almost 40 per cent of the whole patrimony of the Country. This distributive injustice would have been more tolerable if the country would have an economic, fiscal and social system able to redistribute new revenues more fairly. Yet, international comparisons on family wealth confirm that this is definitely not the case. According to ISTAT data, from 1990 to 2012 rents rose by over 80 per cent. Meanwhile, the share of investment in relation to profits of the entire economy fell at the same time by about 40 per cent. Thus, growing profit rates neither ensured greater investment, efficiency or productivity, nor did they produce more and better jobs or more inclusive social security. The alliance between profits and rents at the expense of the labour share was based on the progressive compression of the share of national income distributed to wages, in Italy more than any other industrialized economy. Hence the excess of production capacity and supply, which put all components of aggregate demand under pressure an led to the current over-accumulation that characterizes the growing global imbalances.

Blue collars working families have been severely affected. Wages of skilled workers Italian manufacturing industry, compared to those of other professionals of the most developed European economies, were some of the lowest.

Table 3.2. Italy. Wages by tipology of wage earner (2012)

Typology of wage earner	***Net average monthly salary***	
Male standard employee	1.260 euro	
Female employee	1.109 euro	–12,0%
Employee in a small enterprise (1-19 add.)	1.031 euro	–18,2%
Employee in a Southern region	1.008 euro	–20,0%
Migrant worker (extra-UE)	949 euro	–24,7%
Fixed-term contract employee	929 euro	–26,2%
Young worker (15-34 y.o.)	920 euro	–27,0%
Worker on collaboration project	841 euro	-33,3%

Because of the combination of a high flexibility with a low security, in Italy scholars describe the new situation in terms of "FlexInsecurity" (Berton et al., 2009). The population at risk of poverty is growing year after year; Precarious jobs open the way to the phenomenon of the working poor

Social security system and coverage

The Italian social protection system, occupational and Bismarckian, is clustered in the Southern European family of welfare states (Esping-Andersen, 1990; Ferrera, 1993). It includes the centrality of the family and, within it, that of the male breadwinner; absence of a universal minimum safety net; priority attached to length-of-service and old-age pensions; and the low-level 'sense of state', meaning both inadequate administrative regulation and a state apparatus that is highly permeable to political patronage.

Unemployment protection, in particular, has been a key topic in political and academic debates for at least a decade and forms part of the more general debate about overall reform of the social security system. One historical weakness of the social security system in Italy is without doubt the arrangements for insurance against unemployment, known by the term 'social cushioning measures' (*ammortizzatori sociali*). We have here a somewhat incoherent, highly fragmented system where the types and levels of protection depend on a whole host of criteria: nature of the employment contract, size of the company, sector of the economy, age of the beneficiary, regional employment situation. Access to benefits and their funding, and the degree of coverage by the system, vary considerably from one occupational category to another, depending on their negotiating powers over the decades and their ability to exert pressure on the government, itself keen to build and stabilise a social consensus. The rate of substitution earning-related and duration are extremely various between stronger categories, covered by the law, and weaker ones: SMEs, atypical work, left to volunteer arrangements.

The EU employment strategies, in the years 2000s, created a favourable climate for debate about thorough reform of the Italian unemployment protection system. Terms like *employability*, *activation* and *flexicurity* loom large over this debate, but concrete outcomes continue to be very limited. Scholars describe the Italian labour market and social protection in terms of "*FlexInsecurity*" (Berton et al., 2009), as the result of more work flexibility and less social protection. In 2011 Italy spent on passive labour market policies 1,7 per cent of GDP, of which active measures absorbed a mere 0,41 per cent (ISTAT, 2014). Social fees (from employers only) are on average low (normally below 2% of full wages), and public spending for labour market policies is very low:.

Meanwhile, welfare state – also because of the EU pressures – is under attack. From 2008 to 2013 and under the blows of the ax of austerity policies, public funds for family policies collapsed from € 347 million euro to only € 20 million; those for social policies from € 930 million to € 344 million, and for equal opportunities from € 65 million to € 11 million. Local authorities, managing a large part of welfare supply, were cut by 70 per cent of their financial capacities on this behalf (Budgetary Plan for 2013).

Given the flaws in the social security system, collective bargaining has functioned here as a 'stop-gap'. 'Bilateralism' is one of the original forms of VOW provision that filled in some of the shortcomings in the universal arrangements for income protection in the event of temporary job losses (Leonardi 2009). In the hard context of today it is likely that social partners, through volunteer occupational welfare (VOW) and bilateralism, will be overloaded with competences in terms of self-financed and self-ruled alternative services (Pavolini et al. 2013). Rather than reforming the system towards universal legal social protection, in 2012 the law makers chose to extend the model of bilateralism (*Riforma Fornero*), making it mandatory for those sectors till then excluded from the law on wages guarantee funds (basically small- and medium-sized enterprises, tourism, and various services).

Bilateralism is subject to a strategic and ideological dispute between the largest Italian unions, testifying the lack of consensus about it, and the different approaches between the trade unions confederations. The debate relates to the idea of society and the model of unions. On the one side, CISL assumes that, in front of the secular and ongoing crisis of contemporary unionism, bilateralism represents a possible exit strategy, with 'servicing' as the new and crucial resource for recruiting and organizing members, and as the best response to the need for a deep recast of welfare, in a participatory and proactive approach to labour relations. On the other side, CGIL is more sceptical, both concerning the model of unionism and concerning the reform of welfare, questioning bilateralism as the new mainstream. According to this confederation, as Italian welfare has been historically an incoherent and highly fragmented system, the new emphasize on VOW risks to accentuate such incoherence, enhancing corporative attitudes and solutions either at territorial and micro-firm level, in a country already plagued by many and deep dualisms.

5. SOCIAL UNREST ASSOCIATED TO THE IMPLEMENTATION OF AUSTERITY MEASURES AND STRUCTURAL REFORMS

5.1. Labour conflicts

Striking is a fundamental right in Italy, enshrined in Article 40 of the 1948 Constitution. That article states that 'the right to strike may only be exercised in accordance with the laws under which it is regulated'. Although that was envisaged at that time, actually no law governs its operation. Only in the so-called 'public essential services', since 1990, there is a specific law. Unlike in some Northern European countries, in Italy, for doctrine and jurisprudence, the strike is an individual right to be exercised collectively. It is considered a fundamental individual right, one of the expression of the freedom of organization and unions liberties. Since the early 1960s, the courts have allowed both political and solidarity strikes, giving workers a wide freedom on the forms and manners for exercising the right to strike. It may also be called by spontaneous coalitions, industry-wide or in the workplace, with no obligation to consult workers and / or union members. No formal distinctions are considered between economic and other types of strikes. Collective agreements normally contain clauses of ceasefire before and during the collective agreements' renewals. The framework agreements of 2009, 2011, and 2013 reaffirm such a volunteer but binding approach to conflict regulation. Conciliation and arbitration procedures are determined in collective agreements but are not binding like in other countries. The recent Fiat case brought to the fore the position of those who call for a reassessment of the traditional assumptions according to which strike is an individual fundamental right of workers.

Overall, industrial action has been declining in Italy during the last two decades. The number of days not worked due to strikes fell by 48 per cent averaged for 1990-99 to 2000-2009. In the 2000s, nevertheless, strike activity in Italy remained relatively high and in the top league of European countries, albeit now preceded by several other countries, notably Spain, France and Denmark (Vandaele 2011). In the 2000s, the defense of jobs at industry level was the main cause of industrial action. Moreover, national mobilisations with six general strikes in a couple of years, were organized by CGIL to contest the austerity policy of the Berlusconi administration.

While we do write these notes, a great rally – with one million people – was hold by CGIL in Rome (25 October 2014), to protest against the Renzi's project to abolish the reinstatement right in case of unjustified dismissal. National unrest are scheduled by the public workers unions against the new stop to the renewals of the collective agreements. A general strike is going to be called by CGIL alone in mid November.

5.2. Social conflicts

In these difficult years, there have been many different forms of social protest. Some affected individual companies, particularly hit by the restructuring, closures, collective redundancies. Quite sensational the case of Electrolux, where the Swedish management of MNC requested a reduction of labor costs at the level of the Polish ones, in order to avoid the transfer of the sites of the Italian northeast towards that country. Other individual categories of workers entered in strike, due to delays in the renewal of their national collective agreements or the deterioration in their working conditions. This was

the case of municipal employees of Rome, for which there is a risk of loosing the variable salary negotiated at local level.

Parties with an openly xenophobic ideology and a program - such as the League or small parties of the extreme right - collect a total of consent limited. Cases of particularly striking and widespread racism have been relatively few. There is certainly some discomfort for the recurrence of immigrant landings on the coasts of Sicily, where the reception capacities of the institutions have been totally inadequate, causing the reproach of the European institutions. In contrast, among the political forces and sectors of the Italian society, there is a widespread feeling that Italy was been left alone at the forefront of Europe in the management of the flows of mass illegal immigration.

The most significant and relatively peculiar feature of recent years has been the emergence of a movement like that of the Five Stars (M5S), charismatically led by the former comedian Beppe Grillo, who in the general election of 2013 received an impressive 26%, momentarily becoming the first party in the Country. About this phenomenon was debated and written a lot. Its main characteristic seems to be a profound rejection of politics, of "traditional" parties – considered indistinctly "corrupt" and "discredited", who have ruled the Country for decades. Against all forms of delegation and mediated representation, M5S invoke direct democracy through the new ICT opportunities. Many observes, however, have strongly denounced the ambiguous character of this movement, authoritarian inside and with a contradictory political platform, aiming to catch in a populist all forms of discontent that today expresses the Italian society. From the small entrepreneur, oppressed by the taxes, to the unemployed youngster who claims for basic income; by the radical movements of protest against the construction of large public works to those who call upon more public order and fewer immigrants.

5.3. Distrust and disaffection with institutions, particularly EU institutions.

Over the past few months have been published in various polls about the feelings of the Italians towards the EU institutions. The results were sometimes conflicting. However, what has emerged is primarily a generalized loss of confidence rather than 10 or 20 years ago. Today the European project, only 36% said they were a "convinced"; 40% "weak", 14% "anti" and 9% "skeptical." The major critical concern the euro. When asked what led to the introduction of the single European currency in 2002, and 20% claimed to have brought benefits, 22% had only suffered complications, whereas the majority concedes that led to some complications, but considered that the euro Europe remains necessary.

The recent elections for the European Parliament in Italy have revealed a feeling towards the EU less distressing than in other countries. The Democratic Party, openly sided on pro-European positions, got an impressive and unprecedented 40%. The most openly anti-European forces have instead performed lower than what it was expected.

6. CONCLUSIONS

The Italian system of industrial relations is living through a prolonged phase of transition which does not seem to have reached the end (Carrieri and Treu 2013). The numerous events which have hit it in recent times are rapidly and profoundly changing

the traits that for a long time had marked this peculiar national model. Collective bargaining has repeatedly been the subject of reforms, undermined from the top by European interventionism, with the Fiscal compacts and its National implementation between 2011 and 2013 (Muller and Schulten, 2013), and from the bottom, as in the case of Fiat to be described in this chapter, offering employers a regressive exit strategy from a model that we could otherwise define as 'coordinated decentralization'. The most recent Italian governments have been active in implementing the austerity measures required by notably the ECB, adopting cuts on public expenditure, increasing taxes, and using labour costs in a mere logic of competitive devaluation.

In the last decade considerable tensions have characterized the relationship between the various trade union pillars, as testified by the several agreements signed excluding the General Italian Confederation of Labour (CGIL), the largest union confederation. This critical situation improved only in the last few years, when – first in June 2011 and again in May 2013 and January 2014– three new framework agreements were signed by the largest employers' association (*Confindustria*) and all representative union actors, CGIL included, in order to define who and how can be considered sufficiently representative to sit at the collective bargaining tables and sign agreements binding for affiliated employers and employees.

The difficulties of the Italian trade unionism do not seem so much of a quantitative nature, as in other countries (decline of membership and collective bargaining coverage), but mostly qualitative (Carrieri and Leonardi 2013). As main problems can be noted:

- the gap between the level of unions' general recognition and power resources (membership and mobilization capacity) and the overall outcomes in terms of wages, employment levels, working conditions, and welfare state provisions;
- the unprecedented marginalization of social partners and dialogue due to the new European and state interventionism in the main social issues, collective bargaining included, jointly with a gradual decrease of the role of the state in social expenditure and economic/industrial policy;
- the crisis of traditional voluntarism in the field of industrial relations, with subsequent legal uncertainty and conflicts;
- the strategic divides among unions concerning unions' role and strategies in the new century: basically, a kind of new business unionism in the case of CISL and UIL, based on servicing and decentralized bargaining on one side, and more rank-and-file unionism, based on organizing multi-employer collective bargaining primacy, pursued by CGIL.

For these reasons, establishing new shared rules – reliable, democratic and effective – is urgent, as the traditional voluntarism finds itself in a dead end street. The recent sentence n. 231/2013 of the Constitutional Court on the Fiat case states that a law on such items cannot be postponed any longer. The path is quite clear and marked in the three new framework agreements 2011-2014 which, from this point of view, need only to be transposed into law.

Once the basic rules on actors and procedures have been established, the question remains what kind of collective bargaining has to be achieved. Looking at trends in Europe, we assume that decentralization is somehow unavoidable. It has proven to be a

crucial instrument of adaptive concerted efforts on a micro scale, as shown by the importance of negotiations involving topics which range from functional flexibility to wage flexibility (Glassner et al. 2010). The issue here is to which degree decentralization should be expanded. In less than two decades, Italy went from the coordinated decentralisation of the 1993 Protocol, via a weakly coordinated system (the separate framework agreement of January 2009), to completely disorganised decentralization, as in the Fiat Group and in the article 8 of the Act no. 148/2011 (Carrieri and Leonardi 2013). The threats arrive both from economic and political global pressures: a definitive dismantling of collective bargaining and a new form of neo-micro-corporatism and inequality. It preludes to what Alain Supiot calls 'refeudalization' (2007), where company and territorial community is the new constituency and perimeter of solidarity and citizenship. Against such a risk, multi-employer bargaining remains a fundamental tool. In Italy, this path – as we already said– is marked by the reasonable compromise reached by social partners in the framework agreement of June 28, 2011: a realistic model of coordinated decentralisation that only needs to be activated and fully respected. Criticisms are due, first of all, to the never clarified stratification of the different rules of pacts and frameworks (July 1993; January 1999; 2011-2014) and to the different scope of agreements (public sectors, ruled by law; large industry and banks, SMEs and craft, agriculture). A second threat is the lack of a law on representation and collective bargaining, thus always leaving uncertainty and elusion on whether social pacts will be fully respected.

Equally crucial, at European Union level economic policies have to change, with approaches able to reverse the disastrous austerity measures of these difficult years. On this behalf, CGIL has proposed a new national *Plan for Jobs* (after the first famously proposed in 1949), with the purpose to create jobs through a new Keynesian economic policy for economic growth supported by a radical tax reform: greater progressiveness, a shift away from taxing 'fixed income' to unproductive wealth, and a fight against disloyal fiscal behaviour. Another field concerns wage policy. As discussed in chapter 11 and in the section on minimum wage fixing above, the Italian social partners seem to have quite reasons to keep the basis of their industrial relations, almost entirely ruled through collective autonomy, upright. This also applies to MW fixing, on which the Italian unions share the view this subject must remain an exclusive prerogative of collective bargaining. This said, some major challenges remain for the trade union movement, the largest of which lies in covering the growth of the informal and autonomous new forms of post-Fordist work and the clear preponderance of small and very small companies, beyond the traditional reach of collective bargaining. Italy is affected by a historical and un-solved territorial dualism, while the weight of (bogus) self-employment and irregular work is comparable with the less advanced economies of Europe. Because of these fragilities, collective bargaining – if it still pretends to be an alternative to the statutory MW – needs to become more inclusive and able to represent the interests of a fragmented and differentiated workforce. More union democracy, involvement, and solidarity, may characterize the main road against union decline and marginalization.

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Chapter 4

France and the European Agenda: an Ambiguous Impact on Industrial Relations

Jean-Marie Pernot[100]

The 2008 crisis created, in the European Union and the euro area, the opportunity for renewed development of economic and fiscal policies coordination. After the adoption of Euro Pact+ and its Six Pack complement, the European Semester, which opened in 2011, now allows the European Council to exercise close surveillance of Member States, not only to ensure the adequacy of their national budgets to the decisions of the Union but also to guide their reform programs, as the latter must comply with the medium-term orientation and the "Europe 2020" scheme. This monitoring process is accompanied with a gradation of intervention and coercion means, from placing under surveillance to imposing sometimes heavy penalties on Member States, to oblige them to abide by Community discipline.

We will now recall what the French economic situation is like, through some standard macroeconomic indicators (1), then briefly examine the recommendations made to France by the European Council of Ministers over the last two years (2), and finally question the influence of these recommendations –and more generally of the European institutions -- on the dynamics of the French industrial relations system (3).

1. A STRUGGLING ECONOMY

The French government's policy since 2012 has first focused on reducing the deficit, dubbed as the mother of all battles. Budget cuts, public spending reductions and revenue increases through higher taxation have been widely deployed for over two years, without delivering the desired results.

1.1. Major macroeconomic characteristics

Despite that trend break with the previous period, the deficit has hardly been reduced and the debt keeps mounting. Commitments vis-à-vis Brussels to reduce the deficit to 3.6% in 2014, and down to 3% in 2015, are hardly compatible with most recent economic data: expected tax revenues have been overestimated relatively to growth, which is too sluggish; spending dynamics have proved trickier than expected to contain (mainly due to expenditures towards compensating unemployment, which keeps growing); instead, the French economy turns out to be marked by a slowdown that further reduces the chances of achieving that goal. The deficit target was reassessed at 3.8 % in April 2014 and, in June, the Court of Auditors prognosticated it would be problematical to get it to fall below the 4% mark.

This slowdown results from a slower than expected growth. In 2013, the President of the Republic made a surprisingly unexpected move: he at the same time indicated his support of social democracy and his economic choice of rallying supply policies. He then geared his government towards imposing lower labour costs to enable companies to restore their margins and invest in the best possible conditions: in the continuity of

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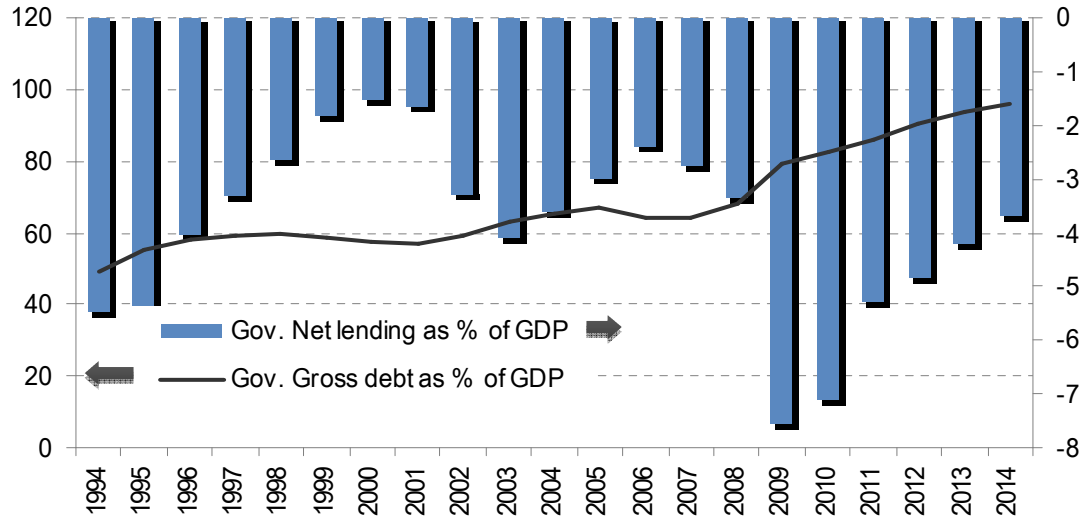
previous recipes, he has established widespread business support in the form a Tax Credit for Competitiveness and Employment (Crédit d'impôt pour la compétitivité et l'emploi, CICE) announced in December 2012 (see Annex 2). Even before observing any significant result, the President chose to go further by announcing on 31 December 2013 the establishment of a Pact of responsibility (Pacte de Responsabilité), with a number of measures favorable to companies, but with counterparts in terms of commitments to maintain and/or develop employment, which were to be concluded through negotiations with the unions. Beyond a few positive, dialogue fostering statements , management has not really committed, claiming a lack of visibility as regards resumption of economic activity; unions are divided on what can be expected from such an exchange and the government has not totally relinquished, in the middle of 2014, its somewhat vague indications about its measures timing and details.

On June 29, in the "Journal du Dimanche", eight employers' organizations, including MEDEF and CGPME, threatened not to come to the Social Conference on 7 and 8 July, if the government failed to take a number of firm-friendly decisions, in addition to those already granted to employers (see Appendix 3). Curiously, these same organizations even demanded to reverse some provisions on part-time work, provided in the 11 January 2013 agreement, though MEDEF and CGPME had signed it.

The government has relied on growth to reduce unemployment and public deficits, but the recovery has failed to materialize, so far. Decline in public expenditure is not a step in the right direction because it has always been, in France, a significant driving force of investments and employment.

Figure. 4.1. France. Government net lending and gross debt.



Sources: INSEE, Macrobonds, Ires

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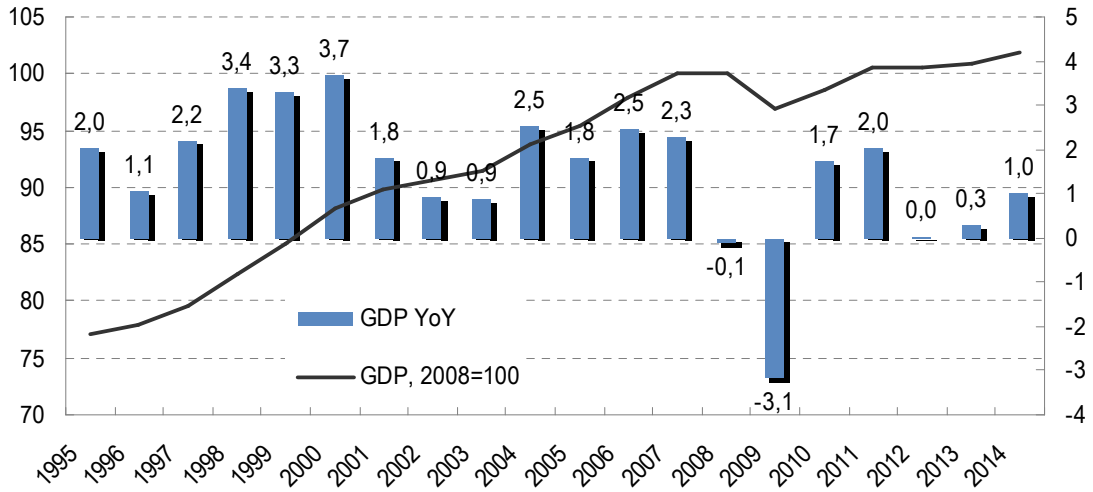
Figure 4.2. France. GDP: level and growth rate



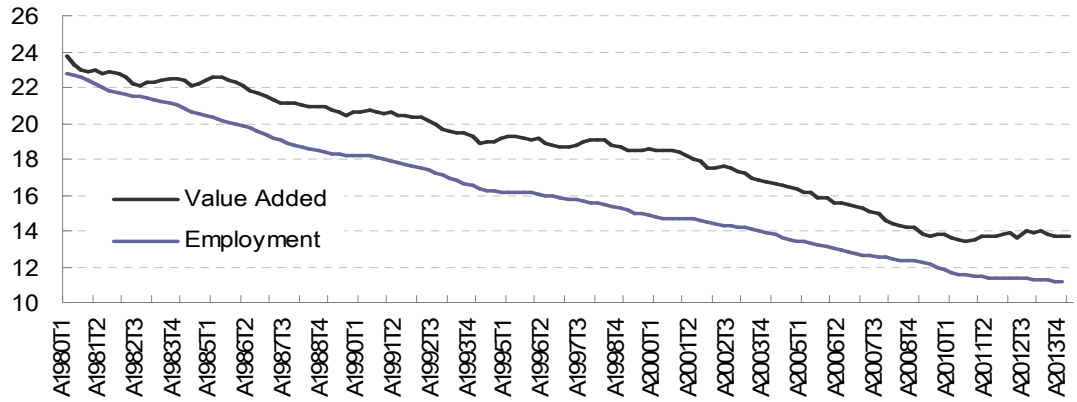
Sources: INSEE, Macrobonds, Ires

[101] An agreement concluded in the metal industry on 20 May 2014 is a statement of commitments to dialogue. It has no binding normative force.

Beyond macroeconomic performance, public debate on the state of the French economy has focused on the loss of substance in industry, reflected in the large number of business closures and relocations ove the recent years. A report on the manufacturing sector, required by Louis Gallois, former CEO of the French Railways (SNCF) and EADS, was submitted to the government in November 2012. It delineated a worrying state of affairs. In 2002, the trade balance of the secondary sector was in excess of € 3.5 billion and it posted a € 71.2bn deficit in 2011, i.e. 3.5 percentage points of GDP.

This report made a number of proposals, some of which have inspired some of the guidelines found in the Pact of responsibility. In contrast, other proposals, such as that relating to employee representation on companies boards of directors or supervisory boards, have been ignored or downscaled under pressure from employers' organisations

Figure 4.3. France. Share of industry in total value added and employment.



Sources: INSEE, quaterly accounts, Ires

However, open-ended contracts (contrats à durée indéterminée, CDI) remain at the heart of paid employment; 20.1 million employees out of 23.7 million enjoy the privilege.

While the share of fixed-term and temporary work has become less stable (13.5 % of employment in 2013), these forms of employment are becoming increasingly precarious. Less than one month temporary contracts were multiplied by 3.3 from 2003 to 2013 and, from 2000 to 2010, less than one-week fixed term contracts (contrats à durée déterminée) more than doubled (COE, 2014). Heavier taxation of very short-term contracts was attempted in 2013, but it failed utterly to reduce the phenomenon, which has worsened further in 2013 and 2014.

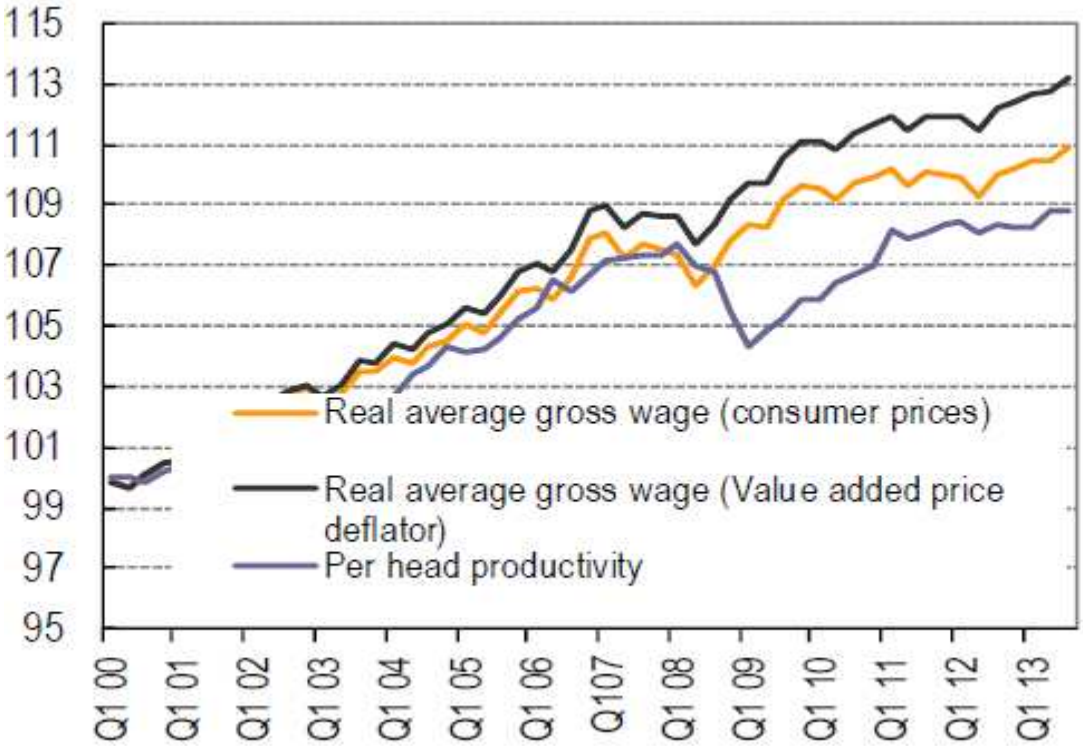
At the other end of the age scale, the unemployment rate for seniors (over 54 years) has been steadily increasing since the beginning of the crisis: their employment rate increased slightly but the decline of the retirement age resulting from the various measures taken since 2003 has had little effect on that rate, since 45 % of employees reach retirement age while they are unemployed.

The average working week was set at 39.4 hours in 2012. Part-time concerns 18% of employees but 6.9% of men and 30.2% women (INSEE, 2012), while shift work continues to grow. New forms of employment are growing moderately on the fringes of the workforce, such as portage, employers' groups sharing their labour, or even the self-

employed status (auto entrepreneurs). This relative fragmentation of wage-earners' status is also accompanied by segmentations, and the chances of ever achieving economic security are gradually reducing. The labour market is still dual, with a low likelihood of ever breaking out of precarious employment and achieving more stable forms of employment (COE, 2014).

Wages have failed to evolve out of past trends, and adjustment has been achieved by companies through reducing the social security contributions provided for in CICE.

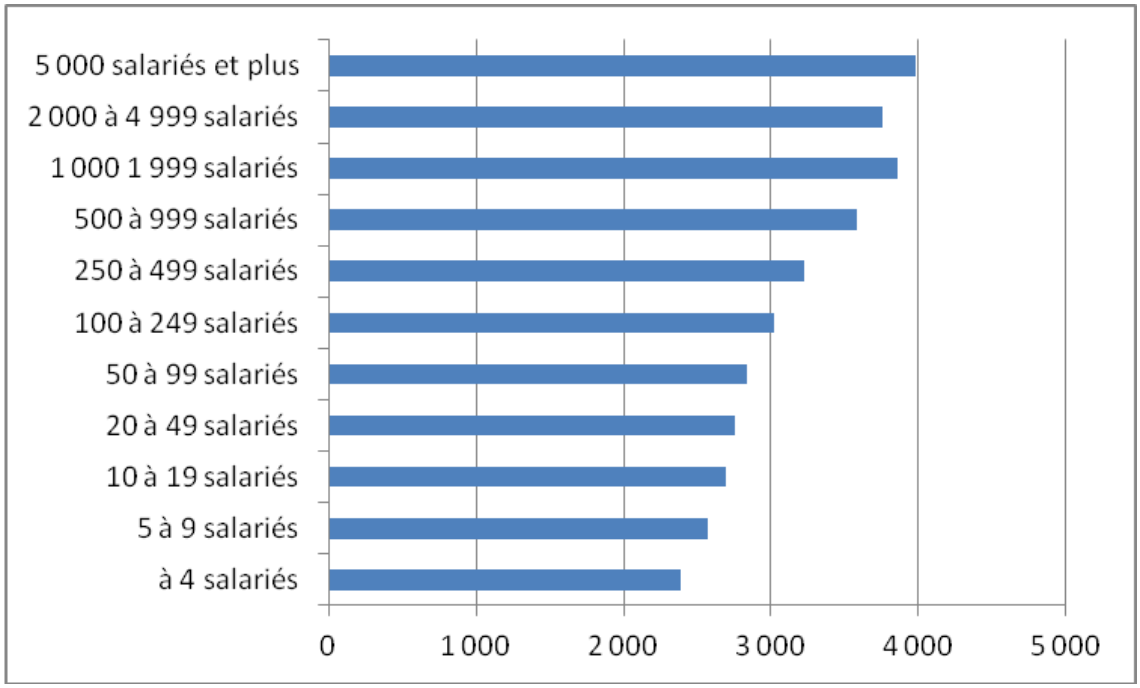
Figure 4.4. France. Wage and productivity developments



Sources: Eurostat, INSEE, Ires

Wage developments in France depend on many factors, from collective bargaining to increasing the minimum wage. If the latter depends on the State, the former are difficult to understand because wage bargaining is highly decentralized at company level. The increasing pay individualisation, the development of employee-savings and uncoordinated collective bargaining on wages produced very markedly differentiated wage evolutions according to firm sizes.

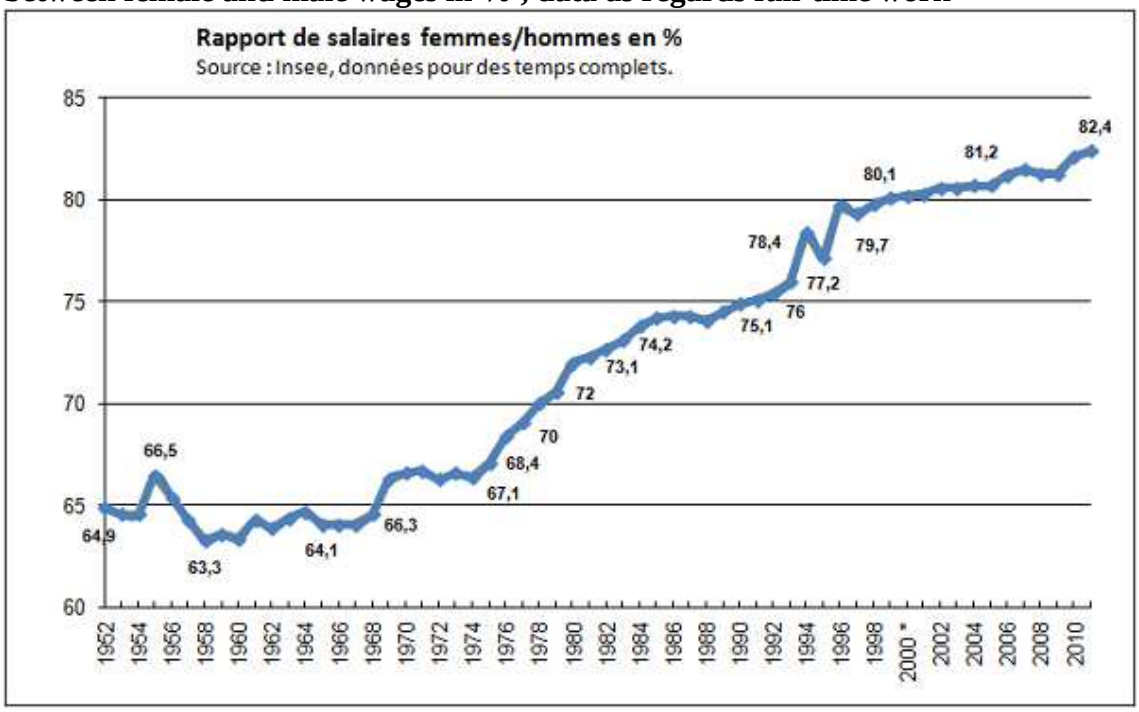
Figure 4.5. France. Average gross full-time monthly wages according to company size



**.....employees and over
Source: INSEE

However, after a pause between 1998 and 2004, wage inequalities between men and women resumed their slow reduction movement.

Figure 4.6. France. Wage inequality between women and men 1952-2010 Ratio between female and male wages in % , data as regards full-time work



Source: INSEE

2. RECOMMENDATIONS MADE TO FRANCE IN THE CONTEXT OF THE EUROPEAN SEMESTER

The 2013 version of the European Semester for France included a number of recommendations that called on the government to curb its excessive deficit -- by 2015 at the latest. The plan was to reach the objective of budget equilibrium in the medium-term by 2016. In 2014, this goal seems hardly achievable, given some macroeconomic indicators and forecasters' studies (IMF, OECD, European Commission, and even INSEE and the Court of Auditors / Cour des Comptes) in France. On the Commission's recommendations, the European Council on June 2, 2014 issued a stern review, asking the French government for details "to ensure that the excessive deficit will be corrected in a sustainable manner by 2015, through implementing the structural adjustment effort defined in the recommendation made by the Council under the excessive deficit procedure". The report is very critical, and this time accompanied with by a decision to place the country under enhanced surveillance by European authorities. So, France joins Ireland and Spain in this unenviable position, given that the other two countries are considered on the right track while forecasts about France are rather alarmist.

The numerous studies produced by the European Commission and the ensuing recommendations hardly deal with industrial relations. They barely recall (as if it were necessary...) the need for dialogue -- adding the hackneyed phrase: "between the social partners" -- regarding unemployment benefits, vocational training or labour market reforms. Vocational training and unemployment benefits are not (in principle) part of the decisions made by the State "in association with the social partners", but pertain to the system of joint regulation of social protection (paritarisme), a peculiar institution that gives priority to interactions between employers' and employees' representatives. The European recommendation here is a "word of truth", an unveiling factor that, beyond the symbolic representation of joint regulation, lays special stress on the State's central role, repeatedly noticed with regard to France.

However, the Commission and the European Council abstained in 2013 to emphasize the need to involve the relevant social partners in pensions revisions, probably because of the particular sensitivity of this subject, three years after the great movements that had stirred the country. In 2014, a cryptic formula called for examining the effects of social thresholds on SMEs development, but there was no recommendation concerning the form and content of collective bargaining. Clearly, the latter's level of decentralization in France and the part played in it by company level bargaining fall within the scope of forms of industrial relations generally promoted by the Council and the Commission.

Recommendations on wages mainly concern the legal minimum wage policy (SMIC), as the latter is considered too high and too dynamic: "The minimum wage in France is such that it allows beneficiaries to enjoy a purchasing power among the highest in the European Union. It is therefore appropriate the minimum wage should continue to evolve in a manner conducive to competitiveness and job creation" . Again, to promote companies' competitiveness, the 2014 European Commission's recommendations insist, as a side note, that "special attention should be given to the regulatory provisions of the Labour Code or to accounting rules related to specific staffing thresholds" (p 6). They mention the need to "eliminate regulatory barriers to business growth, including reviewing the size criteria set out in the regulations in order to avoid threshold effects

that hinder French companies' growth" . In April 2014, this proposal was referred to by the Prime Minister in an address to unions, and publicly mentioned by the Minister of Labour on May 28, 2014. This has been a long-standing claim by SME employers, and that proposal was at the last minute put on the July 2014 social conference agenda: social partners were then invited to discuss the terms of freezing social thresholds, knowing that, according to the Prime Minister, "the government will shoulder its responsibility in case of failure." We can therefore consider that European recommendations do have an impact on labour market reforms and even on how to achieve success.

Similarly, in late 2012, the President of the Republic announced the hurried creation of the "Competitiveness and employment tax credit" (CICE), in response to the European recommendation to lower labour costs in France. This device was meant to reduce by €30b (on a full year basis) the social contributions paid by companies. In 2013, the Commission's recommendations to France welcomed the decision but, the following year, comments waned less enthusiastic. The Commission considered that the device, so unfocused was it, had little effect on competitiveness. Even before the CICE was ramped up, the President of the Republic took further initiatives by announcing on December 31, on the occasion of his New Year's wishes to the French, the implementation of a "Pact of responsibility and trust" whose contours took some time to be specified (for the contents of the CICE and the Pact of responsibility, see Appendix 2).
The Commission also warned about the role of the numerus clausus,-- in force in some regulated professions (pharmacists, notaries, taxi-cabs, etc.). The Commission argues these closed professions constitute an obstacle to job creation and competition in these sectors. The government announced in the summer of 2014 that it would open these professions to competition.

While the influence of European governance on fiscal and macroeconomic policies is indisputable, it does have an influence as well, as is quite obvious, on a large part of the measures adopted by the government, and has serious social implications. To implement these decisions, it seeks to involve social partners by invoking social dialogue as a mode of government. The influence of the European environment appears more diffuse on these methodological issues.

3. FRENCH INDUSTRIAL RELATIONS: EUROPE'S AMBIGUOUS INFLUENCE

Since 2008, industrial relations in France have gone through several phases that we briefly recall. We then focus on the systemic dynamics they embody and lastly raise questions about Europe's influence, or more exactly about their articulation with the European process.

3.1. 2007- 2014, a 3-count waltz

Three slightly different moments in time can be distinguished from 2007 to the present day: the first sequence spans the years 2007 to 2008, followed by a conflict phase in 2009-2010 and a third period started in 2011, in the middle of which the 2012 policy change occurred.

- The first part of the crisis had less influence on the economic situation than in other countries: the weight of social shock absorbers (the minimum wage SMIC and the earned income supplement RSA) and the share of public expenditure on employment and incomes permitted to tide people over the peak of the crisis without major damage. The government in office at that time encouraged negotiations undertaken to avoid job losses, but failed to implement a major program to fund short-working, as did Germany for example. At the same time, it became bent instead on reducing the State's response capabilities, by granting tax exemptions in favor of privileged people, even at the risk of greatly amplifying deficits. It encouraged social dialogue, in particular to reform the rules of recognizing trade unions' representativeness and also to obtain, via bargaining, the reform of labour market rules.

- Second count: in late 2008, the government took a number of unilateral decisions -- rejected by the unions -- and imposed a pension reform without any prior consultation. Two years of social mobilization ensued: in January 2009, all trade union organizations jointly established a common alternative crisis management platform requesting determined employment and wages policies. This triggered two demonstrations that were reminiscent of those in May 68, in view of their magnitude, which mobilized great numbers in early 2009. During the Autumn 2010, a major conflict broke out, with a series of events that repeatedly angered nearly three million demonstrators into marching in the streets at one time or another, to protest against pension reforms. These movements failed to achieve their objectives: the pension reform was passed without a single amendment and the way the right wing government managed the crisis totally overlooked the joint union demands. However these have helped keep up a degree of social tension that has contained the government's achievements, even though that period had its share of social regression.

- Starting in 2011, another period began: on one hand, the labour side was gradually splintered with internal strife, and on the other, a trend change in social policies production modes occurred. After the political change in 2012, consultation of -- or even association with -- the social partners became very institutionalized, with the generalization of the social Conferences setting the agenda for interprofessional bargaining (more on this topic below).

3.2. A revival of tripartism

The crisis has had significant impacts on collective bargaining customary procedures in many EU member-states (Schulten, Muller, 2012 S. Clauwaert, Schömann I., 2012, IRES 2013). Developments in this field in France do not draw from the same source. They are part of a dynamic specific to national socio-political relations and are only remotely related to the effects of the crisis (IRES, 2012). For example, while bargaining or tripartite consultation declined in many countries as of 2010 (Freyssinet, 2010), it rather gained new impetus in France. President François Hollande and his government have sought to involve unions in major decisions on public policy in the social field, or to consult them, at least. This involved a symbolic vindication of social partners at central level through tripartite consultation -- of unequal magnitude according to dossiers, and via private contacts meant to define the contours of what is acceptable by one particular partner or another.

These changes do not belong to a so-called "Hollande method", implemented after François Hollande's victory in the presidential elections of May 2012. Neither do they specifically result from the crisis, although the themes that were bargained over did pertain to this context; they are even less the consequence of the new rules of European governance and the European Semester in particular.

The starting point of these changes can be found in a law passed in January 2007, dubbed the Larcher law, which imposes a new articulation between consultation of social partners and normative production.

Box 4.1. Consulting before passing a law

The 31 January 2007 law (excerpts from modified article L 101-1 of the Labour Code)
The spirit of the law is summarized in the first few sentences: "Any reform envisaged by the Government that focuses on individual and collective labour relations, employment and vocational training and that falls within the scope of national and interprofessional bargaining is to be subject to prior consultation with the organisations representing employees and employers at national and interprofessional levels, with a view to launching such bargaining, as far as possible.
To this end, the Government communicates its policy document outlining diagnostic elements, objectives and main options.
When they announce their intention to engage in such bargaining, organizations also indicate to the Government the time they deem necessary to conduct these rounds."

Since then, many national interprofessional agreements (accords nationaux interprofessionnels, ANI) have emerged, a trend that was barely interrupted by the 2010 conflict over pension that cooled off relations between all unions and the executive . The government elected in spring 2012 has therefore merely moved with the flow but has also amplified it, thereby introducing a new type of relationship between public action and centralized bargaining, which seems to be taking hold at the heart of social regulation.

3.3. What is a National Interprofessional Agreement?

A National Interprofessional Agreement (ANI) is no novelty in the French system of industrial relations. Until then, an ANI was simply a centralized bargaining platform between employers and unions with, as always in France, the invisible -- or rather very visible, actually -- hand of the State. It is traditional in some areas such as unemployment benefits or vocational training. The 1970s were marked by a number of interprofessional agreements translated into law and providing an improvement for employees (monthly payment of workers' wages, additional social protection, job security, etc.) in the wake of the foundational 9 July 1970 agreement on "individual vocational training law" signed by all social partners. Alain Supiot dubbed this procedure "legislating bargaining" (négociation légiférante, Supiot, 1996).

This practice originated directly from May 1968 and a break with the previous period where employers refused the very principle of interprofessional bargaining, except the institutionalized joint regulation of social protection (Weber, 1991). The practice mollified after 1976, despite a few reminders by the R. Barre government on working conditions (1978) or on working time, at the beginning of Mitterrand' era (1982). The failure of inter-professional bargaining on flexibility somehow provisionally marked the swan-song of this type of agreements. Moreover, in the early 1990s, while Europe was signing a large number of "social pacts" of varying contours (Pochet, Fajertag, 2001),

that trend seemed to elude France almost completely, except where joint regulation was concerned, as already mentioned. These agreements were re-launched in 1989 and again in 1995, which gave rise to interprofessional framework agreements to be suited to each sector, but these variations proved almost nonexistent.

A new wave occurred after 1998, at the initiative of MEDEF, the new name for the employers' organization . E.A. Seillière, its new president, opened nine bargaining rounds on so-called "social reconstruction" (refondation sociale), in response to the Lionel Jospin government's (1997-2002) decision to legislate on working hours. This revival resulted in nine agreements concluded between 1998 and 2002. This was largely a war machine against the left-wing government, allegedly "guilty" of passing the 35 hours Act . As soon as the right-wing government took over in 2002, MEDEF declared it preferred legislative action and relied on an employer-friendly government to scrap earlier legislation and launch reforms in line with its own wishes. During this period, a large number of agreements brought about developments in other subsequent agreements or directly into law.

As of 2011, the ANI was conferred a new definition of a different nature: it became an intermediate agreement, in between the traditional ANI and the Social Pact, such as France had never known (other than ending up the 1936 and 1968 general strikes). With the so-called Social Conferences, the current government has industrialized the process: each year for three years, in June or July, a Social Conference is held, under the control of the government, which tells unions and employers' organizations which issues it intends to legislate on. They then launch as many bargaining rounds as necessary to prepare legislation before Parliament. Social partners are provided a roadmap to indicate what the government expects from bargaining, what deadlines are granted to stakeholders and the contents it intends to find.

With this roadmap in mind, negotiators set to work, using the Ministry of Labour services to ensure results are operationally applicable.

That method was inaugurated in 2012 and renewed the following years, and it has made it possible to again associate trade unions to social management according to a process akin to social partnership, which has meanwhile seemed to fade across the rest of Europe. The government is benefiting by directing discussions between employers and unions; the latter are pleased to be associated with the progress of industrial democracy (in France called démocratie sociale), a topic that has made a lasting come back in the social and political debate since 2007.

3.4. The example of the January 11, 2013 ANI

The January 11, 2013 ANI called "For a new economic and social model in the service of business competitiveness, job security and career paths" is derived from these agenda and roadmaps that the government had submitted to the social partners at the start of the 2012 social Conference. It is a good example of ANI's renewed relevance.
Firstly, it deals with several issues, focusing on a very large number of subjects. Here are the main points of the agreement and the first balance sheet items relating to their implementation:

- Complementary coverage for medical expenses, i.e., one that goes beyond basic coverage by Social Security and is insured by additional funds, generally jointly financed by employer and employees. This was extended to all employees. Until 1 July 2014, bargaining rounds were to take place at industry level to implement the new law. There has been very few so far. Companies now have until January 2016 to bargain about it. Failing agreement within this period, a minimum complementary health insurance will be implemented
- Rechargeable rights to unemployment insurance: in case of return to employment prior to exhaustion of compensation rights, these are kept for a future period of unemployment (partly and conditionally), while they used to be permanently lost. The unemployment compensation agreement signed in March 2014 set up the device. However, for costs borne by the unemployment compensation fund UNEDIC to remain constant, savings were made on other compensation arrangements, including those covering casual employees in the entertainment industry.
- Increase of the unemployment insurance contribution for short fixed term contracts. This provision has not yet had observed effects on the stabilization of employment.
- Creation of a personal training account (set up by the 14 December 2013 ANI) and a right to secure negotiated voluntary mobility in companies.
- Introduction of a minimum of 24 hours of work per week for part-time contracts. Sector-level agreements should determine application modalities before 1 January 2014 and, in particular, derogations for less than 24 hours. Given the difficulties met by these bargaining rounds, the effectiveness of the measure was postponed to July 1. To date, only 18 sectors have concluded agreements, providing for some very low minimum duration: 2 hours for example in the health and social sectors. Another possible exception is provided by law if the employee certifies in writing that it was at his/her own request that the contract includes a number of working hours below the legal minimum. In exchange for their participation in the July 2014 Social Conference, employers' organizations have been granted that discussions be opened with the government to further ease the device provisions.
- Improving information/consultation schemes in companies. The establishment of a bank of economic and social data, currently an ongoing process in companies.
- Employee representation on boards of directors or companies supervisory board.
- Creation of a new type of "job retention" agreement that allows firms experiencing difficulties to bargain for lower temporary compensation in exchange for continued employment. Only 4 agreements have been signed since. The limited success of the measure is due to the considerable constraints related to this type of agreement.
- New rules on collective redundancies: they will be controlled by the new Labour administration. However, unlike the authorization that had existed until 1986, approval by the administration applies only to compliance with procedures and obligations of a job retention plan (plan de sauvegarde de l'emploi, PSE). This control is still more reduced if there is a collective agreement on redundancies in the company. In 2013, just over 50% of PSEs resulted in a collective agreement.
- Rationalization of labour relations (litigation, conciliation, time limits, etc.).

The January 2013 ANI was signed by three of the five unions authorized to bargain (CFDT, CFTC, CFE-CGC); it was strongly rejected by the other two (CGT, FO) . Transformed into a bill, the government asked Parliament to enact, without substantive changes, the project it had been submitted and that pledged to abide by the spirit -- and often the letter -- of the agreement.

3.5. Delayed European influence

While the EU may, to some extent, be said to have left its mark in this new mode of public rules production, it is not so much felt in the new European governance as in previous EU innovations. In November 1991, the European social partner, the European Trade Union Confederation (ETUC), the Union of Industrialists of the European Community (UNICE) -- now called BusinessEurope --, the European Centre of Public Enterprises (CEEP) -- now dubbed the European Centre of Employers and Enterprises Providing Public Services --, have entered into an agreement which provided an opportunity for self-referral on social issues set on the EU agenda by the European Commission. This agreement was changed into an additional protocol annexed to the Treaty of Maastricht in 1992 and introduced in the Treaty of the European Union (Articles 138.4 and 139.1) in Amsterdam in 1997 (IRES 2009).

This European procedural agreement and its subsequent institutionalization in the Treaty were seized by a number of social actors in France for introduction in national proceedings. CFDT, in particular, saw in such proceedings an opportunity to loosen the grip of the State on the regulation of social matters and free up a space for bargaining reinforcing social players' role. In more instrumental fashion, the new E.A. Seillière MEDEF mobilized the spirit of this rule between 1997 and 2002 against the Lionel Jospin government, as has already been mentioned. Employers then claimed contractual autonomy in producing standards that had actually turned into a showdown with the government of the day, about the renewal of the unemployment compensation agreement in 2000. More recently, L. Parisot, then MEDEF president, also referred to the merits of such a method (Parisot, 2007) that allows employers to switch, at their own discretion, to bargaining with a particular partner chosen according to the issue at hand and, for the rest, turn to the government or Parliament, when they wish to spare themselves having to bargain.

The method was adopted by politicians following the disastrous mismanagement of the First Job Contract (Contrat de première embauche) Bill by Prime Minister D. de Villepin in 2006, who had suddenly come up with a draft, while parliamentary debate was in full swing on youth employment. He imposed it without any consultation, either with the unions, or with parliamentarians, nor even with the Ministry of Labour services. The project had angered the youth, who, supported by the entire labour movement, had conducted demonstrations across France for over two months. After this episode, D. de Villepin had entrusted D.J. Chertier, deputy director of the Safran group, with a mission on "modernizing social dialogue"; the mission led to a report and the Larcher law was passed early the following year: in his report, Chertier referred to the European example as one of the sources of inspiration for these proposals, which, perhaps, could have held their own without it, but permitted to find a European source in this new practice of normative production in France (Chertier, 2006).

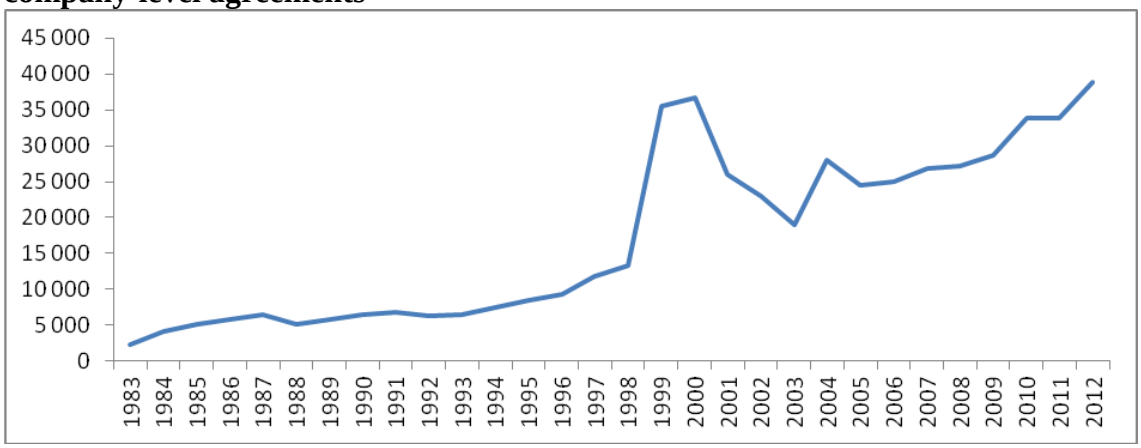
3.6. Company-level bargaining: Europe dreamt it, France did it

The main transformation of industrial relations in France for the past thirty years has concerned the scope of company-level bargaining. It intervened in three stages in the French industrial relations system, and the last one propelled it as the central collective bargaining institution.
The first step was the recognition of the company local union in 1968 . This founding moment enshrined trade union rights within the company by creating the central figure of the union delegate. This new legal framework has enabled unions to better establish themselves in companies but it has first proved to have little impact on their negotiating function, strictly speaking. Company-level agreements have always existed but were restricted to large companies, such as the, at times, iconic ones at the Renault automaker, which, in 1950, signed pioneering agreements gradually extended to the metal industry and then to all industries. For the most part, however, bargaining only took place at sector-level.

The 13 November 1982 Auroux Act on collective bargaining introduced the annual obligation to bargain at company-level. Then, this obligation related to wages, hours and work organization . It introduced in parallel the possibility, in the area of working time, to derogate (by company-level agreement) from higher level norms, provided the agreement was not opposed by the unions representing a majority of employees.

The successive enlargements of this opportunity gradually transformed the meaning of company-level bargaining, during the 1990's and even more so the 2000's. Firstly, the number of topics on the agenda of the annual obligation to bargain kept increasing: namely, working time arrangements; the 35 hours between 1999 and 2001; mainstreaming between men and women; employee-savings; employment of workers with disabilities; seniors etc... In addition, companies with more than 300 employees have the mandatory duty to bargain on forward management of jobs and skills (Gestion prévisionnelle des emplois et des competences GPEC), as well as on the arrangements for informing and consulting the WC on company strategy .

Figure 4.7. France. Company-level bargaining between 1982 and 2012; number of company-level agreements



Source: Bilan de la négociation collective en 2013, Ministry of Labour

Second, and in successive strokes, the role of company-level bargaining was reinforced in the direct production of standards. The so-called Fillon Act (in May 4, 2004) introduced a major change: it provided that, outside the four sector-level or judicial

ring-fenced domains (minimum wage; vocational training; supplementary social protection and classifications), a company-level agreement was allowed to derogate -- including in a way less favourable to employees than the higher degree standard. This is an important evolution of French labour law, as it hitherto used to recognize the "favour principle", i.e. that company-level bargaining could waive the situation bargained at sector level or warranted by law only in a way favourable to employees. At the same time, three devices provide to frame -- actually to limit -- the use of this exception: on one hand, the law extended that opposition possibility to the majority-holding organizations; on the other hand, negotiators at sector-level can "lock" other issues by excluding them from the possibility of derogating at company-level; finally, the waiver may be invalidated a posteriori by a sector-level joint committee. In 2008 and 2013, new laws allowed to enter this new age of company-level agreement, when it replaced (at least potentially) the labour law public rules. However, the derogation possibility has hardly been used by businesses. The already mentioned 11 January 2013 ANI introduced a new type of derogatory agreements, namely the Accords de maintien dans l'emploi, AME (job retention agreements), namely, to stand for a time outside higher-level agreements .

Though this was not as brutally imposed as in Greece and Portugal as well as Spain and Italy in this field, there was a continuous movement by governments to work towards IMF or OECD -- and of course European Commission's or European Central Bank's -- international recommendations. Decentralization and corporate collective bargaining empowerment are subject to regular reminders by the European Semester, which hardly needs to formulate recommendation for France, whose collective bargaining organization is already largely decentralized and whose legal system has established a wide area for waivers. We have yet to explain why such wide open opportunity is hardly taken advantage of by firms, evidence that the supposed need for deregulation of labour market rules, felt by businesses, proves to be an unfounded belief of the neoliberal psyche.

3.7. Company agreements in the crisis

Since the 2008 crisis, company-level bargaining has enjoyed a new level of growth. Until then, it used to be permitted only with a union delegate present or, in certain circumstances, with an employee holding a bargaining mandate issued on a specific issue (working hours, for example) by a union outside the company. The 20 August 2008 Act allowed employers, under certain conditions, to bargain with the works council or even a staff representative, in the absence of union delegates.

This growth is also due to the reactivation of crisis agreements, with or without conflict. Although France has not experienced massive use of short-working rules like in Germany (Charpail, 2012), 23 000 firms nonetheless used such devices in 2009. Larger automakers in particular have negotiate quits agreements (like PSA in 2009) or several short-working accords (Renault, in March 2009).

The 11 January 2013 ANI created a new tool for crisis management, with "job retention agreements" which had crystallized much of inter-union tensions. These new devices have not replaced many existing formulas that used to allow employers to choose the best -- from their perspective -- type of agreement, such as "competitiveness agreements", which are still the majority supports for crisis agreements, by far. In this

respect , the law of re-transcription of the agreement and the agreement itself fit in well with the recommendations made to France that aim at comprehensive easing of burdens imposed on businesses. It is doubtful they are the consequence of it.

4. CONCLUSIONS

The place occupied in recent years in France by centralized bargaining is reminiscent of the logic of social pacts that were common in the early 1980s and 1990s in Europe, somewhat reactivated in some countries during the early days of the 2008 crisis. While France also has a tradition of interprofessional bargaining, it has never been resorted to on such a plurality of topics outside exceptional times, for example in 1936 or in 1968. Though it is too early to make an assessment and even measure its practical significance, we can try to characterize it on a theoretical level using tools fashioned in political science or in the field of professional relationships to decipher situations and compare them from one country to another. We therefore ask whether this "method" can be likened to a particular form of resurgence of neo-corporatism as has been mentioned in other periods.

Everyone in France is delighted that public decisions are more filtered by the social debate than they used to be: the method brings some guarantees of effectiveness indeed, even if they are limited by inter-union differences and a low overall palatability of the vast majority of employers in reaching real compromise. In these "give and take" exchanges , what employees' organization concede has an immediate effect; what they think they have earned is subject to further negotiations, and many of them are slow to emerge .

Beyond this rather traditional feature in French social relations, it is possible to make some observations on the possible effects of such a dynamic.

First, the neo-corporatist hypothesis: it appears unlikely, for the same reasons (and worse even) that had excluded the French cases from that category in the 1980's. Social players do not have the conditions for a balanced relationship of exchange: trade unions are too weak and divided; they do not ensure consistency of employee groups and cannot vouch for their loyalty to the agreements either; employers' organizations do not offer any more guarantees and continue to have a very utilitarian practice of employee unionism. As for the State, it is clearly more than ever actively involved: it indicates the issues to be negotiated, the timing and the results that should be achieved. It also has no qualms about reneging unilaterally on agreements previously granted. The condition of interlocutors' autonomy is not being fulfilled, far from it.

If it were necessary to give an illustration of this French mismatch with neo-corporatism, the pact of responsibility and the July 2014 Social Conference offer two emblematic examples of how difficult it is to reach social compromise in France.

A statement of agreed conclusions was drafted in March 2014 concerning the Pact of responsibility after two meetings between unions and employers' organizations. Employers refused to commit on employment and half the union side rejected the pact as a whole. One signatory union (CFE-CGC) and an employers' union (UPA) seem set to renege on their signatures after only a few weeks.

As for the July 2014 Social Conference, it illustrates, to the extreme of caricature, what French social relations are like: the main employers' organization threatened, one week before the meeting, to boycott the Conference; the Government backed down face to the ukase and reneged on the agreements on arduousness already concluded with the unions (though already enshrined in law); half the union side left the table or never even bothered to attend. Such incredible cacophony is, to say the least, a far cry from the ordinary operating conditions of a social pact (for a detailed description of these two sequences, see Appendix 3).

The conditions necessary to establish a social pact can be drawn from the observation of those that existed in Europe in the 1970s and 1980s (Pochet, Fajertag, 2001): stakeholders that are capable of providing a minimum coherence within the interests they represent; some consistency in keeping one's word (all the more so when it has been signed) and attachment to reaching compromise. The progress of the July 2014 social Conference shows that France has yet to fulfill any of these conditions, and that is an understatement.

The other obstacle to the neo-corporatist hypothesis is the almost completed process of decentralizing collective bargaining in the company. A third or even half of private sector employees are now covered by the mandatory annual company-level bargaining whose content is frequently challenged, though. (Naboulet, 2011). These bargaining rounds are little coordinated due to unions' weaknesses, their top-level divisions and internal strife. Employees not covered by company-level bargaining are left to the discretion of too fragmented sector agreements which too often produce social norms granting the bare minimum. Social relationship are only deceptively centralized: at the top, this results in non-coherent arrangements with other levels , and the most important talks take place in companies with a certain lack of communication between levels.

The risks of such a dynamic arise precisely from this dual aspiration affecting the labour movement. The main trade-union congresses are torn by a double absorption process, at the top and at shop-floor level: at the top, by the State, which includes them in the production of public policies and social norms; at shop-floor level, by companies corporatism where bargaining has become a tool for human resource management, a kind of "managerial social dialogue" (Groux, 2010). Bargaining rarely takes union claims into account from the start (except in case of conflict) and most often takes a defensive tack hinging around the conditions of companies competitiveness.

The turning point is reached where the very tight association of social players (or part of them) in the management of public policies is liable to turn into a dangerous corporatization process of social issues, which might suggest a form of renovated corporatism, formally legitimated through democratic processes (elections, dialogue, partnership in decision-making), but which could jeopardize the expression of the checks and balances that are necessary for a society to be truly democratic. A key difference with neo -corporatism is the lack of stakeholders' autonomy and their inability to coordinate their own supporters.

The European moment in which these changes unfold increases the risk, because what is discussed, through the involvement of social partners, focuses only on setting back workers' social rights. Associating trade unions to the process is therefore only intended for them to take the blame for unpopular decisions, while political authorities only seek

to consolidate the legitimacy of their decisions by diluting their own responsibility and passing the buck to the much vaunted "social dialogue ".

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6. ANNEXES

Annex 1: Social actors in France

Workers' unions

The workers' union movement has 7 national union centres according to a cross-industry organisation, and one large organisation only in public sectors and services.
Among the 7 confederations, five have been acknowledged to be representative, according to August 20th 2008 Act which revised the acknowledgment criteria previously existing since 1950.

Representative organisations:

- The CGT (Confédération Générale du travail) is the oldest and first national union, at least electorally speaking. Sprung from the secular tradition of blue collar workers' movement, it dominated French unionism for a long time but lost a lot of strength in the 1980s. Though it lost around two thirds of its members from 1978 to 1992, the CGT kept a large number of professional federations and a rich network of local union branches. Its relative predominance in the public sector tends to acquire balance into the private sector, which remains a land of conquest. Historically influential among blue collar workers, it is present among employees today but strives to reach the intermediary categories and the management.
- The CFDT (Confédération Française Démocratique du travail) is very close to its competing union in terms of members (a little above) and in terms of electoral influence (a little below). But it has a notably strongly diverging outlook on the world, and union strategy. Its loss of strength* during the 80s was less acute than the CGT's, however they lost more members in the public and civil services than in the private sector where they are ahead of the CGT in terms of implantation. The CFDT focuses on collective bargaining and the signing of agreements, whether company- or industry-level. An embodiment of the « years 68 », the CFDT resolved to a « hyper-reformist » profile, pro-European by principle, which differentiates it even on the European Union stage.
- The CGT-Force Ouvrière (Confédération Générale du travail – Force ouvrière) is the third organisation in importance (electoral and members). It sprung from a split-up within the CGT in 1947. For a long time impregnated, even dominated by civil servants in its ranks, it settled with some stability in the private sector where which, over time, new representativeness system threatens it. It is very opposed to the two other unions, but on different matters.
- The CFTC (Confédération française des travailleurs chrétiens, a Christian workers' union) is the smallest representative confederation, its existence was even threatened after the reform on representativeness but it successfully went through elections even if it tends to lose implantations. It sprung from a scission in the CFDT in 1965, gathering small numbers of minority votes against the evolution of Christian unionism to a more secular form chosen by the majority. It is attached to traditional values in quite a conservative way.
- The CFE-CGC (Confédération française de l'encadrement – Confederation générale des cadres) is a sectoral organisation gathering executive managers and supervisors, mainly from the private sector. After having almost disappeared in the early 90s, it recovered some significance as a management union but is only a top three

organisation. In spite of this it was allowed to remain representative, in acknowledgement of a « managerial » specificity and takes part to industry-level negotiations with the same status as the other generalist unions.

"Non representative" bodies

- The UNSA (Union nationale des syndicats autonomes, or independent organisation national union) was born in 1993 from the merging of various independent federations from the civil and public services. It grows in some parts of the private sector, but is far from the conditions required to be acknowledged representative. After seeking to merge with the CFE-CGC, it is tempted to join the CFDT today. This is unlikely as many conflicts remain in some sectors between the two unions.
- Solidaires is the most recent French organisation. As the UNSA, it refuses the « confederation » status and calls itself a « union » granting to its affiliates a large autonomy. Marked by union revolutionary or libertarian tradition, Solidaires establishes itself as criticiser of the existing confederations. If it experienced a significant rise in the past decade, this union has the same renewal problems as the other entities.
- The FSU (Federation syndicale unitaire) is first a teachers' federation sprung from the splitting of the former national education federation in 1992. Part of the latter went to the UNSA while the FSU gathering of teachers made it a significant union force today in the whole central government services, a little in local authorities' services, and in some other sectors of civil services. It entertains privileged relationships with the CGT but no project of organic reunion is planned.

Employers' organisations

Here the distinction is not dealt with in terms representativeness but in terms of coverage scope.

- The MEDEF (Mouvement des entreprises de France) is the canopy organisation, intending and pretending to represent all entrepreneurs of all size and all professions. Others contest this pretence, considering the MEDEF the expression of the interest of large companies which, through some powerful federations (UIMM, Union of metal industry metal works) or the FFB (French Builders federation) do exert some control on the organisation; but despite this contest, the MEDEF ensures the central logistics of the management, including in social negotiations.
- The CGPME (SMEs Confederation) often contests the leverage from very large companies. It aims at organising the small companies besides and sometimes against the MEDEF. In the same time it is quite dependent and does not stand out during the negotiations with workers' trade unions. Itis in a major dispute with the MEDEF about the measure on the representativeness of employers' organisations, in which the CGPME wishes the business managing directors to be elected.
- The UPA (Craftsmen professional union) is a unique entity, sometimes very opposed to the two abovementioned, and at times has an inclination to agree with workers' trade unions in some areas, probably because small employers feel close and hardly different from their employees. Retail and building industry craftsmen are the most widely represented in the union.

Other organisations of employers contest the kind of representational monopoly granted to these three bodies. Such does the UNAPL (National freelancers Union) which gathers trade unions from health care practitioners or lawyers, or the USGERES (Union of trade unions and groupings of employers representing social economy) which became the UDESS in June 2013 (Union of employers of social and solidarity economy) gathering employers with an NGO status: membership based organisations (mutuals) cooperatives, associations for inclusion, home support, etc.). With a growing number of employees, this sector wants to join the social negotiating table. For now it butts on the intransigence of the three official organisations which deem it an « outsider».

The representativeness acknowledgement of employers' organisations is part of the social debate agenda in France for 2013.

Annex 2

The Competitiveness and employment tax credit CICE and the Pact of responsibility and trust

The CICE was adopted in late 201, to be implemented on 1 January 2013. For the first year, all companies have a tax credit equal to 4% of payroll calculated on all less than 2.5 times the minimum wage salaries. The rate was increased to 6% in 2014. It cost €13 billion in 2013 and €20 m in 2014. Basically, these savings should be used to reduce export costs, to boost investment in research and innovation and also enhance employment. The then Prime Minister had said he expected this new device to generate 300,000 to 400,000 jobs. The presentation of these amounts is not controlled by the administration; it is to be subject to regular reviews as part of a "Committee for monitoring the competitive employment tax credit", chaired by the Commissioner General for strategy and prospective (Commissaire général à la stratégie et à la prospective, CGSP).

This Committee was set up in July 2013, after a number of large companies had attempted to compel their suppliers to lower their prices because they benefited from labour costs reductions, thanks to CICE. The Committee noted at its first meeting that the device benefited less to exporting companies than to the others, since payroll involved in services such as trade or large retailing is proportionally lower than in industry. The effectiveness of CICE has been widely criticized, including by the Socialist Rapporteur of the Finance Committee of the National Assembly. Eighteen months after its enforcement, unemployment continued to increase and real investment in research and development remained low, while the trade balance deficit continues to grow.

Despite the failure of these cuts, the President of the Republic announced on December 31, 2013 the launch of a "Pact of responsibility and trust " designed as the second step after the CICE. It was made clearer a few days later, and received the support of employers, who find "interesting" the promises to reduce labour-costs: MEDEF says a million jobs could be created but refused to make a commitment. Unions split even before details were announced: CGT and FO rejected it, but CFDT, CFE-CGC and CFTC accepted the logic of it. After two meetings on the subject with employers' organizations, the representative trade unions remained divided and only the last three signed a "Statement of Conclusions " on March 5, 2014. "Non-representative" unions

were not consulted, but they also splintered: The Solidaires union and FSU aired their disagreement, while UNSA agreed. On 14 May 2014, two months later, a new unemployment insurance agreement was ratified between a few unions and employers (CFDT, Force Ouvrière and CFTC), but it was rejected by CGT and CFE-GC. The latter found the agreement totally unacceptable, and announced it would withdraw its support to the Pact of responsibility. On 11 July, disgruntled at the new distribution of positions in new instances related to professional training, the Craftsmen Professional Union (Union professionnelle des artisans, UPA), the third employers' organization, also threatened to "withdraw from the pact of responsibility". But the March 5 statement of conclusions was signed by these organizations. One is hard put to it to formalize the status of this "withdrawal", and it was also difficult to know the implicationsof signing a "statement of conclusions." Seven months after its announcement, the Pact of responsibility is still ongoing but no one really knows what it implies and who it is binding for.

The initial objective is "zero charge" for an employee paid the minimum wage as of 1 January 2015, a reduction of employees' contributions if they earn between 1.6 and 3.5 times the minimum wage and a progressive decline of various taxes on companies until 2017 (social solidarity contribution, corporate tax, etc.). A component aiming at administrative simplification was included in the plan as well as a reduction in social security contributions and taxes for so called "modest" (low income) households. In total, € 30 billion was allocated to boost business investment and employment. In return, the government expects a corporate commitment to increasing employment and the launch of sector-level bargaining to implement the Pact.

In July 2014, few sectors have actually begun discussions on the implementation of the Pact of responsibility. Confusion about its content is currently being gradually lifted, but it is still quite unclear at the level of organizations involved. CFDT, the main pillar of union participation in the Pact, eventually upped the ante: it requested taking a hard look on commitments on employment and conditionality, should further aid be demanded by employers. The plan should continue, it says, only provided new job-creations are actually recorded, a commitment employers refuse to subscribe to, because, they say, the economic environment is too unpredictable. Therefore, the government announced, at the July 2014 Social Conference, an expansion of the CICE Monitoring Committee created in July 2013: its powers will be extended to the Pact of responsibility and the Prime Minister will act as its chairman. The government has sought to revive at least sector-level bargaining, so far insufficiently mobilized on the Pact.

One example: the Pact of responsibility in the metal industry

UIMM and sector unions met on May 7 last to set, in addition to the 2014 social agenda topics, the method and timing of the work they wished to discuss in the coming months. Following the reflection period agreed between social partners, they have made their position known on the proposed program. And CFE-CGC, CFDT, CFTC and FO have expressed their agreement to the proposed complement to the agenda.

This document, entitled "Social Pact for the metallurgy industries" develops the contribution of metallurgy to the responsibility pact proposed by the government.

This is the first implementation of the Pact of responsibility; that initiative demonstrates social partners' commitment to create a new social innovation dynamics within the industry in accordance with the commitment made at the January 23 joint meeting.

Three major commitments are to be met:

1 / The implementation of an economic dialogue, whose primary application point is to assess the impact on the sector of the measures envisaged by the government under the pact of responsibility, based on early estimates of the cost of the measures to be implemented by the end of 2017.
Second, this dialogue will focus on added value, hence companies' margins and their investment capacity in relation to employment.
2 / Opening negotiations on employment, proportional to the commitments made by the Government under the responsibility pact, whose perimeter will be the renegotiation of the national agreement on GPEC in metallurgy as well as the 12 June 1987 national agreement on general employment issues.
3 / Updating studies and goals in terms of employment, training and apprenticeship, in view of the latest data and comprehensive assessment of the situation of the apprenticeship in the sector relatively to the commitments made in particular as part of the 13 July 2013 national agreement on the generation contract.
The new guidelines that will then be set, will take into account the financial resources available and the need for cooperation by regional authorities in terms of apprenticeship, as well as the expected consequences of the measures announced by the Government on the economic environment for companies in that sector.
Regular monitoring will be done during joint meetings listed in the sector's Social Agenda, taking into account the effective implementation of the announcements made by the Government in favor of the industry.
In a statement, Jean -François Pilliard, General Delegate of the UIMM, welcomed "social partners' spirit of responsibility, as they have laid the main areas of work necessary for implementing the Pact of responsibility in the industry, through aiming fully at boosting growth and employment by expanding dialogue towards a shared understanding of economic issues."
Source : UIMM

Annex 3: The July 2014 Social Conference: the limits of social dialogue à la française

The July 2014 Social Conference, the third of the kind, perfectly illustrates the limits of French style social dialogue.

First, the staging of it. On June 15, the government received all social partners to prepare the agenda for the Social Conference; a few days later, it sent them an agenda excluding the most controversial topics. Its own concerns were added, particularly those related to the Pact of responsibility; the Conference was to take place in two stages: on the first day, the President of the Republic was to make a statement; on the second day, seven round tables were scheduled, led by ministers or senior officials close to the government -- a total of 300 people gathered at the Economic Social and Environmental Council. This great contest was accompanied by large press coverage and political statements extolling social dialogue.

Then, the social actors On the employers' side, MEDEF made an announcement, one week before the opening, that it would not participate in the Social Conference if the government did not first reverse two decisions: the first relates to the "arduousness "account, introduced in the 18 December 2013 pensions reform; the second is the new legislation on part-time work, resulting from the June 2013 Act. The arduousness account is the result of a compromise between Government and unions as part of a new pension reform that extended to 43 years the number of annuities payable for retirement without a discount. Since 2003, employers have refused any bargained consideration of arduousness in determining the retirement age. CFDT had stated the arduousness account was a prerequisite for its acceptance of the reform, a condition the government had eventually agreed on. As for the second theme, the new rules on part-time work, they are included in the 14 June 2013 Act, directly following the 11 January 2013 agreement employers had signed -- in exchange for a number of concessions.

The State proved no less flippant since the Prime Minister immediately backtracked on two of the employers' movement requirements to renege on a commitment entered into with trade unions and with CFDT in particular. The latter merely recorded the deferral of the arduousness account. Therefore, it has proved obvious that the State's "signature" does not necessarily mean it has actually committed to it, which is somewhat of an embarrassment in a social pact logic.

As for unions, all of them (including those who are not officially deemed representative at national interprofessional level in the private sector) were invited to the Conference. There was no prior consultation between the three main trade unions to try and present a number of topics in common. Prior to and after the Conference, exchanges between them were marked by sometimes virulent public invective. CGT and FO finally decided not to attend the second day, preceded by Solidaires, who announced well in advance it would not participate, and followed by FSU, who left the Conference on the morning of the second day.

This "great" Social Conference has brought about a fairly general set of commitments subject to further discussions and other dialogue sequences.

Chapter 5

Greece under the Economic Adjustment Programme. Internal devaluation, deconstruction of the system of collective bargaining and social impacts

Christos Triantafillou[102]

INTRODUCTION

The global financial crisis of 2007 and the ensuing economic crisis aggravated the existing structural weaknesses of the Greek economy. After a long period of economic growth, in 2010 the sovereign debt crisis caused the most severe structural crisis in Greece's recent history. The fiscal derailment and the significant deficit in the balance of payments on current account are symptoms of a deeper crisis of the development model, which is now being seriously questioned.

The underlying reasons of the crisis are locally-generated but the crisis is exacerbated by external factors and, in many respects, is part of the wider crisis in the European Union. The Greek debt crisis is due both to locally-generated structural factors and to external factors connected with the global financial crisis and the role of the markets, with the problem architecture of EMU, and also with the manner in which the eurozone governments address the crisis, in particular the debt crisis, at European level.

The policies currently implemented in Greece, as in other countries under a Memorandum, under the supervision of the Troika (IMF, ECB and European Commission) pursue a violent adjustment through austerity policies, which are consistent with the spirit of the new European economic governance that has been launched since 2010[103]. Aspects of the policy of the Memorandums are enacted and form the new institutional framework of the eurozone, while the European Union still faces a complex crisis that has not yet come full circle.

The successive adjustment programmes that have been implemented in Greece since 2010, in the context of the "bailout" plans through loan agreements and the Memorandums of Understanding accompanying them (1st Memorandum in 2010 and 2nd Memorandum in 2012), **include measures of harsh fiscal austerity** (reductions in wages, pension, health, education, operational expenditure and public investment, increase of direct and indirect taxes), a series of **"structural reforms"** (radical changes to the pension system, the labour relations and the labour market, privatizations, etc.) as well as interventions for a **drastic reduction of the labour costs**, which is a key condition for the continued funding of the program and is set as a quantitative target in the 2nd Memorandum (-15% by 2014). This objective is achieved through measures that increase the labor market's flexibility, strengthen the precarious forms of work and time management by employers, through direct state interventions that drastically reduce nominal wages in the Public and the Private sector (including the minimum wage) as

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[103] European Semester, Pact Euro Plus, "Six pack", "Two pack", Treaty on Stability, Coordination and Governance, also called "Fiscal compact".

well as through arrangements that completely alter the system of collective bargaining and wage setting.

Employees and pensioners, the middle- and low-income groups are mostly called to shoulder the cost of the crisis in Greece, undertaking the brunt of the fiscal adjustment both in terms of expenditure (wage, pension, social protection spending cuts) and in terms of tax revenue (money-driven measures of direct performance, indifferent to the social and economic side effects, while the necessary tax reform was never launched).

The nature and characteristics of the main measures adopted in the context of the implementation of the adjustment programme suggest that the memorandums identify fiscal adjustment with austerity and improving competitiveness with reducing labour costs. The Troika and the national governments impose antisocial and uneconomic measures (in exchange for the payment of the installments of the loan agreements, which primarily service the debt), while the successive adjustment programmes focus on macroeconomics and, in essence, do not care about the production system, despite the fact that growth is a key factor for the economy's stabilization and rebalancing.

The debt crisis is used as an excuse for the drastic shrinking of the workers' social and collective rights, through the complete deregulation of the labour market, the limitation of the collective protection of workers (deconstruction of the system of collective bargaining, Collective Employment Agreements and wage setting), direct government interventions that reduce wages in the public and private sector and the deconstruction of the social security / protection system, which result in a direct degradation of salaried employment, at the same time consolidating, in the coming years, a new redistribution of income at the expense of salaried employment, through a process of massive impoverishment of workers.

The policies of harsh fiscal austerity and internal devaluation, despite their dire economic and social consequences, do not allow stabilising or reducing government debt (continuous deterioration of the debt/GDP ratio) and deviate more and more from the avowed objectives of the adjustment programme, i.e. debt sustainability and the country's exit from the crisis. On the contrary, these policies lead the economy to a deep and prolonged recession, to a continuation and intensification of austerity measures, to exploding unemployment, increasing poverty, drastic decrease of the standard of living, reduction of pensions and wages, without improving competitiveness.

As regards the impasse to which the Greek economy and society have come, apart from the locally-generated factors and the enormous responsibilities of the national protagonists in the drama, one should consider and take into account the responsibilities of EU policy. Urgent and effective solutions are now required both at national and European level in order for the country to manage to escape the vicious circle. That requires a change in policies at both national and European level.

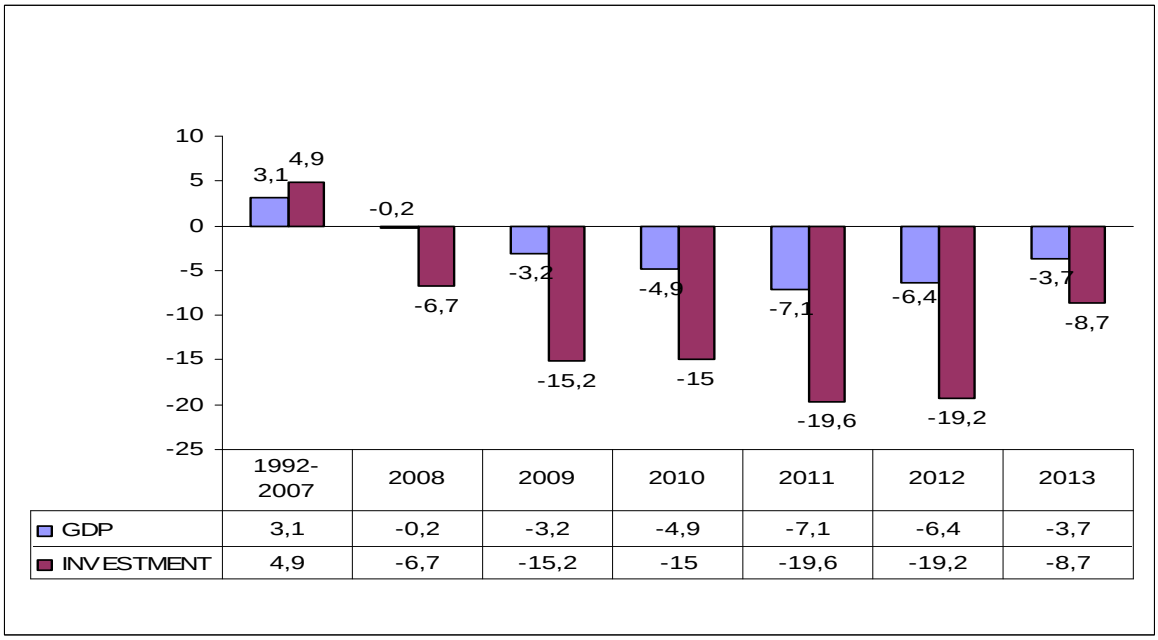
1. MACROECONOMIC & LABOUR MARKET DEVELOPMENTS IN THE PERIOD OF THE CRISIS (2008-2013)

Because of its economic and structural policy, **Greece's economy** remains in **a state of deep recession for a sixth year** (2008-2013), **with high unemployment** and no visible signs of recovery in the macroeconomic indicators. The dramatic fall in the incomes of

wage-earners and pensioners is continuing, GDP per capita is diverging from the European Union average, the number of unemployed is approaching one-third of the workforce, exports are slightly increasing and public debt is not falling. The deficit in the external balance of goods and services and the public deficit are being reduced, but this is damaging the Greek economy, with social deprivation and increasing poverty among large swathes of the population.

The policy of harsh and aggressive fiscal adjustment, in combination with the policy of internal devaluation chiefly implemented through the drastic reduction in wages, have led the Greek economy to an **unprecedented contraction of economic activity** comparable to the Great Depression of the 1930s**. In 2013**, the Greek economy continued to shrink for the sixth successive year, with **GDP approximately a quarter less than it was in 2008,** while **fixed capital formation over the same period fell by 55%** (Figure 5.1 and Figures 1 & 2 in the Annex)[104].

Figure 5.1. Greece. Gross Domestic Product & Investment. Volume (% over previous year).



	1992-2007	2008	2009	2010	2011	2012	2013
GDP	3,1	-0,2	-3,2	-4,9	-7,1	-6,4	-3,7
INVESTMENT	4,9	-6,7	-15,2	-15	-19,6	-19,2	-8,7

Source: European Economy 2/2014

The range and intensity of the austerity measures that have been applied are leading the economy into deep recession, a dramatic fall in employment, exploding unemployment and a drastic decline in living standards. The IMF has recognised in retrospect that the fiscal adjustment had greater negative impacts on GDP than originally anticipated in the adjustment programme due to the **"underestimation" of fiscal multipliers**, (Blanchard 2012) but this has not so far led to a change of policy in terms of the austerity measures, which continue at an ever increasing pace.

The policy of internal devaluation implemented under the adjustment programmes since 2010 aimed at increased exports and economic recovery through a reorientation from the domestic market to international markets. However, the policy has failed and in the end, the Greek economy is adjusting its deficits (external and fiscal) through a

[104] The annexes can be found at the end of the chapter.

process of contraction of production potential, devaluation of the workforce and increased poverty. The constant reports of the bodies conducting economic policy that Greek exports of goods and services are increasing, which, if true, would show the success of the policy of internal devaluation and mark the beginning of a way out of the crisis, are unconfirmed. Export performance shows no improvement; on the contrary, it is falling, while the fairly swift **improvement in the external balance of goods and services is due only to the rapid fall in the volume of imports** accompanying the extremely deep recession of the Greek economy (Figure 4 - Annex).

The drastic reduction in wages, in labour's share in the product and in unit labour costs is not improving export performance. The aim of the Second Memorandum for a 15% reduction in unit labour costs by 2014 has been achieved through drastic wage cuts and is expected to be exceeded**. Unit labour costs for the three-year period 2010-2013 fell in Greece by 14.05%** (Figure 3 - Annex).

However the reduction in unit labour costs and the improvement in the external balance does not mean that the competitiveness of the Greek economy has improved, as the bodies conducting economic policy claim. The rapid improvement in the external balance of goods and services is due solely to the drastic reduction in the volume of imports. The volume of imports fell by 30.3% during 2010-2013 (and by 44.4% during 2009-2013), due to the dramatic fall in consumption and investment. *(Figure 4 – Annex.)*

Despite the severe reduction in unit labour costs, **the volume of goods and services exported** grew by just 0.3% in 2011, fell by 2.4% in 2012 and is expected to rise slightly by 2.5% in 2013 (European Commission forecast). Following the sharp drop in exports in 2009 (-19.4%) no significant improvement was seen, while at the end of 2013, the volume of exports will continue to be 15% lower than in 2008 (Figure 4 - Annex).

Nor, in addition, does the **export performance index,**[105] which takes into consideration the growth of export markets, show an improvement in the export performance of the Greek economy. The index **fell by a cumulative 13.7% over the period 2010-2013** (and by 20.3% during 2009-2013) (Figure 5 - Annex).

The Greek economy is adjusting its deficits (external and fiscal) through a process of contraction of production potential and devaluation of the workforce. **The sole purpose of economic policy in Greece today is the creation of a primary surplus** (concentrating the resources of the economy solely on the deficit and the debt) **in the complete absence of the dimension of growth**, which is expected to arise from the increase in exports and privatisations, while investment is sought only through a "fire sale" of public companies, property and utilities (water, energy, etc) to domestic and foreign investors. The main argument of the designers and supporters of the Memorandum that the drastic cut in wages will improve competitiveness and reduce unemployment has not proved to be the case for Greece, despite the mass impoverishment of wage earners and broader sections of Greek society (see section 4).

[105] The export performance index is the volume of goods and services exported, adjusted for the growth of Greek export markets.

Finally, in respect of the **public debt**, the policy applied since 2010 has not led to sustainability of the public debt. The **debt-to-GDP ratio rose steeply to 176% in 2013 from 112% in 2008** (and 129% in 2009) (Figure 6 & 7 - Annex).

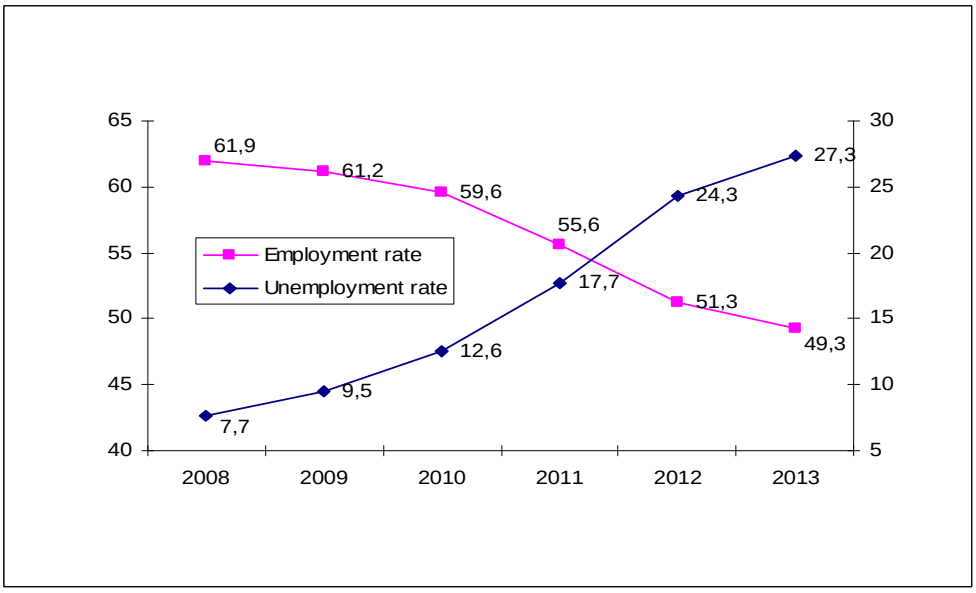
Through a loan agreement of 110 billion euro, **the first "rescue" plan** for the Greek economy (First Memorandum 1, May 2010) aimed chiefly to prevent a default without facing the problem of debt sustainability. The programme essentially sought to prevent a general banking panic in Europe with the logic of buying time, and primarily aimed to rescue the banks, for which it functioned as a "firewall", giving them the chance to gradually divest themselves of Greek bonds**.**

The sustainability of public debt was not dealt with either in the second "rescue" plan (Second Memorandum, February 2012) with the **implementation of PSI (**writing down part of the debt held by the private sector and the social security funds) **or in the decisions of the Eurogroup for the repurchase of part of the debt** (November 2012), while the economic policy implemented in the framework of the memorandums worsened the debt-to-GDP ratio mainly because of the unprecedentedly deep contraction in economic activity caused by its implementation.

After the conspicuous failure of the first and second Memorandums to make the public debt sustainable, and while both the IMF and the OECD now consider Greece's debt to be unsustainable, discussion in the European Union is now shifting from debt sustainability to debt serviceability, which essentially means (amounts to) buying more time, while pursuing the same unsuccessful and mistaken austerity policies that have brought the Greek economy to collapse and society to the verge of a humanitarian crisis, given that a significant section of the population is now living in deprivation (see section 4).

The effects of the implemented policy on employment and levels of unemployment are striking (Figure 5.2 and Figures 8, 9 and 10 in the Annex.)

Figure 5.2. Employment and Unemployment Rates. Greece 2008-2013 (%)



Source: Eurostat

From 2010 to 2013, the number of people in employment fell by 19% (approximately 900,000 jobs were lost). The **employment rate** among the population of working age (15-64) fell **from 62% in 2008 to 49.3% in 2013** (and for individuals aged 20-64 from 66.5% to 53.2%). [106] The reduction in the number of people in employment arose both from the firms that remained in business laying off workers and from the large number of firms going out of business.[107]

Today, Greece has lost **approximately ¼ of its national income**, it has experienced the **destruction of a significant section of its production potential** and it has an unemployment rate of 27.3% (which would be much higher if thousands of young people had not emigrated).

The unemployment rate in Greece is the highest in the EU-28 and has increased from 7.7% in 2008 to 27.3% in 2013. The rise in both the number of unemployed (from 355,000 in the third quarter of 2008 to 1,345,000 in the third quarter of 2013) and the number of long-term unemployed (from 185,400 in 2008 to 955,600 respectively) is striking. **Approximately 70% of all unemployed people are long-term unemployed**, while it should be noted that **the maximum duration of unemployment benefit is 12 months** and there is no form of minimum guaranteed income in Greece (see section 4).

In the first quarter of 2014, the total unemployment rate was 27.8% (31.4% for women), while for young people under the age of 25 it was 56.7% (61.5% for young women under the age of 25)[108].

Unemployment has now reached unacceptable levels which obviously cannot be attributed to mismatches between supply and demand, to rigidities in the labour market and wages, or even to the level of the minimum wage, as the neoclassical and neoliberal approaches adopted by the adjustment programme believe. This is a grim new situation in which a young labour force with more qualifications than in the past has to choose between unemployment, work which is uninsured or poorly paid, and migration.

Even in the most wildly optimistic scenario, GDP and employment will need more than 15 years of favourable development to return to where they were when the destructive process of the crisis and the adjustment programmes began.

2. THE NATIONAL DEBATE ON THE ECONOMIC ADJUSTMENT PROGRAMME

The austerity measures and the drastic changes in labour issues implemented in Greece in the last four years, apart from the errors in diagnosing the problem and the "treatment" required to deal with it, apart from the dogmatic fixations of the IMF, European institutions and Greek governments, also reflects a **paradigm shift in European economic governance.**

The adjustment programmes implemented since 2010 in Greece under the direct supervision and regular inspection of the Troika (the IMF, the ECB and the European

[106] The Greek target under Agenda 2020 is 70% for 2020 (the target is 75% for EU-28 as a whole)

[107] According to data from IKA, approximately 75,000 firms, i.e. **30% of firms have gone out of business.**

[108] HELSTAT, Press Release 12 June 2014, Workforce study in the first quarter of 2014.

Commission) and interventions arising from major decisions of the European Council for Greece[109] also include, with the **fiscal austerity measures** (reduction of wages, pensions, spending on health and education, operational expenses, a drastic reduction in public investments and an increase in indirect and direct taxation) a series of **key changes to labour law**, pushed through as "urgent", often without any legislative framework or democratic and participatory procedures, circumventing parliament and the social partners.[110] The adoption and implementation of measures to increase flexibility in the labour market, measures to immediately cut wages in the public and private sector and to impose aggressive decentralisation of the system for setting wages, are made **preconditions ("prerequisites") for the provision or the continuation of financial support** in the form of loans. Apart from the harsh and ineffective austerity measures, **the Memorandums** demolish fundamental labour and social security rights and **impose conditions (conditionality) in matters for which the EU has no responsibility.**

The adoption of the measures is accompanied by an official rhetoric that seeks to legitimise them, presenting the austerity programmes and internal devaluation as the only solution for Greece to avoid bankruptcy. It is persistently stressed that there is a state of emergency, that tough measures are necessary for the country to be "rescued", and also that these are a fundamental precondition and prerequisite for the country to remain in the euro area.

The policy of austerity and shrinking labour and social rights is promoted as the only option by the designers and supporters of the Memorandum (*TINA, There Is No Alternative*). **The main arguments** put forward to justify the policy is that in order to deal with the crisis, **harsh austerity is necessary to balance the budget and pay off the debt**. In essence, the economic policy implemented since 2010 equates fiscal adjustment with austerity and has the sole aim of creating a primary surplus at any cost. **Wages and labour costs are responsible for low competitiveness** (while fundamental structural problems of the competitiveness of the Greek economy are defiantly and dogmatically ignored) and at the same time the "inflexibility" of the labour market is considered a key reason for reduced employment and a key obstacle to job creation.

Governments and European institutions present the radical changes to labour conditions as an inevitable and advisable response to the crisis, claiming that in this way employment is protected and competitiveness improved, while **systematically challenging and circumventing national social dialogue institutions**. To address economic imbalances and in particular the existing differences in levels of competitiveness between EU countries, a purely neoclassical approach has been adopted, which seeks corrections principally through the variable of wages. **The implemented policy equates competitiveness with unit labour costs and the agencies implementing the policy argue that the reduction in wages will allow improved competitiveness of the economy and job creation**, essentially indifferent to the productive base of the economy.

[109] Key European Council decisions regarding Greece during the 2010-2012 period: 2010/320/UE (8 June 2010), 2011/734/UE (8 November 2011) and 2013/6/ UE (4 December 2012).

[110] A characteristic example is the Act of the Council of Ministers (February 2012) reducing the collectively agreed minimum wage by 22% (and 32% for young people) and dismantling the system of collective employment agreements (see Chapter 3).

This above mentioned logic has been argued by successive Greek governments, the European institutions and significant sections of the media, while **alternative views and proposals** expressed in parliament or in the framework of the public debate over the "doctrine of austerity" are frequently described by supporters of the adjustment programme as **populist**.

The unprecedented and, for a European country, unique overturning of wages, working conditions, collective employment agreements and labour law over the last four years **have been instigated by Greek governments by order of the Troika, without social dialogue and despite the mass opposition of employees and society**. These measures affect collective autonomy and attempt to marginalise collective bargaining, collective labour agreements and trade unions, preferring individual negotiation between employer and employee. They promote an anachronistic competitiveness, feeding back into and intensifying the recessionary trap in which the economy and society are caught. Many of these measures are contrary to (incompatible with) the provisions of the Greek Constitution, basic international labour agreements signed by Greece, the European Convention on Human Rights, and the *acquis* in general.

The unions believe that, under pressure from the Troika, Greece's governments are violating fundamental economic, social and democratic rights in the name of fiscal discipline and improved competitiveness. The public authorities are aggressively dismantling collective bargaining institutions, directly intervening and reducing pensions and nominal wages in the public and private sector and using the law to terminate collective employment agreements, while violating provisions of fundamental international conventions of the ILO, the EU's Charter of Fundamental Rights and the Greek Constitution. They argue that the insistence of the Troika and the Greek government on continuing the same failed policies (of the first and second memorandum) with even greater intensity has led workers and the majority of Greek society into poverty. This policy has resulted in a sharp decline in income, the squeezing of wages and pensions for tax, the abolition of the National General Collective Labour Agreement (which for decades set the level of the minimum wage) and industry collective employment agreements, layoffs in the private and public sector, exploding unemployment, the dismantling of public services and social assets (health, education), privatisations, the drastic reduction of pensions and the demolition of the public social security system, as well as the continuation of the deep recession and misery.

For the unions, what is required is public policies (in contrast with those currently being implemented) in order to strengthen social protection, public health and education, and social infrastructure, and to protect public goods. Policies that will encourage economic growth and development, job creation so as to halt the explosion of unemployment and the marginalisation of significant sections of society. There is an urgent need for immediate action to prop up the income of the weakest, to reduce extreme job insecurity, to protect the unemployed, and to support and improve the public health system, including safeguarding its funding. At the same time, the unions demand the restoration of wages and pensions through collective bargaining and the tax system. The brutal and widespread fall in wages is fuelling and intensifying the recession, spreading the process of mass impoverishment of wage-earners and amounts to a bomb placed under the public social security system. There needs to be an immediate restoration of the autonomy of bilateral collective bargaining at all levels (without state intervention).

The public pension system must be protected and pensions must be restored with the return of the Funds' "stolen" reserves and the adoption of a social resource in order to help make the system sustainable. Tax evasion, evasion of social security contributions and undeclared work must be stamped out effectively, and there must finally be real tax reform with progressive taxation, the reversal of the relationship of direct and indirect taxes, and the use of effective mechanisms and tools against traditional and new forms of tax evasion and tax avoidance.

The trade union confederations (GSEE and ADEDY) condemn the harsh neoliberal policies being implemented in the frameworks of the memorandums in Greece. They believe that they lead to economic and social disaster and that they must be overturned. In their view, a realistic and viable solution for ending the crisis and the current impasse, requires (comes through) a different economic and social policy at a European level, which increases public investment and social spending, boosts liquidity, redistributes income and increases employment.

Since 2012 in particular, agreement can be seen over various issues between **trade unions and small employers' organisations**, which participate in general strikes held by the unions to protest against the austerity measures, believing that they lead to closure of businesses and job losses, while they have also taken joint initiatives with the aim of supporting the autonomy of collective bargaining.

3. THE DECONSTRUCTION OF THE SYSTEM OF COLLECTIVE BARGAINING DURING THE ADJUSTMENT PROGRAMME (2010-2013)

Since the beginning of the economic crisis, the workers' rights are under pressure in various countries of Europe, due to policies aiming at increasing flexibility and reducing labor costs, through the adoption, among other things, of measures, regulations and changes in labour law and labour relations (Clauwaert & Schömann, 2012).

The range and intensity of the measures and radical changes that are set in course and implemented in Greece over the last four years completely overturn the employment framework. The structures of labour relations, the institutions and mechanisms of collective bargaining, of collective employment agreements (CEA) and wage setting are utterly altered, leading to an institutional weakening of unions and poor collective protection of workers.

The debt crisis will be an opportunity and a chance for the degradation of salaried employment. Using the basic argument of the need to improve competitiveness and increase employment, the implemented policy shapes, since 2010, a new employment landscape in Greece, through major interventions in labour law and serious reversals in the system of collective bargaining and wage setting. The adjustment programme implemented within the framework of the Memorandums, apart from the fiscal austerity measures, involves a series of "structural reforms", paying particular attention to reforms in the labour market and the labour relations and promoting a series of radical changes and measures that faithfully follow the logic of internal devaluation, with the reduction of labor costs by 15% by 2014 being the program's basic quantified objective.

In the case of Greece, European institutions and national governments promote and **impose increased flexibility in the labour market** (through numerous measures to

support flexible forms of work and working time management by employers, as well as to facilitate dismissals by increasing the limit of mass redundancies and reducing dismissal costs for employers), a **drastic cut of nominal wages** by direct or indirect government intervention and a **limitation of the workers' collective protection by the system of collective bargaining and Collective Employment Agreements**.

Legislative interventions and a multitude of regulations, which are each time accompanied by a rhetoric of demonization of the labor protection thresholds for the low competitiveness of the Greek economy, systematically lead to the deregulation of labour relations, dogmatically ignoring the real structural problems of competitiveness of the Greek economy and seeking to improve competitiveness exclusively through a drastic reduction of labour costs (mainly through drastic reductions in wages).

In the last four years, there has been a gradual but each time more violent state intervention in the system of free collective bargaining, aiming initially at freezing and, subsequently, at reducing nominal wages, through interventions that shrink the bargaining power of trade unions, clearly assuming a position in favour of the employers' side and the enterprises and imposing a series of regulations in the labour market and social protection with painful consequences for workers.

In the public sector, the administrative method of drastic reduction in nominal earnings and changing labour relations is selected from the beginning. In order for the budgetary targets to be achieved, workers in the public sector are called to contribute more each time, through successive across-the-board wage and benefits cuts, the cut of two salaries per year for all employees in the public sector (abolition of the 13th and 14th salary), the implementation of a uniform pay scale (which causes nominal wage reductions ranging between 7% and 55%), the increase of the weekly working time to 40 hours (from 37.5) without raising wages, the abolition of internal works rules, the suspension of the CEA in State-owned Enterprises and the harmonization of their workers' wages with the uniform pay scale of the State and, finally, by reducing the number of civil servants. According to the Ministry of Administrative Reform, more than 200,000 employees have left the public sector since 2010 (retirement, voluntary resignation, etc.) while new staff is not being recruited (1/5 is the rule dictated by the Memorandum, namely one employee is recruited for every five employees who retire). At the same time, the Government has committed itself towards the Troika, as regards the period 2013-2014, to include a total of 25,000 civil servants in non-active status/mobility schemes (the majority being moved to other posts), and also that 15,000 employees, a number of whom will be civil servants included in mobility schemes, shall retire/be dismissed (Georgiadou 2014).

In the private sector, with which we will deal in more detail, the measures that have been set in course gradually since 2010 aim, as a first step, at overturning the hierarchy of Collective Employment Agreements through the possibility of deviating from their terms, the abolition of protection thresholds, the strengthening of flexible forms of employment, the facilitation of dismissals and the reduction of the severance pay, and then they escalate towards the same direction but with greater intensity every time, imposing the predominance of business-level against the sectoral and professional Collective Employment Agreements (when they are less favourable to the employee), the abolition of the extension of the Collective Employment Agreement's application, the weakening of the bargaining position of the workers' side through changes in the

system of recourse to arbitration, while, by means of a violent state intervention, a drastic nominal reduction of the minimum wage determined by the current National General Collective Employment Agreement (NGCEA) is imposed by an Act of the Cabinet, extending even more the possibility of a generalized and uncontrolled reduction of wages in the private sector.

The measures introduced in recent years aim systematically at deconstructing the system of collective bargaining and promote the individualization of labor relations and wage-setting mechanisms.

The common denominator of the interventions is the immediate reduction of labour costs for employers, through the weakening of the labour legislation on the protection of salaried employment and of the institutional framework of collective bargaining, reducing the coverage rate of employees by CEA and primarily weakening collective bargaining at sectoral level. The range and intensity of the interventions in Greece aim at shaping a new labour landscape to ensure the profitability of capital (Kouzis 2011).

Along with a multitude of fiscal measures that encumber salaried employment, the successive interventions in labor legislation towards increasing flexibility and reducing labor costs, in 2010 a new era began in terms of the institutional framework of collective bargaining, CEA and wage setting.

The measures adopted as regards the conclusion, extension and overlapping of Collective Employment Agreements, are fully integrated into the logic of **internal devaluation**, which is a key component of the adjustment programme and is implemented mainly **through wage cuts by direct governmental intervention** (in the public and the private sector), **the deconstruction of the system of collective bargaining & CEA and the violent imposition of decentralization in terms of wage-setting.**

3.1 The major changes/reversals in the system of collective bargaining and CEA during the period of implementation of the Memorandums

The main legal changes, which upset the system of bilateral collective bargaining that had developed and operated over the previous two decades, occurred mainly in October 2011 (Law 4024, in particular Article 37) and in February 2012 (Law 4046 and Act of the Cabinet) providing, *inter alia*, for:

- **The "suspension" of the procedure of extension of the validity of sectoral and professional CEA throughout the mid-term fiscal strategy framework**
- **The "suspension" of the favourability principle** throughout the mid-term fiscal strategy framework and **prevalence of the business-level CEA** in case of overlapping with a sectoral CEA
- **The possibility of business-level CEA being concluded** by new entities of collective representation of employees, apart from the unions (the so-called **"Associations of Persons"**)
- **The possibility of business-level CEA being concluded also by enterprises employing fewer than 50 people** (which were covered in previous years mainly by sectoral CEA)

- **The reduction by 22% (32% for young people under 25 years of age) of the minimum wage** determined by the current three-year National General Collective Employment Agreement (NGCEA 2010-2012), which was signed by all social partners, and a change to the current system for setting the minimum wage. [111]
- **The fixing of the maximum duration of the CEA** (3 years), **the limitation of the aftereffect of the terms of the Collective Employment Agreements** after their expiry or termination (from 6 to 3 months), while, **in the absence of a new agreement**, **only the terms relating to the basic salary and 4 allowances** (seniority, childcare, educational and dangerous work) **still apply.**
- **The abolition of unilateral recourse to Arbitration.** As from 14.2.2012, the recourse to arbitration may take place only by mutual agreement of the parties and is limited solely to determining the basic salary, no other issue being allowed to be included therein.
- The suspension (as from 14.2.2012) **of increases due to seniority provided for by the law and/or a Collective Employment Agreement, until unemployment falls below 10%**

The radical changes in the system of collective bargaining and the prioritization of Collective Employment Agreements, in combination with the provisions restricting the role of mediation and arbitration (which practically inactivate the role of the Organisation for Mediation and Arbitration (OMED), create the conditions so that the new business-level agreements be able to abolish in practice the provisions of previous Collective Employment Agreements and corresponding Arbitration Awards, collective agreements and customs of the enterprise, leading even to an equalization of the wages at business level with the thresholds of the National General Collective Employment Agreement (NGCEA). In other words, these regulations result in significant reductions of the current nominal earnings of workers in enterprises, through the conclusion of the new business-level contracts, *de facto* abolishing wages and working conditions provided for workers by sectoral or previous business-level agreements. This development leads to a dramatic reduction of the nominal wages of thousands of workers in various sectors of the economy (see section 4).

3.2. Support to employers and weakening of the institutional role of the trade unions. Restriction of the workers' collective protection through collective bargaining and CEA

The radical changes brought about in labour issues over the last four years lead **to a complete deconstruction of the system of collective bargaining and Collective Employment Agreements** (as it was in effect and operated during the last 20 years), while collective bargaining at sectoral level, which was one of the main targets of the recent interventions, is irreversibly hit. At the same time, in the new context that has been shaped, trade unions fail in practice to resort to arbitration without the consent of the employers, and, in this way, the institution of Mediation and Arbitration (OMED) is rendered completely inactive.

[111] The minimum monthly wage of 751€ gross, which was provided for by the current three-year collective employment agreement (NGCEA 2010-2012), is reduced by Act of the Cabinet (28.2.2012) to 586€ and to 510€ for employees under 25 years of age.

The consequences of the changes are multiple and not temporary. Apart from the direct consequences that are already visible, the new framework is clearly shaped in favour of employers, changing the conditions and correlations, at the level of collective bargaining, at the expense of salaried employment.

The **abolition of bilateral collective bargaining at national level to determine the minimum wage** (i.e. the bargaining framework of the National General Collective Employment Agreement that was in force for decades with the participation of all social partners), through a violent government intervention (Act of the Cabinet [112]) in February 2012, violates an operative collective employment agreement (which was signed by all social partners) with the low-paid employees being the first direct victims, while **the minimum wage, instead of an instrument for the protection of the low-paid, is converted into a lever for a generalized and sharp reduction of earnings in the entire private sector of the economy**. The new, drastically reduced, "statutory minimum wage" is now the new threshold for salaries in the private sector (586 € and 510 € for young people under 25 years of age), will be hereafter determined by the government and will be adjusted, in accordance with the new framework, taking into account its contribution to reducing unemployment, increasing employment and improving competitiveness.

The first direct impact of these interventions, of extreme neoliberal inspiration, concerns low-paid employees earning the minimum wage. Greece is the only country in the European Union where a drastic reduction in the nominal minimum wage is imposed during the crisis. **Low-income workers have suffered wage losses that exceed 3 wages on an annual basis** or four wages for young people under 25 years of age (Kapsalis & Triantafillou 2013)

The effects of these interventions are not limited only to reducing the earnings of those who are paid the minimum wage, but have greater impacts on wages in the private sector, while, at the same time, this development drags down accordingly the unemployment[113], sickness and maternity benefits, pensions and overtime pay...

The negative impacts on the of employees arising from the prevalence of business-level agreements over the sectoral Collective Employment Agreements were already observable (immediately after the passing of the relevant Law) in late 2011, and expanded in 2012, through the proliferation of new business-level Collective Employment Agreements that are concluded by employers and especially by newly founded "associations of persons" in enterprises of various sectors of the economy, providing for significant reductions in nominal wages. **The new business-level agreements, in their vast majority, provide for drastic wage cuts ranging between 10-40%** vis-à-vis the levels provided for, in each individual case, by sectoral, professional or previous business-level agreements. Under many of them, the minimum earnings in the enterprise are reduced and aligned with the minimum national wage.

[112] Trade unions have appealed since 2012 before the Council of State, which has not yet passed judgment on the constitutionality of the said Act.

[113] After the reduction of the minimum wage in 2012, the **monthly unemployment benefit** was also reduced by 22% and now amounts to **360 Euros** (from 461.5 Euros), while a new ceiling is also set, limiting the term of subsidization by the unemployment fund.

The basic trend emerging under the new framework is the proliferation of business-level Collective Employment Agreements, the reduction of the number of sectoral Collective Employment Agreements and the complete absence of arbitration awards after 2012 (Ioannou &. Papadimitriou 2013).

As shown by the data of the Ministry of Labour, in 2012 there has been a significant increase in the number of business-level Collective Employment Agreements and a simultaneous reduction of the number of sectoral and professional Collective Employment Agreements (Table 5.1).

Table 5.1: Number of Collective Employment Agreement, 2010-2013

	2010	2011	2012	2013
SECTORAL/NATIONAL PROFESSIONAL	65	38	23	13
BUSINESS-LEVEL	227	170	976	385
LOCAL PROFESSIONAL	14	7	6	10

Source: Ministry of Labour

Unlike the past, the vast majority of new business-level Collective Employment Agreements are mainly the result of the termination, on the initiative of the employer's side, of previous agreements, or are entirely new Collective Employment Agreements, most of which (4/5) are signed by "associations of persons" and provide, in their vast majority, for wage cuts tending mostly to aligning wages in the enterprise with the minimum national wage (Ioannou &. Papadimitriou 2013).

The primacy of business-level Collective Employment Agreements without a sectoral safety net, leads to the one-way individualised regulation of wages and working conditions by employers.

The new framework that has been shaped enables enterprises to reduce current wages through new business-level agreements but also through individual employment contracts. After the enactment of the regulations provided for by the 2nd Memorandum, according to the Labour Inspectorate (SEPE), from 14.2.2012 until 30.6.2012 109,123 individual employment contracts were signed (in 26,150 companies), providing for average salary reductions of 23.4%.

The objective of the changes introduced is the complete decentralization of bargaining and the wage setting at business or personal level[114], by challenging sectoral employment contracts, which traditionally played an important role in setting minimum wages, providing a net of collective protection for workers, especially those employed in small businesses.

The changes dictated by the Memorandums completely alter the balance of power in favour of employers, leaving little or no room for demands to the workers' side during collective bargaining for the conclusion of sectoral Collective Employment Agreements.

The abolition of the favourability principle and extensibility of sectoral agreements as well as the limitation of the duration and especially the alteration of the content of the agreements' aftereffect, result in the trade unions, during the collective "bargaining", either accepting the terms proposed by the employer side or refusing to sign, with

[114] With the exception of the statutory minimum wage that shall now be determined by the Government.

employees running the risk of suffering even greater losses of wages and institutional rights.

The scope of "bargaining" at sectoral level is now the extent of wage cuts; however, the new sectoral Collective Employment Agreements cannot protect the new reduced earnings for all employees from further pay cuts through business-level Collective Employment Agreements with less favourable terms and the new reduced national minimum wage as threshold.

Most new sectoral Collective Employment Agreements that have been signed after the shaping of the new collective bargaining and CEA framework, in 2012 and 2013, provide for significant wage cuts for workers: in hotel enterprises (-15%), in confectionary product workshops (-15 %), in the trade sector (-6.3), in Banks (-6%), in contractor enterprises and construction companies (-18%), in night clubs (reductions ranging from 20 to 50% compared with previous Collective Employment Agreements for musicians, singers), the technical personnel of theaters (-20% off the basic salary of stage engineers and 10% off the basic salary of assistants), in lift construction businesses (-10%).

The new framework of collective bargaining at sectoral level, after the expiry of a large number of sectoral Collective Employment Agreements in 2013, leads to further wage cuts also through sectoral agreements that hope to "check" (or prevent) even greater reductions through business-level Collective Employment Agreements or individual employment contracts.

It is estimated that the wage reductions through business-level and individual agreements affect more than 30% of employees in the private sector, while the reductions through sectoral Collective Employment Agreements so far affect approximately 1/4 of workers. (Bank of Greece 2013)

In conclusion, the **forced decentralization of collective bargaining towards the enterprise level**, in a country where the vast majority of businesses employ fewer than 10 employees, coupled with the weakening (and abolition in practice) of sectoral agreements, **leads to**:

- a drastic reduction of the number of workers covered by Collective Employment Agreements;
- a wage dumping between enterprises of the same sector;
- a weakening of the role of sectoral employers' organizations and the workers' sectoral federations;
- a further reduction of the workers' income, while boosting the economy's recessionary drift.

The developments' continuing in this direction will result in working conditions in the private sector, in particular wages, not being the object of collective bargaining but being determined unilaterally by employers or by government (which, from now on, will determine the minimum wage). This leads to a deregulation of the collective labour law, to the institutional weakening of trade unions and to the provocative support of the employers' side. This raises the reasonable question about the relationship that these settings have with the European acquis, with the international labour conventions

entered into by the country, with various constitutional provisions and especially with the European "social heritage" of the twentieth century and the basic fundamental rights to work.

In order for the number of employees not covered by collective arrangements not to increase further and to protect employees, there is a **need for immediate restoration of the institutional framework of labour relations, of collective bargaining and Collective Employment Agreements at all levels**. Moreover, **the phenomenon of the substitution of trade unions by "associations of persons"** that play, in accordance with the evidence so far, a purely negative role in setting lower wages (in new business-level Collective Employment Agreement) **should also be addressed.** At the same time, a **substantial union representation of employees in enterprises of the private sector, in particular small businesses**, is required, through legislative initiatives that will strengthen the position of employees in the enterprises and through stronger involvement of trade unions in workplaces.

Finally, one must take into account the new correlations that have been developed in the labor market with the explosion of unemployment and, instead of further facilitating mass dismissals as the Troika requires, measures should instead be adopted that will prevent dismissals, especially in profitable businesses, which will have to be reasoned.

4. SOCIAL IMPACTS, WAGE DEVELOPMENTS, INEQUALITIES AND POVERTY

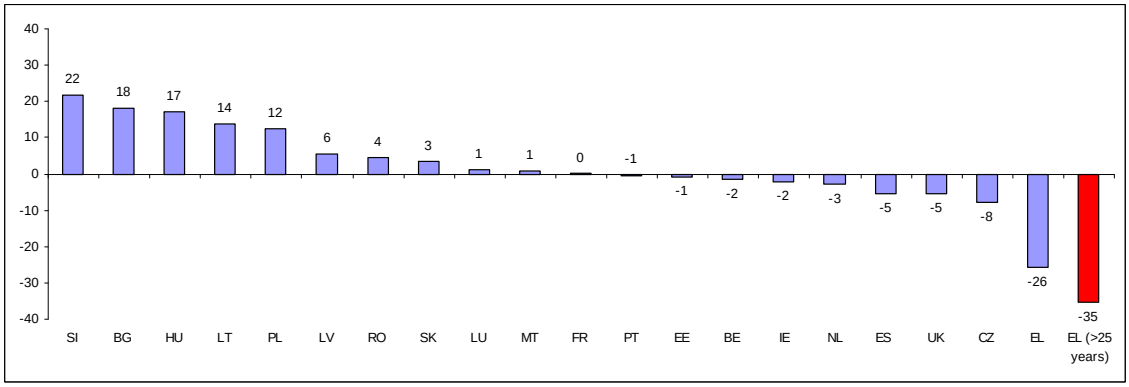
4.1 Wage developments

4.1.1. Private sector

Minimum wage

Greece is the only country in the European Union where (except for the losses of minimum wages in real terms due to inflation) **a nominal reduction of unprecedented scope in the minimum wage** and salary by 22% (32% for young people under 25 years of age) **is imposed** in February 2012 in the context of the implementation of the second Memorandum. The sinking of the purchasing power of the minimum wage in Greece cannot be compared with any other case since, **during the 2010-2013 period, the real minimum wage was reduced by a total of 25.9% and 35.4% for young people under 25 years of age** (Figure 5.3).

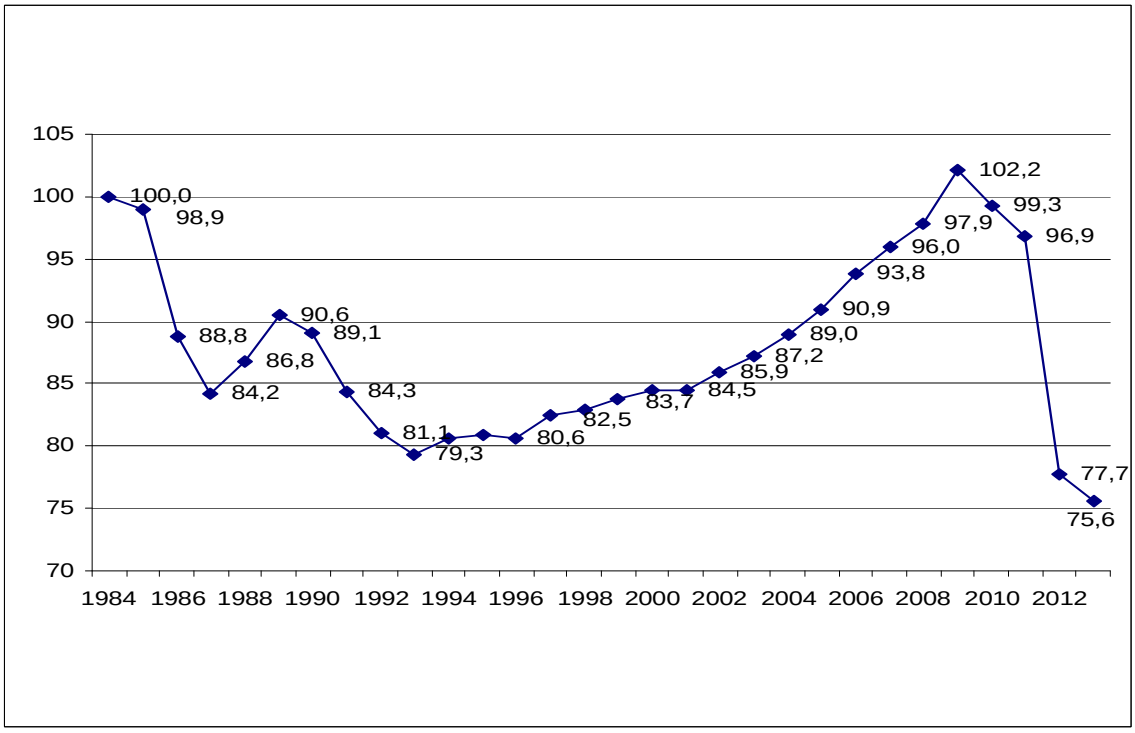
Figure 5.3. Evolution or real Minimum Wages in EU. Cumulative change 2010-2013 (%)



Source: Christos Triantafillou, INE-GSEE

Examining the evolution over time of the minimum wage's purchasing power in Greece over the last thirty years (1984-2013), we discover that, **after** the drastic reduction of 2012, **the purchasing power of the minimum wage in Greece reached, in late 2013, a level lower by 25 percentage points than the 1984 level** (Figure 5.4).

Figure 5.4. Evolution of the real minimum wage in Greece. 1984-2012 (1984=100)



Source: Christos Triantafillou, INE-GSEE. Calculations based on data as derived from CLAs and Memorandum II (2012)

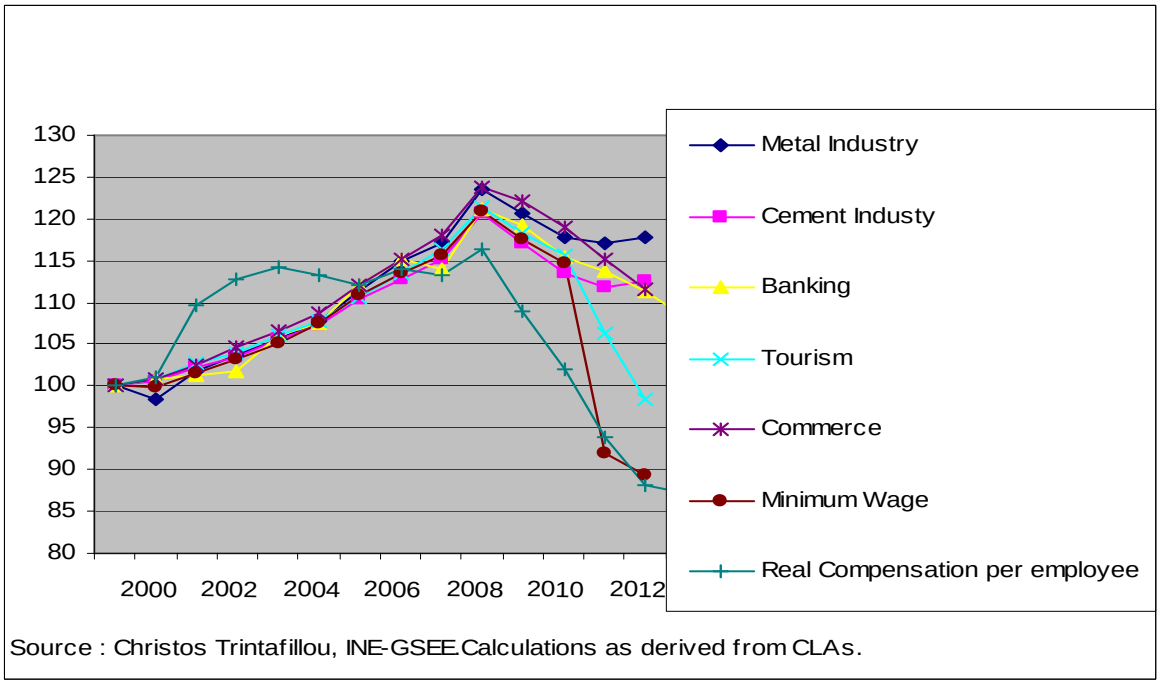
Minimum wages according to sectoral Collective Employment Agreements (in 5 sectors)

As regards the **contractual minimum wages in the private sector of the economy,** we calculated the **evolution of real sectoral minimum wages** (based on individual sectoral collective employment agreements) **in 5 individual sectors** of the economy (Tourism, Commerce, Banking, Metal Working Industry and Cement Industry), for the

2000-2013 period. (Figure 5). As regards the recent period, in all the sectors under consideration, over the 2010-2013 four-year period the minimum contractual sectoral real wages fall significantly and are reduced by 18.8% in Tourism, 9.8% in Commerce, 8.2% in the Banking sector, 6.6% in the cement industry and 4.5% in the Metal Working Industry. The greater reduction is recorded so far in minimum wages in the hotel sector. **In late 2013, the development of the real minimum wage of hotel employees will have completely cancelled the progress made throughout the period considered (2000 to 2013) and the wage will return, in real terms, to levels prior to 2000**. (Figure 5.5.).

The new institutional framework that has been developed since 2010 makes employers the masters of the game in the collective bargaining for the conclusion of new Collective Employment Agreement. As a result, most new sectoral Collective Employment Agreements signed in 2012-2013 contain significant wage cuts for employees (see section 3)

Figure 5.5. Evolution of the real minimum wages in 5 sectors. National Minimum Wage and Real Compensation per employee (2000=100)



Source: Christos Triantafillou, INE-GSEE. Calculations based on data as derived from CLAs

Apart from the reductions in wages associated with the minimum contractual wages, in the private sector of the economy, the wages paid by enterprises are reduced for a large numbers of employees, also through the options offered by the new arrangements after 2010, such as the abolition of wage increases for partial employment (less than 4 hours per day), the reductions in wage increases for overwork and overtime (and also reduction or elimination of overtime), the possibility of imposing temporary lay-offs and job rotation, the conversion of full-time to part-time contracts or job rotation ...

Also, **significant wage cuts** derive through **new business-level Collective Employment Agreements** and through **individual employment contracts**. It is estimated that, since the late 2011 (when the legal framework was amended by Law

4021) until the early June 2014, **1440 business-level Collective Employment Agreements have been concluded** (mainly with "Associations of Persons"), **the vast majority of which provide for wage cuts between 10 % and 40%.**

The reductions in nominal wages in the non-banking private sector amounted to 2.9% in 2010, 1.7% in 2011, 9.3% in 2012 and, according to predictions, will reach 8% in 2013 (Bank of Greece 2014)

4.1.2. Public and wider public sector

In the last four years, in the context of the adjustment programme, **a multitude of measures** have been imposed on employees in the public and broader public sector, drastically reducing the employees' earnings through **successive direct across-the-board cuts in nominal wages and benefits**, while **two salaries per year have been cut for all employees of the State** (13th and 14th salaries, which corresponded to the Christmas and Easter bonuses and holiday allowance). Also, significant wage cuts result from the adoption **of the uniform pay scale in the public sector** (which has caused, according to the Confederation of Civil Servants (ADEDY) **nominal wage reductions ranging from 7% - 55%),** while reductions have also been effected (retroactively) to the **special pay scales** of the medical practitioners of the National Health System, of the members of the Security and the Armed Forces, of the university employees, of the magistrature and the diplomatic corps.

In eleven large state-owned corporations, which are included in the list of privatizations, namely the Power Corporation (DEI), the Natural Gas Corporation (DEPA), the Posts (ELTA), the Agricultural Bank (ATE), the Postal savings bank, the Water Supply Companies of Athens and Thessaloniki (EYDAP and EYATH), the Piraeus and Thessaloniki Port Authorities (OLP and OLTH), the Organisation of Football Prognostics (OPAP) and Larco, provision is made, since late 2011 (Law 4024/2011 and Budget of the year 2012), for a 35% reduction of the average per capita wage costs compared with 31/12/2009. This is a direct interference in the collective autonomy, which overturn the current Collective Employment Agreements. Also, the challenging of the framework of Collective Employment Agreements in various public enterprises and the implementation of the uniform pay scale of the State (e.g. in public transport and the defense industry) led to a drastic reduction of the employees' earnings.

Based on the average compensation, the decrease in average gross nominal earnings in the public sector is estimated at -7.7% in 2010, -0.5% in 2011, -3.8% in 2012 and -6.7% in 2013 (Bank of Greece 2013).

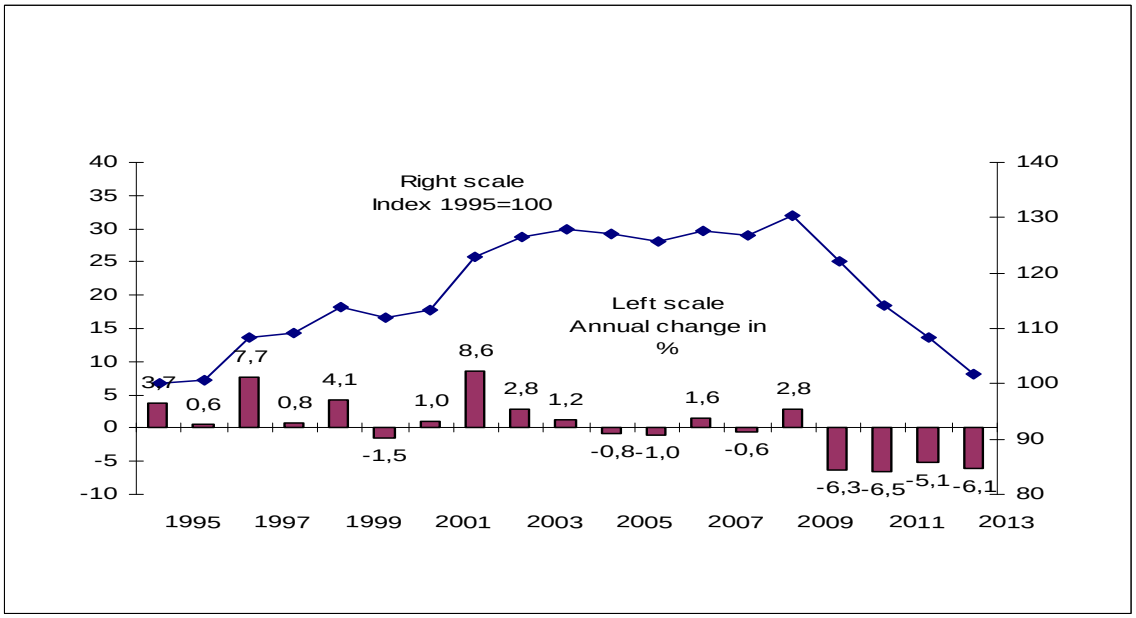
4.1.3 Evolution of average real earnings (total economy) and of the labour's share in the product

The legislative interventions in the labour market and the system of collective bargaining and Collective Employment Agreements, coupled with the consequences of the deep economic recession in the labour market and the unemployment, decisively affect the wage setting and lead, for the fourth consecutive year, to significant reductions in the employees' earnings in 2013, while the purchasing power of the average wage per employee in Greece is expected to decline further in 2014. Based on information from the European Commission, **the cumulative reduction of the average**

real wages per employee in Greece for the years 2010-2013 amounts to 22% (Figure 5.8)

An examination of the issue over time *(Figure 6)* shows that, in the years 1995 to 2009, the cumulative increase in average real wages led the purchasing power of the average wage per employee to levels higher by 30% compared with 1995. **The rapid reduction of wages over the last four years will result, at the end of 2013, in completely annulling the progress made in the years 1995 to 2009 in terms of improving the purchasing power of wages** (1995 = 100, 2013 = 101.8).

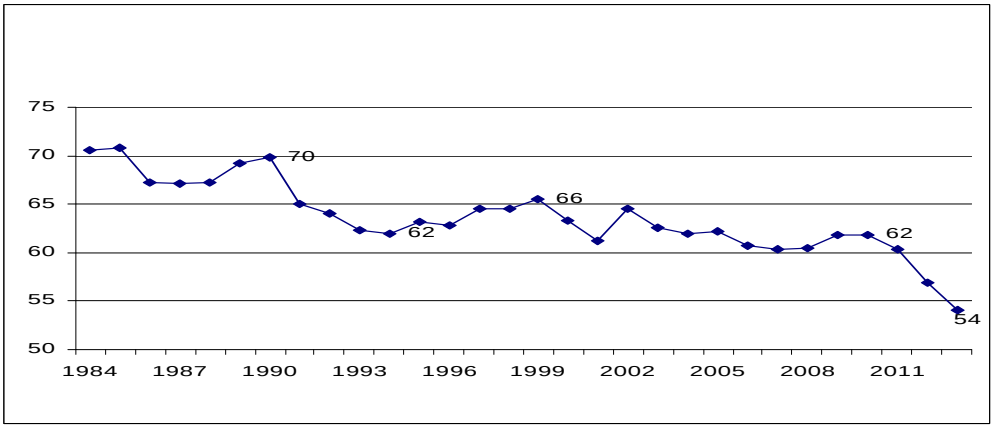
Figure 5.6. Real average compensation per employee 1996-2013. Constan ptices 1996. Annual variations in % and Index 1995= 100. Greece



Source: Calculations as derived from AMECO Database

The drastic reduction in wages, coupled with the explosive rise in unemployment, leads the labor's share in the product to a sharp fall in the last three years *(*Figure 5.7*).* The share of wages in the GDP is an indicator that reflects the primary redistribution of the product between labour and capital. The share of labour fell significantly over the period 1990-1994, stabilized over the period 1995-2004 and recorded a relatively small decline over the period 2005-2008. In the period 2009-2011, because of the existence of the collective employment agreements that had been concluded in previous years and were still in force, the labour's share remained relatively stable against the recessionary pressures, while **it fell 8 percentage points over the last three years**. It is the largest primary income redistribution that can be observed within a three-year period, in the last fifty years, in the statistics of developed countries.

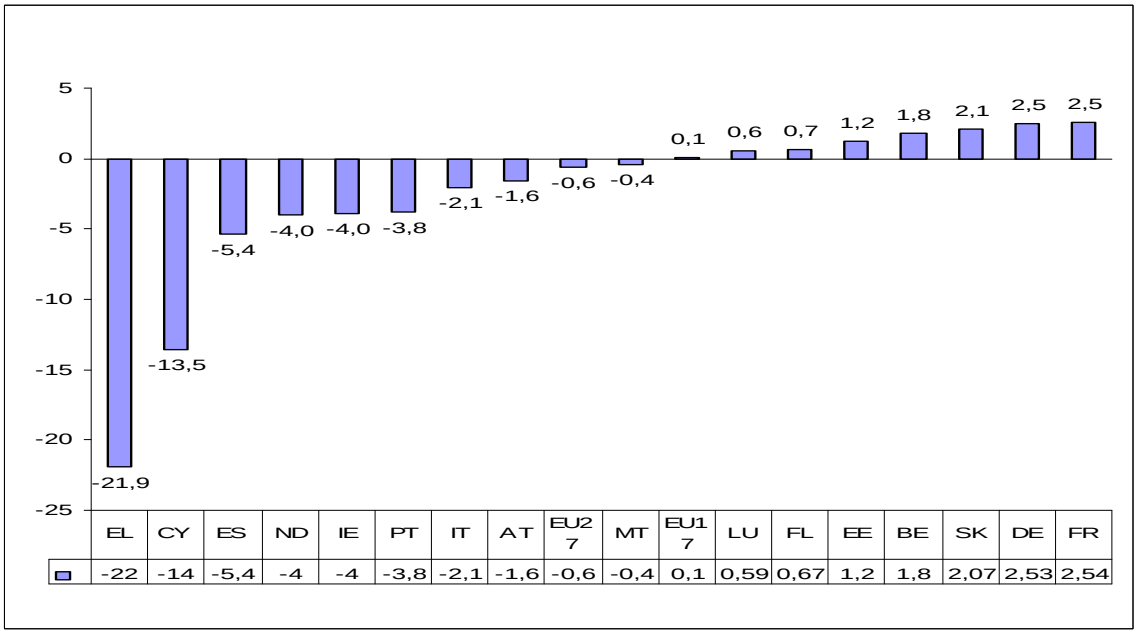
Figure 5.7. Adjusted wage share (as % of GDP at current factor cost). Greece, 1984-2013



Source: Ameco Database. European Commission

In Greece, the wage cuts are unprecedented and cannot be compared, in terms of extent, with any other eurozone country. As shown by the processing of data from the European Commission, **in the last four-year period 2010-2013, the cumulative reduction in the average real wage in Greece is 22%,** in Cyprus 13.5%, in Portugal and Ireland 3.8% and 4%, respectively, in Spain 5.4% and in Italy 2.1%. The process of rapid divergence of wages in Greece from the European average is obvious and striking. (Figure 5.8*).*

Figure 5.8. Evolution of real compensation per employee in the Euro Zone. Cumulative change 2010-2013 (%)



Source: Calculations based on data as derived from AMECO Database. European Commision

In conclusion, the drastic cuts in public sector wages and the sharp, generalised and uncontrolled reduction of wages in the private sector (through the forced reduction of the minimum wage, the decentralization of bargaining towards a business or individual level and the decrease in the percentage of workers covered by sectoral or professional Collective Employment Agreements), apart from the negative consequences that result

in the employees' income and living conditions, lead to further contraction of domestic demand, contribute to the deepening of the recession, lead to shortfalls at the level of tax revenue (and to unreasonable new fiscal burdens being imposed on employees and pensioners) while creating huge problems in revenue and the sustainability of social security funds, rendering new painful pension cuts a real danger. The adoption each time of new painful measures to achieve the budgetary objectives and the rationale of internal devaluation maintain the vicious circle and entrap the Greek economy into a downward spiral, making social regression ever deeper.

4.2. Inequalities and Poverty

The implementation of the policies of hard austerity dictated by the Memorandums and the overturning of the institutional framework of labour relations at the expense of salaried employment have aggravated the level of living and the living conditions of the population and of employees, lead to widening inequalities and increasing poverty rates in relative, but mainly in absolute terms *(Table 1 in the Annex).*

According to data from the Eurostat (December 2013), **Greece has the highest relative poverty rate (23.1%)** in the European Union and holds the fourth worst place in the ranking based on the poverty and social exclusion indicator (34.6%).
The magnitude of the problem is not yet fully reflected, due to a significant lag of the available statistical data. At the same time, the various social actors involved in the field of addressing poverty and various absolute poverty indicators send out messages far more alarming than the picture given so far by the available statistical data.

4.2.1 Analysis of basic relative poverty & inequality Indicators 2009-2011

According to the most recent available data from the Households Income and Living Conditions Survey 2012 (income reference period 2011) of the Hellenic Statistical Authority (November 2013):

- Based on the widely used **relative poverty**[115] indicator, 2,535,700 people (or 914,873 households) in Greece are below the poverty threshold in 2011. The monetary poverty line amounts to 5,708 Euros per year per person and to 11,986 Euros for households with two adults and two dependent children under 14 years of age
- **Despite the significant decrease of the poverty threshold by 20.4% compared with 2009** (the poverty threshold decreased from 7,178 € per year in 2009 to 5.708 € in 2011), **the relative poverty rate increased by 14.9%** (compared with 2009) and amounted to 23.1% of the population in 2011 (from 20.1% in 2009).
- **The absolute poverty rate has doubled since 2009**. The "absolute poverty" rate (calculated based on the fixed poverty threshold of 2005) increased from 16.3% in 2009 to 32.3% in 2011. In other words, while the risk of poverty in relative terms increased by 14.9%, the risk of poverty in absolute terms increased by 16 percentage points in two years (+ 98.2%).
- **The population living in households where no member is employed,** or works for less than three months overall per year, was **1,010,900 people or 16.1% of the**

[115] The poverty threshold is set to 60% of the median total household income equivalent.

population aged 18-59 years, whereas in the previous year (2011) it amounted to 837,300 people.

- **A 34.6%** of the population (3,795,100 people) is running the **risk of poverty or social exclusion**[116]. The indicator refers to population at risk of poverty or under material deprivation (deprived of 4 out of a list of 9 goods and services) or living in households with low work intensity.
- **The high-risk groups for poverty** include single-parent households with at least one child (66%), the unemployed (45.8%), households with two adults and three or more children (36.8%), people with low education levels (35.7%) and the economically non-active persons except pensioners (32.9%). At the same time, child poverty has increased (children 0-17 years 26.5%).

It should also be noted that, based on the broader indicator, **the at-risk-of-poverty and social exclusion rate** at the ages of 18-64 years is almost **twice as much for immigrants** (62% versus 36% for Greeks).

The policies of the Memorandum have brought about a widening of inequalities in the first 1.5 years of their implementation. The **Gini** inequality index stood at 34.3 in 2011, against 32.9 in 2009 (a 4.3% increase) and the **S80/S20 index**[117] amounted to 6.6 in 2011, against 5.6 in 2009 (a 17.9% increase).

The increase in the number of the poor by 330,000 people between 2009 and 2011, which results from the measurement data of relative poverty, is a glorified description of the current situation. **Today the reality in Greece is much worse than that illustrated by the available official statistical data on poverty**. The time lag of the statistical data does not allow showing the full extent of the impacts of the measures dictated by the Memorandums in terms of poverty and the unequal distribution of income, since the measures of 2012 and 2013 were of an even more intense character and have a larger impact on the income and living conditions of households.

More specifically with regard to employees and pensioners. The available statistical data on relative poverty, due to a time lag and a significant decrease of the poverty threshold after 2010, do not reflect for the time being the painful income cuts suffered by the low-income earners and those living on a pension (especially after the measures adopted in late 2011 and, in particular, the measures adopted in 2012 and 2013).

Despite the significant decrease of the poverty threshold (-8.2% in 2010 and -13.5% in 2011) the **rate of poor workers** amounts to 15.1% in 2011 (from 11.9% in 2010). However, the available statistical data do not reflect, at least for the time being, the drastic reduction of the minimum wage by 22% (and the reduction of unemployment benefits by 22%) that was brought about by the 2nd Memorandum in February 2012, or the reductions in sectoral minimum wages made since 2012 in industries with a large numbers of workers (such as retail and wholesale trade, tourism, food), or the wage

[116] Population at risk of poverty or material deprivation (deprived of 4 out of a list of 9 goods and services or living in households with low work intensity).

[117] The S80/S20 index is the ratio of the income received by 20% of the population with the highest income to the income received by the 20% of the population with the lowest income. This means that in 2011 the richest 20% of households owns a 6.6 times larger share of income than the poorest 20% (from 5.6 times in 2009).

reductions made through operational and individual employment agreements in a large number of enterprises.

With regard to **pensioners**, the relative poverty rate fell from 19% to 14.3% in 2011, a decrease attributed to some extent to the decrease of the poverty threshold and to the fact that the available data do not currently reflect the successive cuts imposed after the end of 2011 on main and supplementary pensions and the total abolition of allowances and bonuses as regards main and supplementary pensions.

It should also be noted that, in addition to the time lag of the data, these surveys conducted by the ELSTAT do not include the presumed poor, such as homeless people, those living in asylums, Rom, ...). As a consequence, in order for policies tackling the problem to be mapped out and set in course, other information available to social actors active in the field should be taken into account (increasing number of **homeless people**, the spreading of **soup kitchens** for the needy, phenomena of children's malnutrition in schools, phenomena of **"energy poverty"** (due to excessive increases in electricity and heating oil), increasing number of people without social security and **access to health care**, etc.)

4.2.2.Massive impoverishment of the world of salaried employment due to the implementation of the policies dictated by the Memorandums

As regards in particular the formation and evolution of the **phenomenon of the workers' poverty** and, consequently, the way to address it, **apart from the individual characteristics and the characteristics of households** where "poor workers" live, an important role is played by **the conditions and institutions of the labour market, the evolution of various factors that shape and affect the available household income** and living conditions in general, such as wages - **especially minimum wages, unemployment benefits, direct and indirect taxes, inflation, social transfers and access to basic goods and services (health, education ...)** while **the role of macroeconomic policy and public policies** in the formation and evolution of the phenomenon **should not be considered neutral**. Finally, **the phenomenon of in-work poverty is directly connected with job insecurity** (and the development of its different forms) **as well as with the ability of the social protection system to reduce inequalities and to contribute substantially to the reduction of poverty among workers and the population in general.**

The policies implemented since 2010 have aggravated all the factors influencing the poverty of workers (and overall poverty)

- wages have suffered a collapse, including minimum pay (which was reduced by 22% under the 2nd Memorandum, as did the unemployment benefits). The role of wages and minimum wages in particular is crucial in order to reduce in-work poverty, to prevent the complete deconstruction of the social security and social protection system and the social slide, and also in order for the economy to restart.
- the labour market institutions have been completely upset at the expense of labour, while the insecurity and deterioration of working conditions have increased.
- the cutbacks in public spending on social policy, especially as regards the funding of public health and education, are a considerable burden to low incomes

- Access to the labour market is now a feat, due to the deep recession and the drastic decline of employment, thereby reducing the participation of households in the labour market and increasing poverty. According to data from the Hellenic Statistical Authority (November 2013), in 2011 the population living in households where no member is employed or works for less than three months in total per year has increased and stands at 1,010,990 persons (from 837,000 last year and 544,800 persons in 2009)
- increasing long-term unemployment and the measures and provisions that restrict access to unemployment benefits (new ceiling on the benefit's term during 2013 and 2014) have resulted in the vast majority (85% -90%) of the unemployed not being covered by unemployment benefits.

The main mechanism for the expansion of poverty during the current crisis in Greece is the dramatic increase in the number of the unemployed (from 355,000 in the 3rd quarter of 2008 to 1,345 thousand in the 3rd quarter of 2013) and in the duration of unemployment (long-term unemployed increased from 185.400 in 2008 to 955.6 thousand, respectively), combined with the large gaps characterising the public social safety net, which became even larger because of the forced fiscal adjustment.

The fact that in Greece the unemployment benefit is granted has a maximum term of one year, in combination with the ceiling set (in the context of the second Memorandum[118]) to further limit the term of the unemployment benefit's payment, have resulted in **about one in 10 unemployed persons receiving unemployment benefits today**. Moreover, in Greece there is no institutionalized form of guaranteed minimum income[119].

The adjustment programme of the Greek economy, as it has been implemented so far, has created the conditions for a process of massive impoverishment of workers and the population in general, both through the primary and the secondary distribution of income.

Therefore, **an emergency plan, through coordinated public interventions,** is necessary to directly support the homeless, the hungry, families with children without any employees, without unemployment benefits, to provide universal access to health services for all those who are already experiencing the humanitarian crisis, and to address the basic needs of a substantial part of the population that is on the brink of humanitarian crisis.

At the same time, **another plan to exit the crisis** is needed, with different economic and public policies that give **priority to basic social needs and set the necessary productive reconstruction in course.**

[118] **Ceiling on the term for granting the unemployment benefit of the years 2013 and 2014.** A ceiling is set on the term of the unemployment benefit, capped at 450 days within the four-year period before the commencement of the granting of the unemployment benefit (from 1.1.2013) and at 400 days (from 1.1.2014)

[119] The pilot implementation of the guaranteed minimum income in 2 regions of the country as from 2014 (which was passed in parliament in November 2012) is still being designed, while the granting of 200 € as from 2014 to the long-term unemployed refers to a very small number of people due to the access criteria.

5. SOCIAL UNREST ASSOCIATED TO THE IMPLEMENTATION OF AUSTERITY MEASURES AND STRUCTURAL REFORMS

The austerity policies and policies of restriction of labour and social rights that are implemented since 2010 in Greece have triggered, in the last four years, massive social reaction, causing a significant increase in protests, demonstrations, strikes, work stoppages and sit-ins in the private and public sector.

The trade union confederations (GSEE and ADEDY) have called 36 general strikes in the last four years, demanding the overturning of the anti-labor and anti-social policies / measures dictated by the memorandums, which, in their opinion, lead the Greek economy and society to dead end. At the same time, they take legal action at national, European and international level to restore the autonomy of collective bargaining and the possibility of concluding Collective Employment Agreements for the collective protection of workers. They strongly react to authoritarian government policies aimed at restricting the right to strike and trade union rights and oppose, through numerous demonstrations, dismissals in the public sector, the deterioration of public services, the commercialisation of public goods and the "selling off" of public enterprises and infrastructure.

The Labour Institute of GSEE recorded a total of 445 strikes and work stoppages for the year 2011, of which 9 were general nationwide strikes called by the confederations of GSSE and ADEDY (5 24-hour, 2 48-hour and 2 work stoppages). In the year 2012, a total of 439 strikes were recorded, including 15 general nationwide strikes (4 24-hour, 2 48-hour and 9 work stoppages). In the year 2013, a total of 443 strikes were recorded, including 5 general nationwide strikes (lasting 24 hours) and 10 work stoppages (including 9 in the Public Sector, called by ADEDI). During the 2011-2013 three-year period, 741 strikes were held in the private sector, 365 in the public sector and 134 in public utilities (SOEs), while 95 sit-ins were recorded in the private and public sectors. (Katsoridas & Lampousaki 2012 and 2013).

The invocation of a state of "emergency" is a key argument for governments to legitimize the repression of demonstrations and strikes. In 2013, the government invoked a "state of emergency" to mobilise strikers and, thus, put an end to their collective actions (workers in the Metro, in the ports, school teachers).

As regards the legal actions and initiatives of the trade unions, the GSEE filed a memorandum with the **International Labour Organisation (ILO)** on 29/7/2010 and requested the urgent activation of its ordinary audit structure, because of the violation of fundamental International Labour Conventions by the legislative measures adopted by the Government for the implementation of the international borrowing mechanism of the country. The ILO decided in June 2011 to include Greece in the list of 25 countries under consideration for the violation of fundamental International Labour Conventions, while in September 2011 a component of the ILO arrived in Greece to inspect the Greek Government for the violation of International Labour Conventions both in the field of remuneration of labour and in the field of working conditions. On 18/11/2011, the GSEE lodged a supplementary petition for Recourse before the International Labour Organisation against the new measures provided for by law 4024/2011, which brutally violate the fundamental collective rights of workers, which are protected by International Labour Conventions.

In December 2011, the conclusions of the International Labour Office's report were publicised. The many-paged ILO report included sharp comments/remarks for the Greek Government and underlined that the legislative interventions promoted in the context of the memorandums violate fundamental rights, which are protected by International Conventions, such as collective employment agreements, the fair remuneration and working conditions, collective bargaining and the social dialogue for pursuing policies of employment and insurance. In November 2012, after considering petitions for recourse of the Greek trade unions and the ITUC, the tripartite Committee on Freedom of Association, the supreme auditing body of the International Labour Organisation, discovered several serious and widespread violations of Greece's international obligations to protection collective autonomy, the inviolability of the terms of Collective Employment Agreements and the collective rights of workers, and a serious lack of social dialogue. The Committee calls on Greece to restore the system of labour relations in conformity with fundamental rights (Committee Report, Recommendations to Greece, pp. 784-1003).

The trade unions also have appealed before the **European Committee of Social Rights of the Council of Europe**, invoking the incompatibility of certain laws with the European Social Charter. In October 2012, the Council of Europe deemed the overturning of labour relations in Greece illegal, because they flagrantly violate the European Social Charter. In its decision, the Committee calls for the abolition of two interventions, both with respect to the "probationary period" and the dismissal without notice and with respect to the reduction of the minimum wage for workers under 25 years of age to two thirds of the minimum national wage. The GSEE in early 2014, lodges a statement of written observations to the Council of Europe, in which there is extensive reference to the legislative interventions of the Government-Troika to employment issues in the private and the broader public sector, which have been carried out from 2010 to date and which, besides being unconstitutional, violate several articles of the European Social Charte.r

It should also be noted that, apart from a series of appeals lodged by trade unions before Greek courts, the GSEE lodged, **on 29/3/2012**, before the Council of State **a petition for abatement of the provisions of Law 4046/2012 and of Act of Cabinet (PYS) 6/28.2.2012, which implement the measures provided for by the 2nd Memorandum**, imposing overnight drastic reductions to private sector wages, violating the Collective Employment Agreements and demolishing the system of collective arrangements in the country, by putting forward the argument that the measures overthrow the core of fundamental civil and social rights safeguarded by the Constitution and International Labour Conventions. **The Council of State, two years after the filing of the recourse, has not delivered a relevant judgment yet**.

Finally, a large section of the population shows distaste for the political forces that collaborated to bring the country to collapse. Wide strata of the society are now deeply disappointed and are turning more and more towards punitive options against the political power system. In addition, the EU is not considered innocent and unaccountable, especially in terms of crisis management, and there is a serious lack of confidence in the European institutions (see Eurobarometer).

The erosion of social cohesion, increasing poverty and inequalities and the lack of prospects create the conditions for an upsurge in xenophobia and racism and the rise of the extreme right in Greece (9.4% in the 2014 elections).

Since 2012, there is also a rise in the electoral influence of the radical left, while in the recent elections the party of the radical left came first in terms of vote preference (with a percentage of 26.6%).

6. EPILOGUE - CONCLUSIONS & PROPOSALS

Judging from the results in the real economy and the scale of the social impacts caused, the adjustment programme implemented in Greece since 2010 is irrational in economic terms and, at the same time, socially dangerous, since it reduces large sections of the population to poverty and leads to a massive impoverishment of workers. The degradation of salaried employment takes place through the undermining of the workers' collective protection (labor law, collective bargaining and collective employment agreements), the authoritarian drastic reduction of wages and other labour rights as well as through the deconstruction of social security and social protection.

The policy implemented through the Memorandums led to situations never known before in Greece, as the depth and duration of the recession and the size of unemployment are unprecedented in peacetime. The intense communication effort of the government, the Troika and various European politicians during the recent period, to convince that the adjustment programme leads to a "success story" in the case of Greece, is in stark contradiction with the "real story" illustrated by the level of the public debt (from 129% before the Memorandums, it now amount to 177% of GDP), the prolonged deep recession of the economy (the cumulative loss in terms of national income reaches 25%), the shrinking of a substantial portion of the productive fabric and employment (over 900,000 jobs that took 20 years to create were lost), the unacceptable levels of unemployment (27.3%), youth unemployment (56.7%) and long-term unemployment (70% of the unemployed) and the humanitarian crisis that is currently under way in Greece. The termination of this disastrous policy of the Memoranda is a prerequisite for a policy of recovery of the society and reconstruction of the economy, while the need for an alternative plan to exit the crisis is obvious.

An immediate priority for the world of work is the restoration of the workers' collective protection through both labor law and bilateral autonomous collective bargaining at all levels, without government interference, and the increasing in minimum wages. An emergency plan is also needed to address basic social needs (shelter, food, medical care ...) and measures should be taken to prop up the income of the weakest, to reduce extreme job insecurity, to protect the unemployed.

At the same time, what is required is public policies (in contrast with those currently implemented) to strengthen social security/protection, public health, education and social infrastructure and to protect public goods, a real tax reform for the fair distribution of the tax burden (towards the progressiveness of taxation, the reversal of the ratio between indirect/direct taxes, the use of effective tools and mechanisms against traditional and new forms of tax evasion) and for a banking system in the service of production, development and employment, which will support a plan of productive restructuring.

The response to and the exit from the crisis are not determined only by national choices and developments, but also by policies and developments at European level. The exit from the current dead end requires important decisions at European level about how to resolve the problem of public debt, the banking union, the easing of monetary policy, the adoption of a development agenda, the balanced development between Member States and the fight against wage, social and tax dumping. At national level, financial instruments must be used, which at the same time allow a reduction of the deficit and an increase of the GDP. This requires the annulment or overturning of key elements of the Memorandums and an increase in public and private investment.

The European Union cannot continue blackmailing entire societies, and should finally make clear, in the context of the new economic governance, what it wants to impose or negotiate. Greece needs to do what it failed to do in the last four years, namely to negotiate another realistic and viable plan to exit the crisis, which will give precedence to the basic needs of the population and to the productive reconstruction of the economy. Social needs, social justice, the fundamental rights and democracy are priorities.

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8. ANNEXES

Figure 1

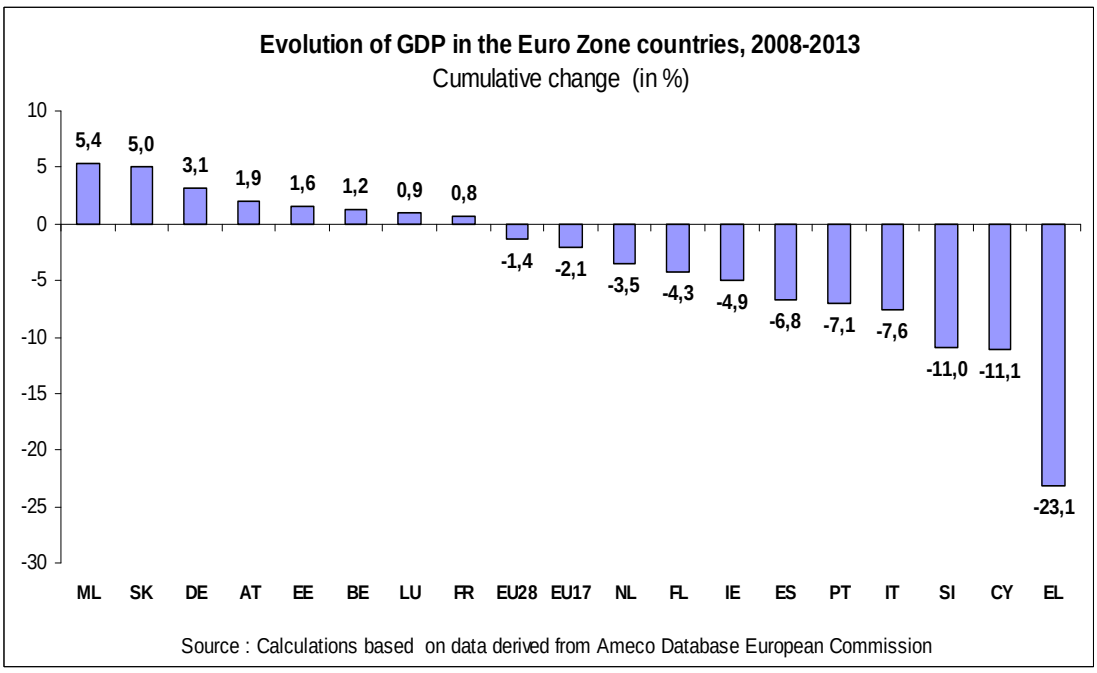
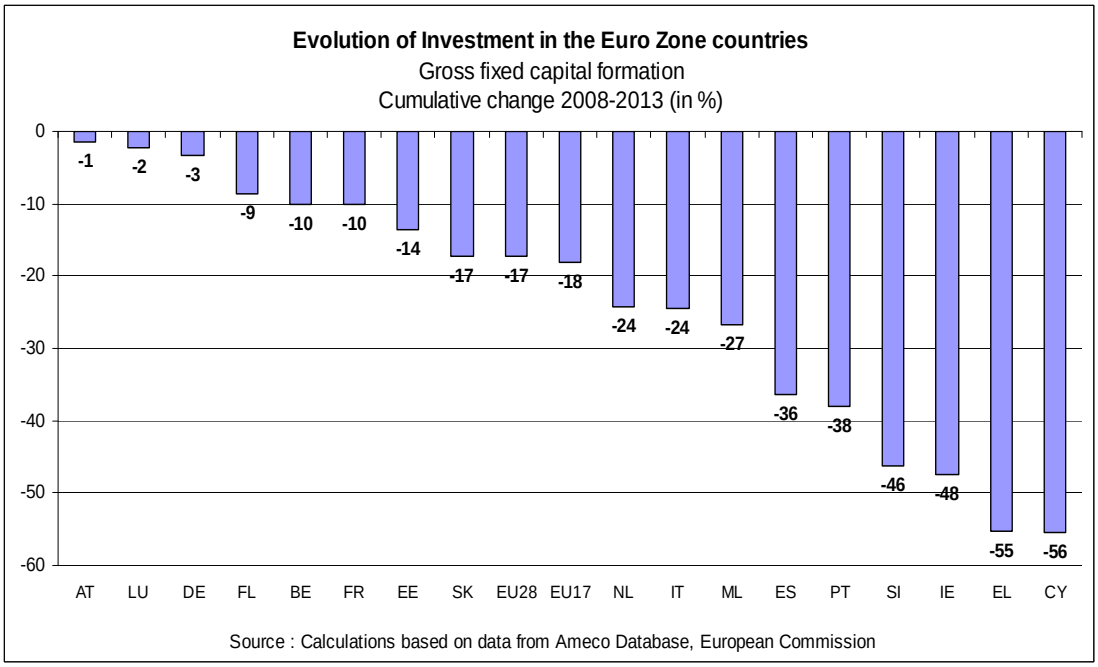


Figure 2



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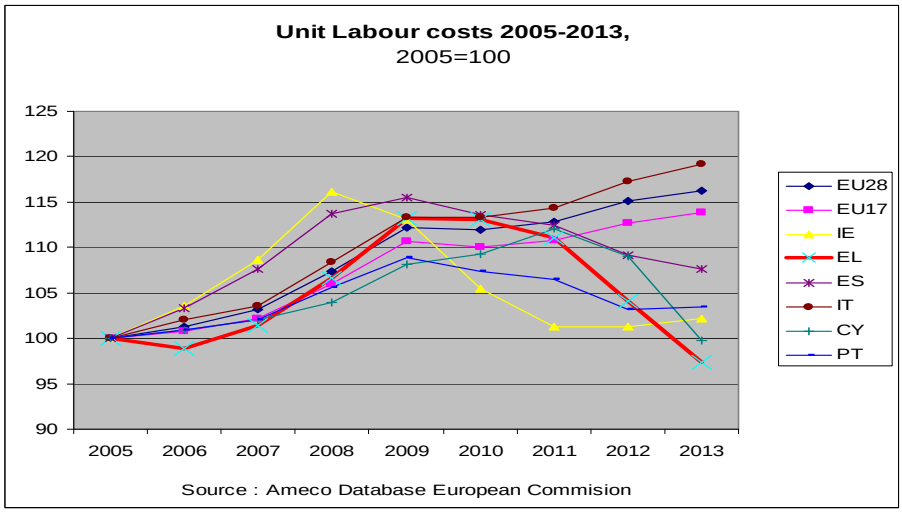

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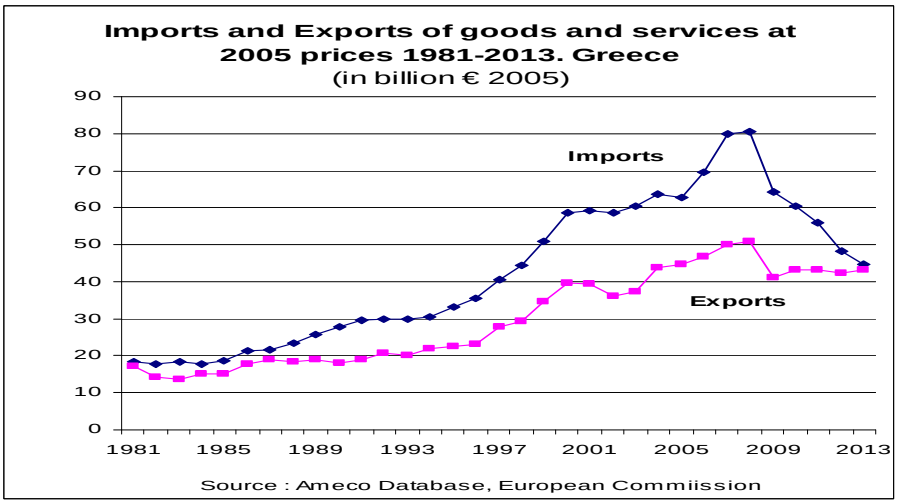

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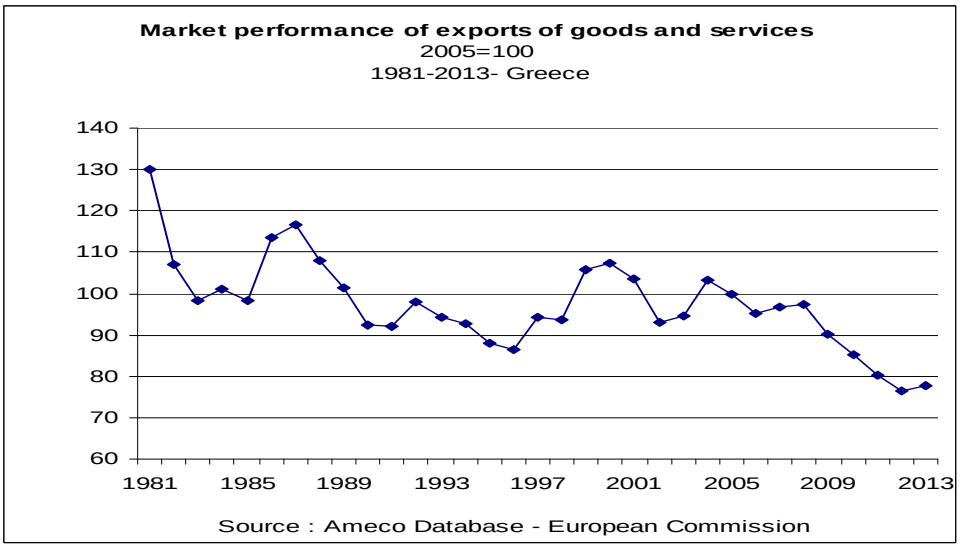
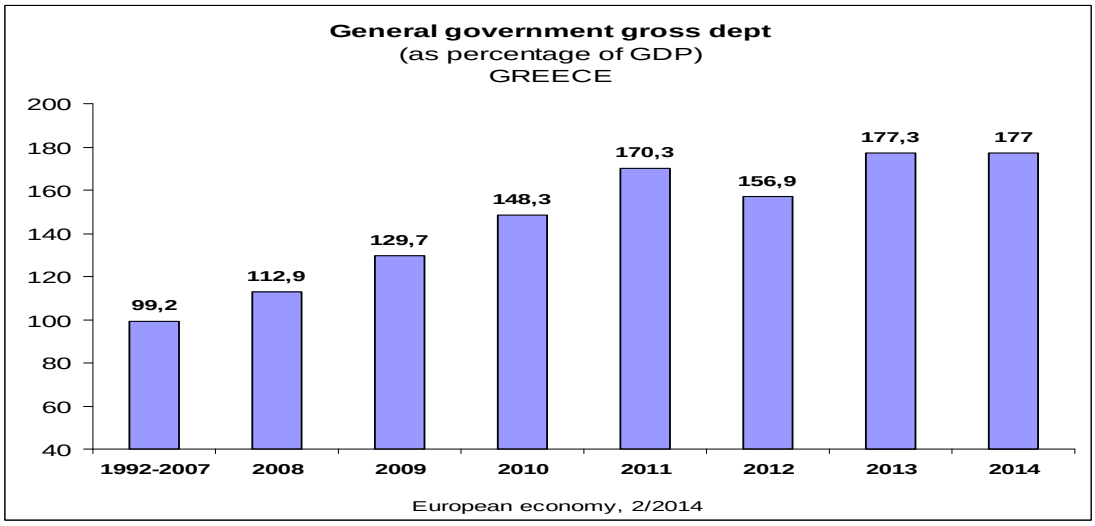


Figure 6



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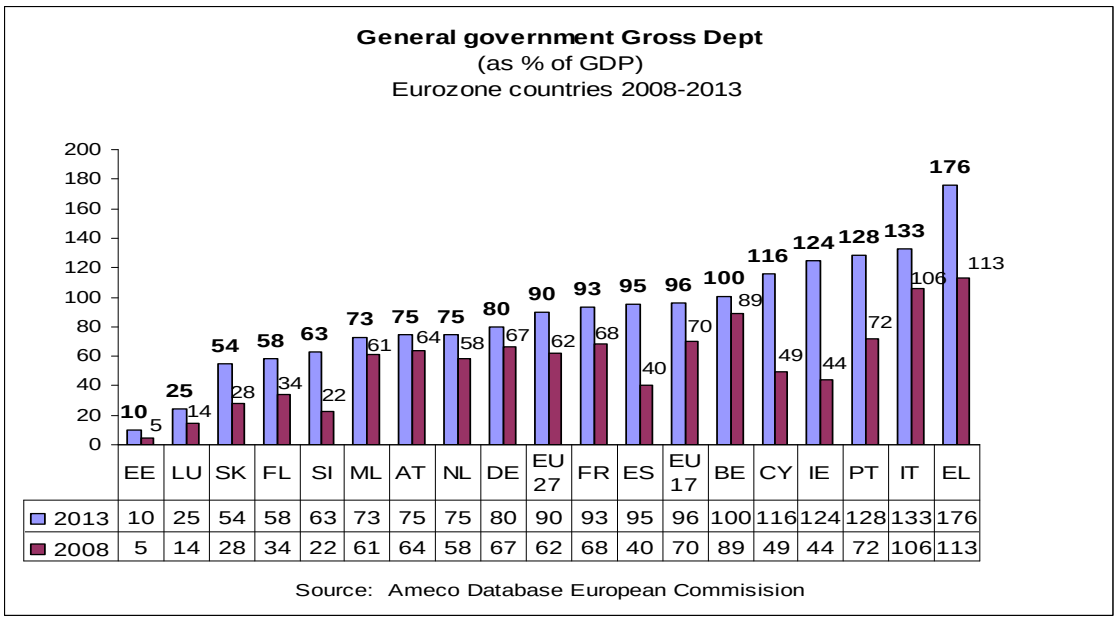


Figure 8

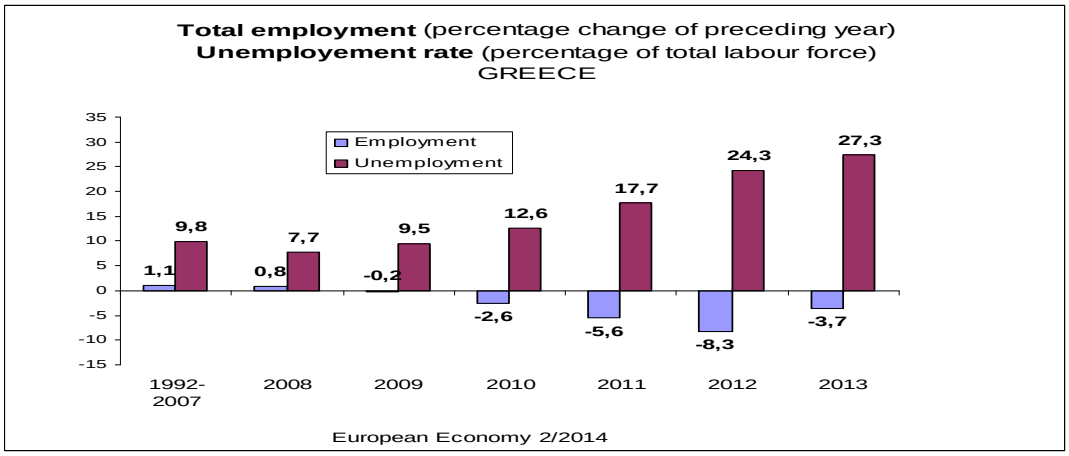
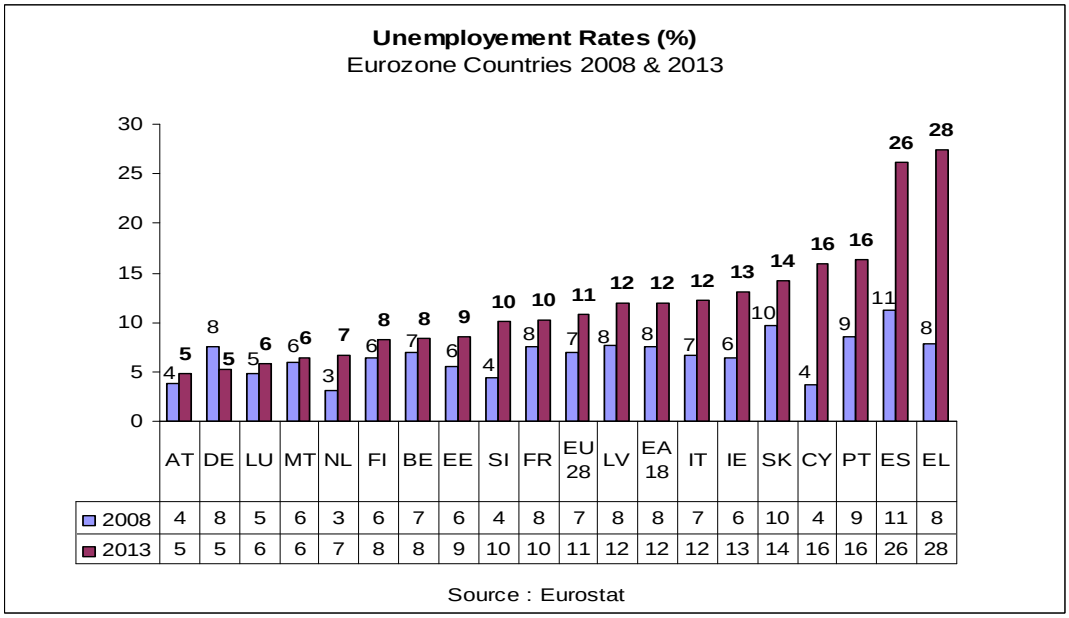
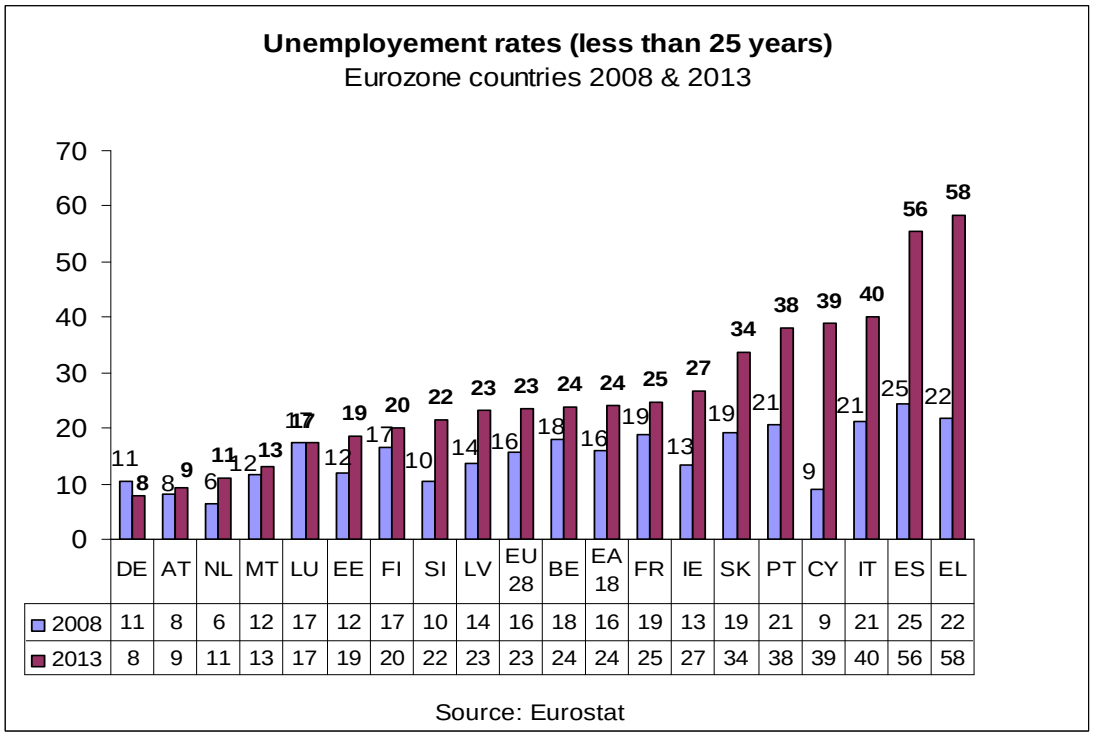


Figure 9



	AT	DE	LU	MT	NL	FI	BE	EE	SI	FR	EU 28	LV	EA 18	IT	IE	SK	CY	PT	ES	EL
2008	4	8	5	6	3	6	7	6	4	8	7	8	8	7	6	10	4	9	11	8
2013	5	5	6	6	7	8	8	9	10	10	11	12	12	12	13	14	16	16	26	28

Figure 10



	DE	AT	NL	MT	LU	EE	FI	SI	LV	EU 28	BE	EA 18	FR	IE	SK	PT	CY	IT	ES	EL
2008	11	8	6	12	17	12	17	10	14	16	18	16	19	13	19	21	9	21	25	22
2013	8	9	11	13	17	19	20	22	23	23	24	24	25	27	34	38	39	40	56	58

Table 1: Basic relative poverty & inequality Indicators 2009-2011

	2009	2010	2011
Relative poverty rate (total population)	20.1%	21.4%	23.1%
Number of persons	2,204,800	2,341,400	2,535,700
Poverty Threshold for 1 person			
per year	**7,178 €**	**6,591€**	**5,708 €**
per month	598 €	549 €	476 €
Change of threshold / previous year (in %)		*-8.2%*	*-13.4%*
Poverty Threshold for households with 2 adults and 2 children under 14 years of age (per year)	15,073 €	13,842 €	11,986 €
Poverty gap (depth) (50% of poor people had an annual income over:)	23.4% (5,498 €)	26.1% (4,870 €)	29.9% (4,0001 €)
Absolute poverty rate			
-with fixed poverty threshold 2005	16%	22.5%	32.3%
- with fixed poverty threshold 2008	18%	24.9 %	35.8
Single parent family with at least one dependent child	33.4%	43.2%	**66%**
Households with 2 adults and 3 or more children	26.7	20.8%	**36.8%**
Households with 2 adults and 2 dependent children	20.3%	24.2%	25.9%
Households with two parents and one dependent child	21.6%	17.7%	25.3%
Child poverty (children aged 0-17 at risk)	23%	23.7%	26.9%
Pensioners	19%	19.9%	14.3%
Poverty rate of workers	13.8%	11.9%	15.1%
Full-time employees	11.7%	10.4%	13.4%
Part-time employees	29.4%	21.4%	27.3%
Unemployed	38.5%	44%	45.8%
Population living in households where no member is employed (or works < 3 months/year)	544,800 people	837,300 people	**1,010,900** people
Inequality Indexes			
S80/S2 inequality index	5.6	6	6.6
Gini inequality index	32.9	33.5	34.3
Poverty and social exclusion rate in the total population	27.7%	31%	34.6%
Number of persons		3,403,000	3,795,100

Source: EL.STAT, Eurostat, EUSILC 2010-2012)

Chapter 6

The challenges of the crisis and the external intervention in Portugal

Fernando Rocha and Alan Stoleroff [120]

INTRODUCTION

Following weeks of suspense and speculation, on April 7, 2011 the Portuguese government broke down and requested financial assistance from the EU, the Euro Area Member States and the International Monetary Fund (IMF). By May, 2011 a "Memorandum of Understanding on Specific Economic Policy Conditionality" (MoU) had been drawn up and negotiated between the Portuguese authorities and officials of the so-called *Troika*, consisting of the European Commission (EC), the European Central Bank (ECB) and the IMF. The agreement was formally adopted on May 17, 2011 at the Eurogroup/ECOFIN meeting in Brussels. The MoU and the Loan Agreement were signed soon thereafter, giving rise to an austerity-oriented economic adjustment programme and external intervention.

Three years later, the EC declared that "after Ireland and Spain, Portugal is the third country to successfully graduate from its financial assistance programme".[121] According to this assessment, the measures and reforms implemented by the Portuguese government have brought about favourable achievements: a recovery of economic activity, with output gaining momentum; a reduction in the costs of recent emissions of debt, with yields on government bonds returning to pre-crisis levels; an increase in competitiveness and a transition to export-led growth; a slowing down of the deterioration of the labour market; a decrease of the public debt to sustainable levels; a significant adjustment of the banking system; a gradual deleveraging of the corporate sector; and improvements in business procedures.[122]

In spite of these achievements, the EC statement added that Portugal will still have to face many challenges in order to ensure the sustainability of its economic recovery. So, as expected, the final conclusion of the assessment was that "a continued strong commitment to structural reforms and fiscal consolidation is essential".[123]

Ironically, a short time following this congratulatory assessment, the crisis of the *Espírito Santo* financial empire broke out raising the spectre of a new banking crisis.

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[120] Fernando Rocha is sociologist at Fundación 1° de Mayo (Spain). Alan Stoleroff is researcher at the Instituto Universitário de Lisboa (ISCTE-IUL. Portugal).

[121] EC (2014) *Statement by Vice President Kallas on Portugal* (17/5/2014). Avalaible in http://ec.europa.eu/economy_finance/assistance_eu_ms/portugal/index_en.htm (access on 2 June 2014).

[122] EC (2014) *Portugal programme assessment* (15/5/2014). Available in http://ec.europa.eu/economy_finance/assistance_eu_ms/portugal/index_en.htm (accessed on June 2, 2014).

[123] EC (2014) *Portugal programme assessment* (p.20). On the same day as Portugal closed the programme, the government released the document "The Road to Growth: A Medium-Term Reform Strategy for Portugal" (http://www.portugal.gov.pt/pt/documentos-oficiais/20140517-estrategia-medio-prazo.aspx).

Throughout this period, however, such positive prognostics by the European and international banking authorities have been called into question by critical analysts of the crisis and the consequences of the Troika's intervention.[124]

Firstly, it has been argued that the austerity measures adopted since March 2010 in Portugal had a strong recessionary effect in the short run - a trend also registered in the other peripheral southern European countries, such as Greece and Spain, at the epicentre of the debt crisis[125] – due to the negative impact of fiscal consolidation and the induced wage devaluation upon effective aggregate demand, which is a key driver for economic growth in the so-called wage-led economies.[126] The most visible outcome of this process has been the huge increase in unemployment, which brought with it inevitable consequences for the overall social situation of the working population.

Secondly, critics point out that, while the economic crisis and the dramatic rise in unemployment have spawned increasing poverty and social inequality,[127] government policy, in accordance with the measures imposed by the MoU, has utterly failed in mitigating the negative social impacts of the adjustment programme. Indeed many will argue that the social crisis is the direct outcome of austerity.[128] According to the International Labour Organization (ILO), since Portugal's financial assistance programme was agreed upon in May 2011 the situation of the labour market has experienced deterioration without precedent in the modern economic history of the country.[129] The rise in unemployment had significant consequences for social exclusion that were exacerbated by the negative impacts of the austerity measures implemented to comply with the MOU (cuts in the budgets and expenditures for unemployment insurance benefits as well as anti-poverty and welfare programs such as the *Rendimento Social de Inserção*).

Finally, a particularly controversial issue concerns the effects of the reforms on industrial relations. In compliance with the MoU requirements, the Government launched significant labour law reforms that aimed at transforming the collective

[124] A useful start is Abreu, A. et al. (2013) *A Crise, a Troika e as alternativas urgentes*. Tinta-da-China. Of particular interest are the various recent presentations by Portuguese economists and sociologists at the conference "A transferência de rendimentos do trabalho para o capital - Contexto, dimensões, instrumentos", June 19, 2014, Lisbon (http://saladeimprensa.ces.uc.pt/index.php?col=canalces&id=10210#.U8ej4Sje7QN).

[125] Castro Caldas, J. (2012) *The consequences of Austerity Policies in Portugal*. Friedrich Ebert Stiftung; Pedroso, P. (2014): *Portugal and the Global Crisis. The impact of the austerity on the economy, the social model and the performance of the state*. Friedrich Ebert Stiftung.

[126] Wages have a dual function in capitalist economies, because they are a cost of production as well as a source of demand. In this regard, a wage-led economy can be defined as that in which an increase or decrease in wage shares has significant effects on the economic growth (because of its several effects on the effective aggregate demand). Even if this conceptualization is subject to an ongoing debate, recent studies and available empirical evidence show that domestic demand regimes are likely to be wage-led in most advanced economies. See for example, Lavoie, M. & Stockhammer, E. (2012) *Wage-led Growth. Concept, theories and policies*. ILO.

[127] See, for example, Carmo, R. M. e Cantante, M. (2014) "Precariedade, desemprego e proteção social: caminhos para a desigualdade?" (http://observatorio-das-desigualdades.com/2014/06/19/precariedade-desemprego-e-protecao-social-caminhos-para-a-desigualdade-por-renato-miguel-do-carmo-e-frederico-cantante/).

[128] See Varela, R. (ed.) (2013) A Segurança Social é Sustentável: Trabalho, Estado e Segurança Social em Portugal, Lisboa, Bertrand Editora.

[129] Ryder, G. (2010) "Foreword", in Torres, R. (Director) and Malo, M. (Coordinator) (2013): *Tackling the job crisis in Portugal.* ILO.

bargaining system, including new rules concerning the expiration and renewal of collective agreements, limitations upon the extension of collective agreements and measures that will facilitate a selective decentralization of collective bargaining from the national and sector levels to the company level.

The outcome of these reforms, combined with the effects of the economic recession and an ever more aggressive strategy by employers of setting wages unilaterally, has been a paralysis of the collective bargaining in Portugal.[130] As shown by the available figures, the number of collective agreements and extension decisions of collective agreements has fallen dramatically since 2011, and, as a consequence, the quantity and proportion of workers covered by collective bargaining has plummeted to the lowest values in the history of Portuguese democracy.[131]

In this regard, critics emphasize that the underlying aim of the MoU is to achieve fundamental changes in socio-economic power relations through deregulation. While taking advantage of the institution of social concertation to obtain legitimising pacts, the reforms have undermined the model of collective bargaining as it has emerged over the past 40 years in Portugal. Unions and researchers have denounced the austerity measures and amendments to labour legislation as disrespecting the ILO Convention n° 98 (*Right to Organize and Collective Bargaining*).[132]

Faced with all these trends union responses have been heterogeneous, combining concertation and mobiliztion. Industrial action over the last four years thereby took on a new pattern, concentrating mobilization around significant, sometimes united and sometimes not, sectoral and general strike efforts. As a result of the 5 general strikes and many broadly participated waves of work stoppages in public transport, education and public administration, strike incidence and participation returned to the levels of the last pre-Memorandum years. Furthermore, trade unions have been involved in organizing mass protest action, although their capacity for mobilization was surpassed on various occasions by more spontaneous demonstrations of protest.

The main objective of this report then is to analyse the effects of the measures enacted under the economic adjustment programme upon the dynamics of industrial relations in Portugal. The content of the report is organized as follows: Firstly, a general overview is offered of the Memorandum of Understanding signed on 17 May 2011. Secondly, there is a detailed analysis of the measures adopted and enacted by the government to comply with the requirements of the MoU in the field of the industrial relations system. Thirdly, the report addresses the economic and social impacts of the austerity measures and the amendments of labour law. Fourthly, an approach is made to the strategies of the social partners. Finally, the report ends summarizing some final remarks for the debate.

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[130] In spite of previous high levels of collective bargaining coverage in Portugal, the spread of employer unilateralism throughout the economy, at least with respect to wage setting, was already a visible consequence of the recovery from the deep economic crisis of the 1980's and subsequent restructuring. See Stoleroff, A. (2009) "Company-level labour relations and the industrial relations system in Portugal", in Leite Viegas, J. M., H. Carreiras & A. Malamud (orgs.), *Institutions and Politics*, (Portugal in the European Context, vol. I), CIES, ISCTE-IUL, Lisbon, Celta Editora, pp. 213-236.

[131] UGT (2013) *Relatório anual da negociação colectiva 2013*. UGT; Palma, M. (2013) *Portuguese labour law and industrial relations during the crisis*.

[132] Valente, A. & Marques, P. (2014) *Policy Note. An evaluation of the social and employment aspects and challenges in Portugal.* Economic Governance Support Unit, European Parliament.

1. THE ECONOMIC ADJUSTMENT PROGRAMME FOR PORTUGAL

1.1. The path to the Memorandum of Understanding

Even before the outbreak of the current global crisis, international economic institutions had been airing pessimistic assessments of the situation of the Portuguese economy. In 2006, in a telling example, the chief economist of the IMF diagnosed serious trouble in the Portuguese economy and analysed the unusually tough challenges it faced: low output growth, low productivity growth, high unemployment, large fiscal and current account deficits and the likely prospect of "competitive disinflation".[133] He concluded with the warning that "in the absence of policy changes, the adjustment is likely to be long and painful."

According to the conventional interpretation, structural imbalances such as those above, increased the vulnerability of the Portuguese economy to the crisis of 2008, which was further aggravated by unfavourable developments in public finances and the onset of a negative economic spiral. This caused a deterioration of confidence and rising market pressures on Portuguese debt, accentuated by the negative developments in Euro area sovereign bond markets. Brought down by the repeated downgrading of its credit rating by international agencies, the country more and more lost its ability to refinance itself at rates compatible with long-term fiscal sustainability. At the same time, the banking sector, which is heavily dependent upon external financing, was gradually cut off from international market funding and became increasingly dependent upon the Eurosystem for funding.[134]

From a more critical point of view, diverse authors have called into question the orthodox approach to the crisis in Portugal, emphasizing other key factors such as: (a) the negative impacts of the asymmetric process of European integration on peripheral countries; (b) the weaknesses of the institutional architecture or the Monetary Union; and (c) the structural imbalances of the economic growth model in Portugal, associated with an increasingly dependent and fragile insertion in the Eurozone.[135]

Also, it has been argued that the uncontrollable subsequent rise in account deficits, at the outbreak of the crisis in the European peripheral countries, had less to do with the public sector's debt than with the private sector's.[136] This was especially the case of Spain for example, whose public sector had accumulated a surplus before the bursting of the housing bubble. On the other hand, although Portugal's public deficit had already been labelled as profligate as early as the turn of the century[137] and had already reached the breaking point within the EMU in 2005, the deep plunge into the sovereign debt

[133] Blanchard, O. (2006) *Adjustment with the euro. the difficult case of Portugal*. Massachusetts Institute of Technology Department of Economics. Working Paper Series, nº 06-04.
[134] Kröger, J. (Director) (2011) *The Economic Adjustment Programme for Portugal. European Economy*, Occasional Paper 69. European Commission, Directorate General Economic and Financial Affairs.
[135] Rodrigues, J. & Reis, J. (2012) "The Asymmetries of European integration and the crisis of capitalism in Portugal", *Competition and Change*, vol. 16, n° 2, July (pp 188-205); Reis, J., Rodrigues, J., Santos, A. & Teles, N. (2013) "Compreender a Crise: A economia portuguesa num quadro europeu desfavorable" in VVAA (2013) *A Anatomia da Crise: Identificar os problemas para construir as alternativas.* Centro de Estudos Sociais (pp 12-70).
[136] See Lapavitsas, C. (Ed.) (2012) *Crisis in the Eurozone*. Verso.
[137] The then PSD candidate, José Manuel Barroso, based much of his campaigning in 2002 on the accusation that the previous Socialist government had left the country "de tanga", i.e, practically naked.

crisis was the outcome of the nationalization of private sector debt following the bailout of the BPN.

Against this background, since 2008 Portugal has adopted three different approaches to tackle the crisis, following the direction of changes at the level of the EU's strategy.[138]

In the first year of the crisis, the approach focused on the sustainability of the financial sector. Later, following the European Council of December 2008 − at which the focus changed from ensuring financial stability to overcoming the economic crisis, in January 2009 the Portuguese government adopted the programme "Initiative for investment and employment". The goals of this programme were to promote economic growth and employment, to contribute to the modernization and competitiveness of the country, to improve the qualification of the workforce, to increase the country's energetic independence and efficiency, and to contribute to environmental sustainability and social cohesion.

In 2010, when EU strategy changed once again, the Portuguese Socialist government finally shifted its strategy from stimulus to austerity. In March 2010 it approved an adjustment programme under the mechanisms of EU mutual budget surveillance: the "*Programa de Estabilidade e Crescimento*" (PEC 1). The government was then forced to adopt additional restrictive measures in May 2010 (PEC 2) and in the 2011 budget (PEC 3).

None of the Socialist measures succeeded in easing the pressure of the markets. With the downgrading of Portugal's credit rating to BBB by the international rating agencies and in the midst of political conflict and instability, government bond yields skyrocketed to unsustainable levels, leading finally to the sovereign debt crisis. To face this situation the Portuguese government broke down and decided on April 7, 2011 to request from the *Troika* the negotiation of an Economic Adjustment Programme, aimed at restoring confidence, enabling the return of the economy to sustainable growth, and safeguarding financial stability in Portugal, the Euro area and the EU.

The agreement including the Memorandum of Understanding on Specific Economic Policy Conditionality (MoU) was formally adopted on May 17, 2011, as mentioned above, at the Eurogroup/ECOFIN meeting in Brussels. The overarching purported goals of the Economic Adjustment Programme were to underpin economic growth and macro-financial stability and to restore financial market confidence**.**

The Programme foresaw action on three fronts, setting objectives with diverse specific targets: putting fiscal policy on a sustainable footing; stabilisation of the financial sector; and in-depth structural reforms to support an orderly unwinding of external and internal imbalances and to raise potential growth. This involved the outlining of a very detailed agenda of measures and benchmarks (see Box 1). Also, it called for a "carefully balanced approach" to mitigate negative social impacts of the Programme's implementation.

[138] Pedroso, P. (op.cit., pp. 2-4). It is worth noting that these approaches have been implemented by different governments. Since 2008 Portugal has had two centre-left governments, formed by the Socialist Party, and one centre-right coalition government.

Finally, the Economic Adjustment Programme for Portugal includes a joint financing package of €78 billion (EU/EFSM – €26 billion, Euro area/EFSF – €26 billion, IMF – about €26 billion).

Box 6.1. Objectives of Portugal's Memorandum of Understanding

Putting fiscal policy on a sustainable footing. The fiscal consolidation strategy aims at setting the debt-to-GDP ratio on a downward path from 2013 onwards. It draws on a broad-based mix of revenue-raising and expenditure-reducing measures, with priority given to expenditure in line with the need to reduce the public sector's large claim on resources. Flanking structural-fiscal measures include a stronger budgetary framework (including monitoring and reporting), more efficient administrative structures and containment of fiscal risks from the wider government perimeter (notably from SOEs and PPPs).

Stabilisation of the financial sector. Banking sector vulnerabilities need to be addressed immediately to restore market confidence and reduce reliance on Eurosystem financing, while at the same time ensuring that the deleveraging process is not abrupt and does not undermine economic growth. The Programme foresees measures to strengthen banks' liquidity and solvency, including through higher capital adequacy ratios and a solvency support fund. Additional elements are the unwinding of the BPN bank holdings and a reinforcement of the supervisory and regulatory framework.

In-depth structural reforms to support an orderly adjustment of external and internal imbalances and to raise potential growth. The structural reform agenda is comprehensive and frontloaded. It addresses major obstacles to the proper functioning of factor and product markets. The measures include a reform of the labour market, reinforcement of competition, a review of the judicial system, housing and rental market reform, liberalisation in services sector and network industries, reducing the administrative burden on companies, scaling down the direct involvement of government in the economy, strengthening human capital via further reform of the education system. Moreover, the scope for a budgetary neutral reduction in social contributions (a 'fiscal devaluation') will be considered.

Source: Kröger, J. (Director) (2011): *The Economic Adjustment Programme for Portugal. European Economy*, Occasional Paper 69. EU (p.16).

1.2. A key target of the MoU: fostering greater flexibility in labour market institutions

International institutions have typically placed Portugal amongst the countries of Europe with more protective labour systems. Prior to the MoU launched in 2011, the country was ranked by the OECD at the top within the European Union in terms of strictness and rigidity of labour regulation, in spite of it having registered the greatest decline in legal employment protection since 2003.[139] No surprise, then, that fostering increased flexibility in the labour market was one of the key objectives included in the Memorandum of Understanding. In fact, together with austerity, it can be thought of as the orienting principle of most of the targets of the Memorandum.[140]

The main critical points or "rigidities" of Portuguese labour law before the reforms launched under the MoU, according to the orthodox view, were: (a) excessive employment protection of permanent contracts; (b) generous employment benefits; (c)

[139] Venn, D. (2009): *Legislation, collective bargaining and enforcement: Updating the OECD employment protection indicators*. OECD Social, Employment and Migration Working Papers 89. The OECD employment protection indicators are compiled from various items quantifying the costs and procedures involved in dismissing individuals or groups of workers or hiring workers on fixed-term or temporary work agency contracts.

[140] Even the goals with respect to the housing market refer to the fostering of labour mobility as their target!

rigid working-time arrangements; and (d) a wage bargaining system that was not capable of keeping wage growth aligned with developments in productivity and external competitiveness.

In this regard, the MoU established four main goals in the areas of the labour market, employment law and industrial relations: (a) to reduce the costs associated with employment contracts; (b) to tackle key points of the legal system either by introducing flexibility or by increasing the flexibility of schemes that are already in place; (c) to relaunch collective bargaining and collective agreements under a new framework; and (d) to implement active labour policies and, in that context, to promote the employment of specific groups like the youth and the long-term unemployed.

The specific objectives to be implemented through labour market reforms are identified as:[141] (a) revision of the unemployment insurance system to reduce the risk of long-term unemployment while strengthening social safety nets; (b) reform of employment protection legislation to tackle labour market segmentation; (c) fostering job creation; (d) easing the transition of workers across occupations, firms and sectors; (e) easing working time arrangements to contain employment fluctuations over the cycle; (f) better accommodation of differences in work patterns across sectors and firms and enhancing firms' competitiveness; (g) promotion of labour cost developments in line with job creation and enhanced competitiveness; and (h) ensuring good practices and appropriate resources to ALMPs (employability of the young and disadvantaged categories of people; tackling labour market mismatches).

In addition, another objective was to address early school leaving and to improve the quality of secondary education and vocational education and training for more efficient access to the labour market.

Finally, for each of the above specific objectives, the MoU requires a set of measures, including *major changes to the Portuguese industrial relations system* aimed to foster the so called "coordinated decentralized bargaining": (a) the definition of criteria for the extension of collective agreements, including the representativeness of the negotiating organisations (to be assessed by "both quantitative and qualitative" indicators) and the consideration of how the extension will affect the competitive position of non-affiliated firms; (b) further reduction of the length of continued application of collective agreements that have expired and not been renewed; (c) a further decentralisation of bargaining in favour of company-level bargaining; (d) allowing works councils (*Comissões de Trabalhadores*) to negotiate functional and geographical mobility conditions and working-time arrangements; (e) lowering the company size threshold, so that works councils can conclude agreements in companies with less than 250 employees; and (f) the inclusion in sectoral collective agreements of the conditions under which works councils would be able to conclude company-level agreements without the involvement of trade unions.

[141] For a detailed análisis of the terms of the MoU in this fields, see: Torres, R. (Director) and Malo, M. (Coordinator) (2013): *Tackling the job crisis in Portugal.* ILO; Rosário, M. (2013): *Portuguese labour law and industrial relations during the crisis*. ILO; Clauwaert, S.; and Schömann, I. (2013): *The crisis and national labour law reforms: a mapping exercise. Country report: Portugal*. ETUI.

1.3. The implementation of the MoU

An in-depth study of the application of the MoU in the last three years would largely exceed the objectives and length of this report. Nevertheless, it is worth noting some issues on this topic.

On the one hand, this process has actively sought legitimation through the involvement of the social partners since the beginning, although the largest trade union confederation, the *General Confederation of Portuguese Workers* (CGTP), has never accepted entering the game.

The MoU proposals relied significantly on tripartite Agreements signed by the Government, the minority trade union confederation, the *General Union of the Workers* (UGT) and the *Confederation of Industry* (CIP), the *Confederation of Portuguese Commerce* (CCP), the *Confederation of Portuguese Farmers* (CAP) and the *Confederation of Portuguese Tourism* (CPT). The first agreement was reached before the signing of MoU on March 22, 2011.[142] This initial agreement established between the Socialist government, the employers' confederations and the UGT, includes a set of commitments with regard to three lines of action: promoting competitiveness; the reorganization and improvement of active employment policies; and minor changes in the regulatory framework of labour relations. Likewise, subsequent changes to the national legislation drew from a subsequent tripartite Agreement passed on January 18, 2012.[143] As noted above, only the CGTP union confederation refused to sign these agreements, its justification being that the measures constituted a radical step back in workers' rights that is usually referred to in its discourse as a "civilizational regression"[144].

On the other hand, it can be said that most of the measures proposed in the MoU have been implemented at national level in several stages, although with some differences regarding the various specific objectives.[145] By way of example, a brief overview of the key structural reforms undertaken can be found in Box 6.2.

Box 6.2. Key Structural Reforms undertaken under Portugal economic adjustment programme, by area: 2011-2013

Area	Structural reform
Labour Market	• Key labour code changes to improve flexibility, reduce segmentation and increase incentives to work • Implementation of strategic plan to fight youth unemployment
Education	• Comprehensive reform of pre-university education system to increase school autonomy and accountability • Vocational training reforms to enhance labour market mat
Housing Market	• New urban lease law to increase access to rental housing and improve labour mobility • New incentives for renovations
Energy markets	• Liberalisation of electricity and gas markets • Several wide-ranging reform packages aimed at reducing excessive rents and cutting the electricity tariff debt

[142] *Acordo Tripartido para a Competitividade e Emprego*.
[143] *Compromisso para o Crescimento, Competividade e Emprego.*
[144] Palma, M. (op.cit.). For an analysis of the social partners' strategies, see section 4 of this report.
[145] A follow up of the process of implementation can be found in the eleven reviews reports, from September 2011 to April 2014.

Transport sector	• Modernization of regulatory framework, including creation of AMT • Reform package in ports sector to reduce end user costs, including new port labour law and elimination of port use fees • Various cost-saving and liberalisation measures in railways sector
Energy markets	• Liberalisation of electricity and gas markets • Several wide-ranging reform packages aimed at reducing excessive rents and cutting the electricity tariff debt
Transport sector	• Modernization of regulatory framework, including creation of AMT • Reform package in ports sector to reduce end user costs, including new port labour law and elimination of port use fees • Various cost-saving and liberalisation measures in railways sector
Telecoms & postal sector	• Liberalisation and opening up to competition of telecoms and postal sectors, including privatization of postal services company • Strengthening of regulatory framework for telecoms sector
Business environment	• Simplification of licensing procedures for businesses, moving to a zero authorisation approach • Establishment of Single Point of Contact for entrepreneurs • Introduction of "one-in/one-out" rule for burdensome new regulations • Compilation of inventory and cost analysis of regulations
Services & Regulated professions	• Sector-specific amendments to liberalise a wide range of legal regimes governing the services sector • Framework law and new by-laws (in progress) to remove unjustified barriers to entry in key regulated professions

Source: European Commission. Portugal Programme Assessment (15 May 2014)

1.4. Public Sector: Austerity applied to public servants

The Memorandum included explicit measures for public sector employment aiming to "Ensure that the aggregate public sector wage bill as a share of GDP decreases in 2012 and 2013" through:

- The limitation of staff admissions in public administration "to achieve annual decreases in 2012-2014 of 1% per year in the staff of central administration and 2% in local and regional administration";
- A wage freeze "in the government sector in nominal terms in 2012 and 2013 and constrain promotions";
- A reduction in "the overall budgetary cost of health benefits schemes for government employees schemes … lowering the employer's contribution and adjusting the scope of health benefits..."
- A reduction in management positions and administrative units "by at least 15% in the central administration."

For 2013 the Memorandum stipulated further cuts to central administration, rationalization in education and the school network and, in relation to the wage bill, "annual decreases of 1% per year in headcounts of central administration and 2% in local and regional administrations".

The section on measures for Human Resources in the Public administration presents the benchmark: "Prepare a comprehensive plan to promote flexibility, adaptability and

mobility of human resources across the administration, including by providing training where appropriate." This is followed by the specific goals to reduce personnel at all levels.

Against this background, the government implemented a package of measures aimed at reducing labour costs and social rights of civil servants, a process that has been characterized as a huge "transfer of (public) labour income to capital", which included:[146] (a) a freeze of public servants wages and salaries and careers; (b) a reduction in payment for over-time work by 50%; (c) cuts in nominal wages and salaries (initially 3.5 – 10%, now 3.5 – 12.5%); (d) suspension of holiday and Christmas payments (13th and 14th months); (e) an increase in working time (from 35 to 40 hours weekly) without any compensation; (f) a reduction of the work force through lay-offs, premature retirement, voluntary contract rescission; (g) placement of redundant employees in reserve pool for special mobility/requalification with incremental decrease in salary until dismissal if not re-assigned; (h) cuts in pension rights and pension reductions equivalent to rates of cuts in employee salaries; and (i) increases in employee contribution (deductions) for state health plan (ADSE).

2. THE LABOUR MARKET REFORMS IN PORTUGAL (2011-2013)

Since 2003, the dominant tendency among OECD countries has been for no change in the regulation of employment protection. However, a number of countries have reformed employment protection, most notably Portugal, where wide-ranging changes enacted between 2003 and 2009 reduced the overall inflexibility of regulation on permanent and temporary contracts and collective dismissals.[147]

The Memorandum of Understanding signed on May 17, 2011 proposed a set of measures aimed at fostering a higher degree of flexibility within the labour market. Most of these measures were implemented either through changes to the Labour Code or through specific acts. The intensely controversial reform of the Labour Code in 2012 deserves special mention.[148]

On the one hand, this new reform of the Labour Code has been praised by the European institutions and international organizations like OECD with the argument that − along with other legal changes introduced in this period – it has "brought employment protection for regular standard contracts in Portugal closer to the OECD average and should help address labour market segmentation and support productivity growth."[149].

On the other hand, from a critical point of view diverse authors have called into question this process, without precedents in the recent history of the country, of radical austerity translated into labour legislation. In the words of the authors of a crucial report published by the *Centro de Estudos Sociais*, "never before, has such a profound social

[146] Rosa, E (2014) "A transferência de rendimentos do trabalho (função pública) para o capital: contexto, instrumentos utilizados e estimativa dos rendimentos transferidos", presentation at conference "*A transferência de rendimentos do trabalho para o capital: contexto dimensões e problemas*", June 19, 2014, Auditório do STEC, Lisbon.; Stoleroff, A. (2013) "Employment relations and unions in public administration in Portugal and Spain: From reform to austerity", *European Journal of Industrial Relations*, 19 (4), 309-323.
[147] Venn, D. (op.cit).
[148] *Lei n.º 23/2012 de 25 de junho.*
[149] OECD (2013) *Portugal: reforming the state to promote growth*. OECD "Better policies" series (p. 34).

regression, such an enormous transfer of income from workers to employers, been carried out all at once, from one day to the other, on the basis of legislation, and achieved mainly at the expense of the devaluation of work and increasing working time."[150]

The major labour reforms introduced in Portugal between 2011 and 2013 mainly affected five areas: unemployment benefits, employment protection, working time arrangements, collective bargaining and social dialogue, and minimum wages (Box 6.3).

Box 6.3. Main changes of labour legislation in Portugal, by area: 2011-2013

Area	**Legal Changes**
Unemployment benefits	• Reduction in the maximum limit of unemployment benefit from €1,257.66 to €1,048.05,97 with a reduction of 10 per cent after six months of unemployment. In addition, a reduction in the maximum length of time the benefit can be paid (from 900 to 540 days; or 30 months to 18 months) with a view to dis-incentivizing the permanence of workers in a situation of unemployment (Decree-Law 64/2012). • Decrease in the necessary contributory period to access unemployment benefits from 450 to 360 days (or from 15 to 12 months) (Ibid.). • Temporary increase (10 per cent) in the unemployment benefit in the case of jobless households where both members of the couple are not working and have children; and correspondingly in single-parent households where the single parent is unemployed and does not benefit from a subsistence pension (Ibid.). • Extension of the unemployment insurance to clearly-defined categories of "dependent" self-employed workers, working mainly with one contractor, on certain conditions (Decree-Law 65/2012)
Area	**Legal Changes**
Employment protection	• Equalisation of the severance payment regime of open-ended contracts with that of fixed-term contracts, and alignment of the amounts of severance payment to those of other EU countries (Law 53/2011; Law 23/2012 and Law 69/2013). Law 70/2013 established a fund responsible for the payment of a part of the severance payment in case of a dismissal. • Introduction of new and less restrictive definitions for a fair dismissal for open-ended contracts, linked particularly to the extinction of a work position and also to the unsuitability of the worker, although for the latter the impact of the changes in practice may not be major (Law 23/2012). In order to avoid increased unemployment during the present crisis, a possibility was introduced to extend fixed-term contracts beyond maximum time limits or maximum number of extensions maximum twice and up to 18 months in total (Law 23/2012). • Introduction of a procedure concerning the enforcement of the Labour Code's (2009) stipulations about "presumed employment contract" in the case of misuse of service provider contracts in an employment relationship (Law 63/2013).
Working time	• Introduction of changes into working hours through permitting

[150] Leite, J., Costa, H., Carvalho da Silva. M. & Ramos de Almeida, J. (2013) "Austeridade, reformas laborais e desvalorização do trabalho", in VVAA (2013) *A Anatomia da Crise: Identificar os problemas para construir as alternativas. Centro de Estudos Sociais* (p. 117).

arrangements	the adoption of a "time bank" (for individuals and groups), negotiated at the plant level (Law 23/2012). • Reduction by 50 per cent of both the minimum additional pay for overtime work and of compensatory time-off for overtime work (Ibid.). • Revision of provisions concerning layoffs in case of industrial crisis. • Cuts in paid holiday entitlements and the abolition of four public holidays (Law 23/2012).
Collective bargaining and social dialogue	• Introduction of criteria for the administrative extension of collective agreements, leading to significantly fewer extensions (Resolution No. 90/2012 by Council of Ministers). • Introduction of "organized decentralization" of collective bargaining (Law 23/2012). • Creation of the Labour Relations Centre (Centro das Relações Laborais), intended to provide information and technical assistance to the parties involved in collective bargaining (Decree-Law No. 189/2012)
Minimum wages	• Tying minimum wages to competitiveness and productivity, and subjecting any increases to an agreement in connection with a programme review. • Freezing the minimum wage at €485 per month since January 2011.

Sources: Torres and Malo (op.cit., pp 77-79); Rosário, M. (op.cit., 9-11).

2.1. Legal reforms of the collective bargaining system

Portuguese legislation on collective bargaining allows for three types of agreements in the private sector: (a) branch agreements (*Contratos Colectivos de Trabalho,* CCTs) at national, regional or local level, signed by employers' associations, and one or more union organisations; (b) agreements for groups of companies (*Acordos Colectivos de Trabalho,* ACTs) signed by an employers' association or a group of companies and one or more union organisations; and (c) single-employer agreements (*Acordos de empresa,* AEs) signed by one company and one or more union organisations.[151] All these types of labour agreements, however, until very recently, were strictly the purview of trade unions and employers as Portuguese labour legislation before the outbreak of the crisis granted exclusive competence to reach collective agreements, at all levels, on behalf of employees to the trade unions, although, there are indeed some atypical collective agreements signed at plant level between employers and their workers' councils.[152]

Collective bargaining has taken place predominantly at the branch or multi-employer levels. Furthermore extensive use has traditionally been made of the administrative extension of such collective bargaining agreements (*portaria de extensão* or PE), despite the general affiliation principle that they apply only to the worker and employer members of the trade union or of the employers' association that signed the agreement, such that, in practice, their conditions apply to non-affiliated workers and employers. In

[151] On the main characteristics of the Portuguese collective bargaining system, see, inter alia, Palma (op.cit.); Fulton, L. (2013) *Worker representation in Europe. Country profile: Portugal*. ETUI, available at http://www.worker-participation.eu/National-Industrial-Relations/Countries/Portugal/Collective-Bargaining (accessed on July 21, 2014); Naumann, R. et al. (2012) *Collectively agreed wages increases in Portugal*, avalaible at http://hiva.kuleuven.be/nl/extra/CAWIE.php (accessed on July 4, 2014); Costa, H. (2012) "From Europe as a model to Europe as austerity: the impact of the crisis on Portuguese trade unions", *Transfer* 18 (4), pp 397-410.

[152] The most notable case is the AutoEuropa automobile assembly plant in Palmela.

an economy dominated by small firms[153] with limited capacity to engage in collective bargaining, the focus on sectoral or multi-employer bargaining, with extension mechanisms, was a way to ensure wide coverage of agreements.[154] However, it is also worth noting that – despite such wide collective bargaining coverage − labour relations were effectively quite decentralized in Portugal, with an ample discretionary – indeed unilateral - power on the part of employers.[155]

The year 2011 marked a turning point in the evolution of industrial relations in Portugal, provoked by the the MoU's requirements for changes in labour legislation aimed at fostering so-called "coordinated decentralized bargaining". As noted above, this objective was already included in the tripartite agreement of March 2011, which includes the commitment of the government − supported by the signatories of the agreement − to change the labour law "in order to ensure the necessary adjustments for the implementation of the coordinated decentralized bargaining".[156]

Two significant legal reforms were approved in 2012 to comply with some of the requirements of the MoU on collective bargaining.

Firstly, the revision of the Labour Code through Law 23/20012 provided for, among other things, a decentralization of collective bargaining through trade union derogation of its role to workers' councils. Specifically, article 491.3 stipulates that workers' councils may negotiate at plant level in firms with a minimum number of 150 employees − the previous threshold before the reform was 250 − though this must be authorized by the trade unions. Also, the reform favours the possibility for sectoral collective agreements to include conditions under which firm-level agreements can deviate from the sector-level agreements.

Secondly, a new regulation was adopted tightening the criteria and procedures for the extension of collective agreements (*Resolution 90/2012*).[157] According to the new criteria, in order for the extension to be granted, the firms for which extension is sought must represent at least half the workers in the branch, geographical area, professional category or type of company. The Resolution further states that the requirements are not applicable when the extension request excludes small and medium-sized enterprises.

Additionally, it is worth noting the legislation's provisions for the creation of the Labour Relations Centre (*Centro das Relações Laborais*).[158] This is a tripartite body, consisting of the government and the social partners, intended to provide information and technical assistance to the parties involved in collective bargaining.

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[153] The majority of Portuguese companies − around 95%− are micro-size companies, with less than 10 workers.

[154] Until 2008, around 75 per cent of workers in the private sector were covered by collective agreements – either directly or indirectly through extension arrangements.

[155] See Stoleroff, A. (2009), "Company-level labour relations and the industrial relations system in Portugal", in Leite Viegas, J. M., Carreiras, H. & Andrés Malamud (orgs.), Institutions and Politics, (Portugal in the European Context, vol. I), Lisbon: Celta Editora, pp. 213-236. Rodriguez and Reis (op.cit., p. 201).

[156] *Acordo Tripartido para a Competitividade e Emprego* (p. 23).

[157] *Resolução do Conselho de Ministros 90/2012*.

[158] *Decreto-Lei n.º 189/2012 de 22 de agosto*.

Against this background, the officers in charge of successive reviews of the implementation the Economic adjustment programme have considered that, in general terms, the measures and legal changes introduced by the Portuguese government are in line with the requirements of the MoU. Nevertheless, they also observed that some of the measures proposed in the programme have not yet been applied in practice, and therefore further measures are necessary to make collective bargaining more dynamic.

More specifically, it is noted in the Eleventh Assessment (April 2014) that "the authorities are considering policy options, which will include the revision of the expiration and survival of collective agreements or, in case this option is not implementable, the introduction of the possibility of a mutually agreed and temporary suspension of collective agreements when a firm is facing economic difficulties. In addition, the authorities are studying ways to foster collective agreements, in dialogue with social partners, with a view to specifying measures concerning the current criterion for the extension of collective agreements taking into account the representativeness of SMEs in the various sectors. Any policy option regarding the current extension mechanism will need to maintain an effective framework for wage decentralisation in line with the objectives of the MoU."[159]

In line with these positions, other international organizations are advocating further flexibility and decentralization of collective bargaining in Portugal. As an example, a recent OECD report has pointed out that abolishing administrative extension of collective agreements beyond cases in which companies account for less than 50% of employment in a given sector is essential to promote firm-level bargaining and restore competitiveness in the country.[160]

These proposals are however quite far from receiving unanimous support. From a critical point of view, different authors and institutions have remarked that the implemented reforms and measures have had devastating effects on the dynamic of industrial relations and collective bargaining in Portugal.[161]

According to this view, the main negative implications of the enacted reforms have been: (a) the loss of autonomy of the social partners, above all of the trade unions, because many of the measures enacted by the government have been implemented without consultation;[162] (b) a greater tension in the relation between the social partners, provoked by the unbalanced approach of the reforms (much more favourable to the employers' side); and (c) a huge decline and paralysis of collective bargaining, as a result of the decrease of the number of collective agreements but also the freezing of extension decisions, which has led to a dramatic fall in the share of workers covered by collective agreements.[163]

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[159] Kröger, J. (Director) (2014): *The Economic Adjustment Programme for Portugal. European Economy. Eleventh Review*. Occasional Paper 191. European Commission, Directorate General Economic and Financial Affairs (p. 41).

[160] OECD (op.cit., p. 6).

[161] See Costa (op.cit.); Pedroso, P. (op.cit.); Leite et al (op.cit.); Campos, M. (2013) "Portugal. Impact of the crisis on industrial relations", *EIROnline*, 18/6/2013 (available at http://www.eurofound.europa.eu/eiro/studies/tn1301019s/pt1301019q.htm, access on 4 July 2014). The positions of the social Partners are analyzed in section four of this report.

[162] For example, the Council of Ministers' Resolution limiting the administrative extension of collective agreements, which undermines gravelly collective bargaining.

[163] For available data, see section 3 of this report.

The consequences for industrial relations have been so pronounced that some critics − as well as some trade unions and civil organizations − have denounced the labour reforms enacted in Portugal under the Economic adjustment programme as disrespecting the ILO Convention 98 (Right to Organise and Collective Bargaining Convention).[164]

2.2. Constitutional Court's ruling on the revision of Labour Code of 2012

On July 12, 2012, a group of 24 members of the Portuguese Parliament submitted a petition to the Constitutional Court, soliciting it to rule on the "constitutionality" of the amendments to the Labour Code introduced by Law 23/2012. According to the petition, these amendments "did not meet the constitutional purposes, violating several of its principles and rules, including, among others, the principle of human dignity, the principle of the right to work and work stability, the principle of reconciliation of professional life and family life, the principle of freedom of association, and the principle of collective autonomy".[165]

The Court delivered its ruling on September 20, 2013, one year after the law had come into force.[166] The judgment pronounced as unconstitutional various articles of the amendments.[167]

Firstly, it objected to the new provisions defining the "conditions for objective individual dismissals related to the extinction of a job", because they violated the "prohibition of dismissals without just cause" enshrined in article 53 of the Constitution.

Secondly, the Court considered as unconstitutional the new provision allowing dismissal "when the employer can demonstrate observance of relevant non-discriminatory criteria vis-à-vis the motives underlying the extinction of the job". The court decided this paragraph ignored the constitutional ruling requiring the employer to offer the worker a compatible job when one was available in the company. The court concluded that this was clearly contrary to the "prohibition of dismissal without just cause' included in article 53 of the Constitution".

Thirdly, the court also questioned the provisions of the law that would have permitted individual dismissals on the basis of "failure to adapt". This would have allowed for the dismissal of workers considered to be unable to adapt to changing job skills or requirements. The new law did not require that the employer offer a compatible job before dismissing the worker when one is available in the company. The Constitutional Court ruled that this condition must be part of the legal framework.

Finally, the Court also looked at the amendments regarding collective bargaining. On the one hand, it ruled (a) the new paragraphs 2 and 3 to be unconstitutional, considering that the Labour Code could not affect agreements on compensatory rest for overtime and increases of annual vacation days; and (b) paragraph 5 to be unconstitutional, since

[164] Valente and Marques (op.cit.).
[165] Quoted in Campos, M. (2013) "Court Rules some austerity measures to be unconstitutional", *EIROnline*, 12/11/2013 (availaible at http://www.eurofound.europa.eu/eiro/2013/10/articles/pt1310019i.htm, access on 9 July 2014).
[166] Judgment n.º 602/2013.
[167] Campos (November 2013, op.cit., pp 2-4.

it imposed reduction of the relevant provisions of collective agreements even after the temporary period expires.

On the other hand, the Court upheld the constitutionality of two other paragraphs of article 7 that the petitioners had objected to: (a) paragraph 1, which says the provisions of collective agreements concluded before the entry into force of this law are null and void when they provide for severance pay for collective dismissals or termination of employment higher than the provisions of the Labour Code; and (b) paragraph 4, which refers to provisions for overtime payment and payment for normal work on holidays or compensatory rest for that work. These payments were substantially reduced by the Labour Code, in line with Troika Memorandum requirements.

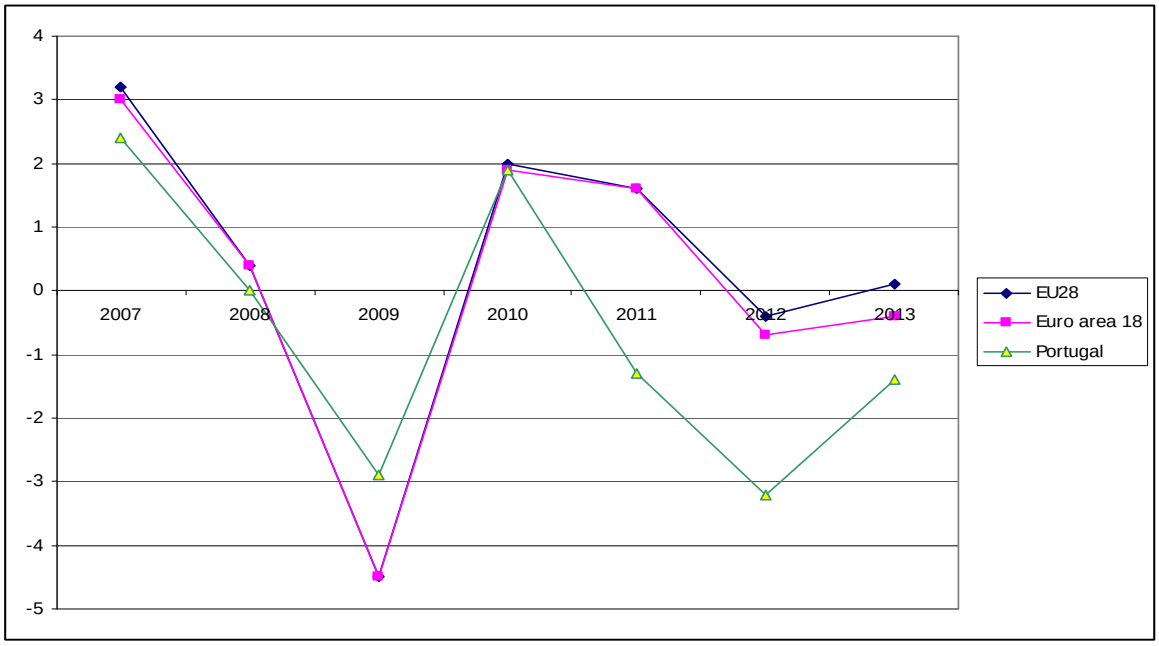
3. EFFECTS OF THE CRISIS AND OF THE MEASURES ADOPTED UNDER THE ECONOMIC ADJUSTMENT PROGRAMME

The aim of this section is to give a general overview of some of the main impacts of the crisis and of the measures enacted in Portugal in the last years, addressing the following issues: (a) economic activity; (b) labour market; (c) collective bargaining; (d) wages; and (e) inequality and poverty.

3.1. Strong recessionary impact in the short run and fragile signs of economic recovery

The evolution of economic activity in Portugal between 2008 and 2013 as measured by the real gross domestic product (GDP) growth rate has followed a pattern in the form of a "W", a similar trend to that in most European countries, although with a more intense decline since 2011. At the end of this period there was a slight moderation of this trend, however, the contraction of economic activity in Portugal continued to be more marked than in the Euro Area (Figure 6.1).

Figure 6.1. Real GDP growth rates (volume) in EU, Euro area and Portugal. 2008-2013 (Percentage change on previous year)



Source: Own elaboration based in Eurostat (annual data)

There is a broad consensus with regard to the short run negative impact of the implemented austerity measures on effective aggregate demand, leading to the double dip recession registered at the end of 2011.[168] However, the interpretation of the slight signals of recovery registered in the second half of 2013 is subject to an ongoing controversy regarding its sustainability.

In May 2014, the EC pointed out that Portugal's economic recovery seems to be becoming progressively more balanced and driven by domestic -, and that further improvements in competitiveness through the implementation of structural reforms could help export growth and sustain the correction of external imbalances. The EC also remarked that "the main downside risks remain linked to the ongoing deleveraging and fiscal consolidation processes".[169]

In a similar way, the projections of the Portuguese institutions point to a gradual recovery of economic activity over the horizon, with a sustained recovery in domestic demand and robust developments in exports. [170]

From a critical perspective, the strategy of boosting the transition to an export-oriented growth model as a real and sustainable alternative to the decreasing internal demand has been called into question for two reasons. Firstly, because this kind of strategy is always exposed to the economic situation of the major trade partners; in this regard, even if the market share of Portuguese products increase, the crisis is affecting almost all its trade partners and especially Spain, its largest such partner.[171] Secondly, because in *wage-led economies* boosting exports via wage devaluation can never compensate for the fall in domestic demand. Internal wage devaluation driven by the governments, in addition to being socially painful, has proven to be ineffective in economic terms, as it reduces the growth capacity of the economy in sectors unrelated to export activity, which are the vastly the most significant in terms of employment.

3.2. A dramatic deterioration of labour market situation

The crisis has had a dramatic impact on the labour market in Portugal. It's most visible result has been, in the first place, an intense destruction of employment: between 2008 and 2013, there has been a net balance on 822 thousand jobs lost, with an annual rate of change for the total period of -12,8% (four times the EU average).[172]

The labour market has not improved since the launch of the financial assistance programme in 2011. On the contrary, the trend of job loss intensified over the past two years, showing some signs of abating only at the end of the period (figure 6.2).

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[168] A double-dip recession refers to a recession followed by a short-lived recovery, followed by another recession. This has even been recognized by different authors and international institutions, including like IMF. See for example IMF (2012) *World Economic Outlook. October 2012. Coping with high debt and sluggish growth*. IMF. ILO(2012) *Global Employment Trends 2012. Preventing a deeper job crisis*. ILO.

[169] EC (2014) *Spring 2014 European Economic Forecast* (5/5/2014). According to this forecast, Real GDP in Portugal is projected to grow by 1,2% in 2014 and further accelerate to 1,5% in 2015.

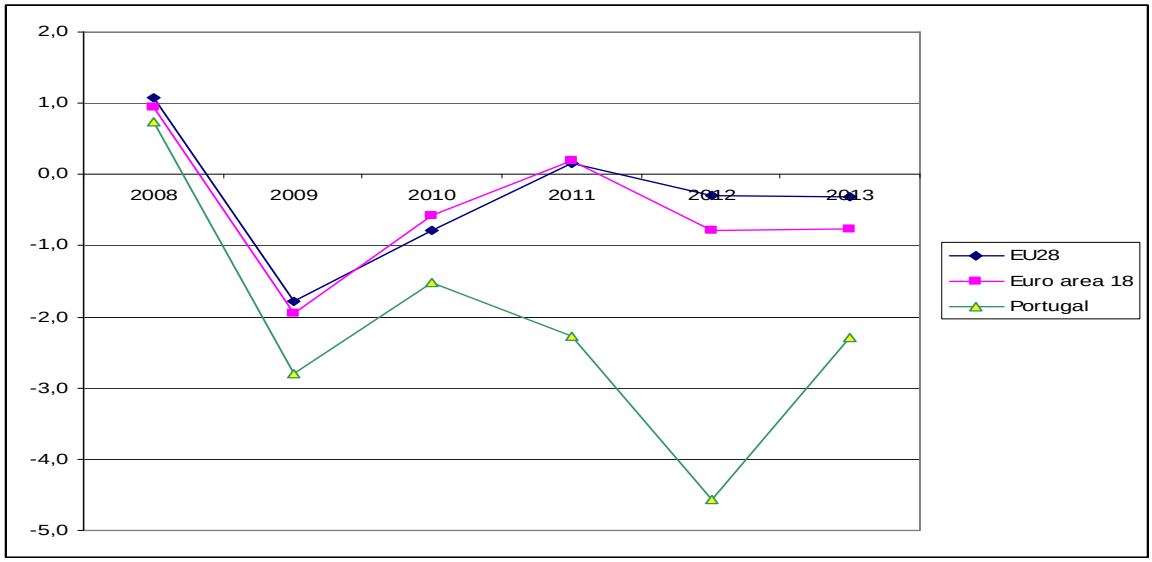
[170] Bank of Portugal (2014) "Projections for the Portuguese Economy: 2014-2016" in *Economic Bulletin*, April 2014 (pp 45-49).

[171] Pedroso, P. (op.cit.); Costa et al (op.cit.).

[172] Source: Eurostat, annual data (population 15-64).

In this regard, there is a broad consensus regarding the negative impact of the enacted austerity measures on the employment situation, due to the above mentioned impact on the economic activity of the private sector and the effects of the budgetary cuts in the public employment.

Figure 6.2. Employment growth rates in EU, Euro Area and Portugal. 2008-2013 (Percentage change on previous year)



Source: Own elaboration based in Eurostat (annual data, population 15-64)

The consequence of this process has been a profound deterioration of the main labour market indicators by the end of the period (Table 6.1). Thus, the employment rate has declined by around 7 percentage points since the end of 2008. This represents the largest decline in employment rates in the EU, after Greece and Spain. In comparison, employment rates in the EU decreased by an average of 1,6 percentage points over the period 2008−2013.

Table 6.1. Activity, employment and unemployment rates in Portugal. 2008-2013 (%)

Rate	2008	2009	2010	2011	2012	2013	Dif 13 s/08	Dif 13 s/11
Activity	74,2	73,7	74	74,1	73,9	73,6	-0,6	-0,5
Employment	68,2	66,3	65,6	64,2	61,8	61,1	-7,1	-3,1
Unemployment	8,1	10	11,4	13,4	16,4	17	8,9	3,6

Source: Eurostat (annual data, population 15-64).

The fall in employment has translated into increasing unemployment, which reached a total of 873 thousand people in 2013. As a result, the unemployment rate reached a historical peak of 17%. Related to this, another element of concern is the continuous increase in long-term unemployment – corresponding to the percentage of jobseekers that have been without work for over one year – to a rate of 57,8% in the last quarter of 2014.

In addition to long-term unemployment, the rise of labour market inactivity represents an even more serious long-term challenge. Although the increase in the inactivity rate has not been dramatic, there has been a significant change in the composition of the pool of inactive workers. In particular, during the same period, the number of inactive

people not willing to work declined, while by contrast the number of so-called discouraged workers significantly increased.[173]

Finally, it is worth noting that the labour crisis, although generalized, has not had a uniform impact upon the working population, as young people with the lowest levels of skills have been disproportionately affected.

3.3. A sharp decline of collective bargaining, higher level of decentralization, plummeting share of workers covered by collective agreements and a freeze of social dialogue in public sector

While the current crisis has provoked substantial change in industrial relations in general, the situation of private sector collective bargaining in particular in Portugal has noticeably worsened, especially since 2011. According to the available data, four key trends can be highlighted (Table 6.2).

Table 6.2. Number of collective agreements by type, extension ordinaries and workers covered by collective agreements in Portugal: 2008-2013.

	2008	2009	2010	2011	2012	2013
Agreements	**295**	**251**	**230**	**170**	**85**	**94**
Branch agreements	173	142	141	93	36	27
Multi-employer agreements	27	22	25	22	10	19
Company agreements	95	87	64	55	39	48
Administrative extensions	137	102	116	17	12	9
Workers covered	1.894.788	1.397.335	1.407.066	1.236.919	327.662	242.239

Source: UGT, Relatório anual da negociação colectiva 2013.

Since 2008 the *number of collective agreements has continuously declined*, but with a drastic fall in 2012 when only 85 agreements were officialised − and 94 in 2013 − in sharp contrast with the 295 agreements reached in 2008.

Along the same line, there has been a *radical fall in the number of extension decisions of collective agreements*, from 137 in 2008 to 19 in 2013.

One worrying consequence of these two trends is that *the share of workers covered by collective agreements has plummeted* to its lowest level in the history of Portuguese democracy.

Finally, it is worth noting the *change in the predominant type of collective agreements*: The traditionally preponderant branch and professional agreements (CCT and ACT), have given way to plant-level agreements (AE). Thus, the percentage of AEs over all the agreements has significantly risen from 32% in 2008 to 51% in 2013.

This may indicate a new tendency towards a more decentralized and specialized level of collective bargaining. However, the social partners tend to think that this situation also has something to do with the negative effects of the limitations imposed on the administrative extension of collective agreements, since the limitations only affect branch and professional level agreements.[174]

[173] Torres and Malo (op.cit., pp.11-12).
[174] Palma (op.cit., p. 21).

The situation of collective bargaining in the public sector, for its part, was almost paralyzed due to the government policy − following MOU requirements − of freezing and cutting down wages and careers. Worse than this, however, has been the freezing of the many recently achieved collective bargaining agreements over working time between unions and municipalities.

To sum up: the dynamic of collective bargaining in Portugal has suffered a dramatic impact in the context of the crisis, especially since 2011. This can be explained as a result of the combination of the labour market reforms implemented by the government and the effects of the austerity measures in the public sector. Furthermore, the frequent refusal of employer associations to conclude agreements at this point portends the imminent replacement of existing collective agreements with new ones that are more in line with the new labour code (the existing collective agreements are more favourable to workers than the regulations in the new labour code).

In this regard, although the government may argue that this situation is a necessary consequence of the need to restore competitiveness in the economic crisis, it can be affirmed that a radical reconfiguration of the formerly existing pattern of industrial relations, transferring power and resources from labour to capital, is underway.[175]

3.4. Wage devaluation

Wages in Portugal were increasing in real terms and at a higher rate than productivity for the last decade, albeit from a low base in the overall European context.[176] This was often criticized as one of the main reasons for Portugal's loss of competitiveness.[177]

Therefore, fostering wage devaluation became one of the main goals of the austerity policies and also a central component to the strategy of the Troika with regard to the evolution of wages from the time of the launching of the economic adjustment programme.

Analysis of available data reveals, in the first place, a continuous *decline of nominal collectively agreed wage increases* between 2008 and 2012, with the greatest impact in 2010 (Table 6.3).

Table 6.3. Nominal agreed wage increases in Portugal: 2008-2013 (%)

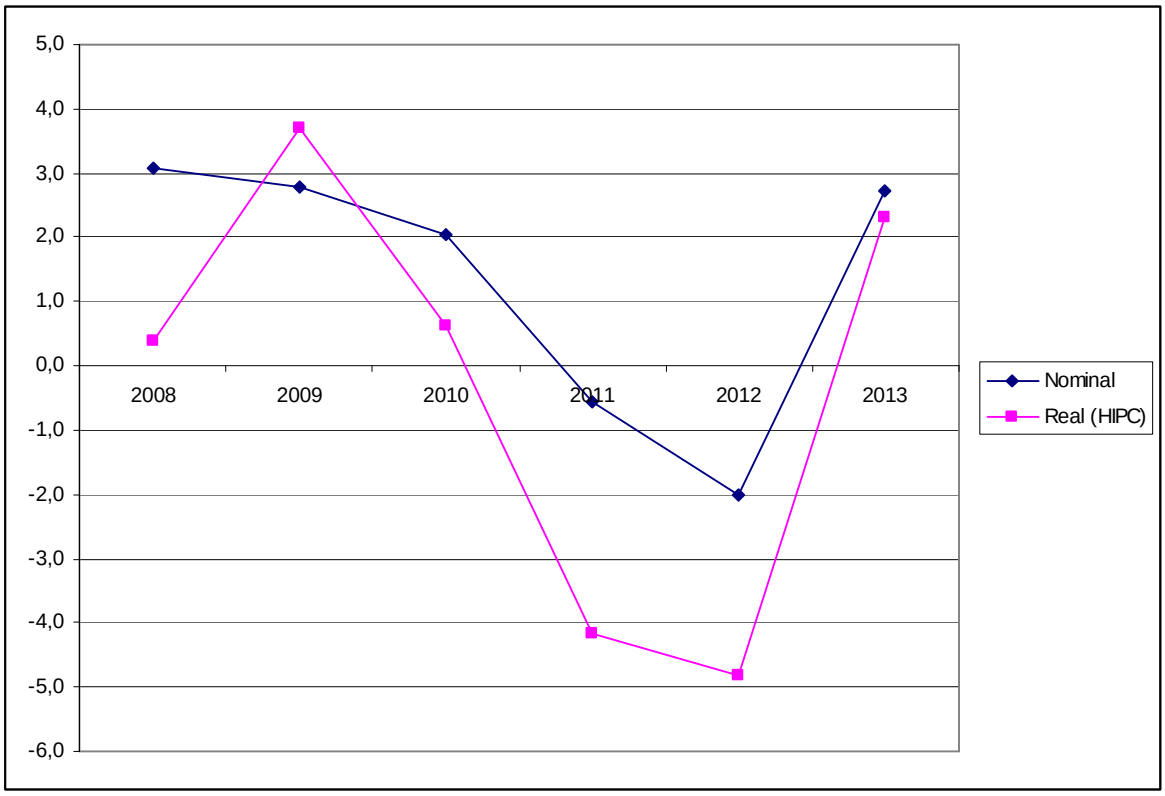
Year	Annualised
2008	3,1
2009	2,9
2010	2,4
2011	1,5
2012	1,4

Source: DGRT, Weighted average variation between wage tables (from: CAWIE project database).

[175] Campos (op.cit).
[176] In fact, real wages increased on average at a much lower rate than wages in most of the other OECD countries in the last decade. See, Dias, J. & Cerdeira, M. C. (2011) "Recent trends in wages and collective bargaining in Portugal", *Sociologia on-line*, nº 2, abril 2011 (pp 345-367).
[177] Blanchard, op.cit (p.4).

More clearly, there is a *sharp fall of the nominal and real gross wages* − measured by compensation per employee − that *increases* in 2011 and 2012, although more recent data point to a recovery in 2013 (Chart 3). A more in-depth analysis, however, can be obtained by dividing this process into different periods, despite the difficulties arising from working with aggregated data (Figure 6.3).[178]

Figure 6.3. Nominal and Real compensation per employee increases in Portugal. 2008-2013 (% over the previous year)



Source: Calculations based on AMECO and Eurostat, 2014.

In the first period from 2008 to 2009, wages grew more than the EU average (of around 2 to 6%), despite the consequences of the economic crisis. This specific trend could be explained by several factors but mainly by the significant loss of temporary jobs that produced a general increase of the nominal wages average.

The scenario changed dramatically from 2010 on, with a general downward trend on wages, launched by the combination of different factors but with special influence from the effects of the enacted austerity measures (including freeze of the minimum wage and cuts in the public sector).

At the end of the period, a new rising trend can be observed. Nevertheless, this has not been enough to compensate for the evolution of the wage share in the GDP, which has continued its downward trend, to 55,8% (2.6 points less than in 2008).

178 In the aggregate data there are not registered the differences between workers, which can be very significant in terms of level of qualification, job, company size, industrial sector, trade unions' influence and collective bargaining systems.

So, to sum up it can be concluded that one of the most visible consequences of the austerity policies implemented in Portugal has been significant wage devaluation. The main results of this process have been an important transfer of wealth from labour to capital, and the consolidation of a low-wage model, which has resulted in a further segmentation and impoverishment of the working population

3.4. Growing levels of inequality and poverty

Portugal has historically had one of the highest levels of income inequality and poverty among the European countries, although these had been decreasing consistently since the 1990s, and even in the first four years of the current crisis.[179] However, the latest available data seem to point to a reversion of the trend in 2012 (Table 6.4).

Table 6.4. Indicators of poverty and inequality in Portugal: 2008-2012

Indicator	2008	2009	2010	2011	2012
People at risk of poverty or social exclusion (18 and over; in %)	25	23,9	24,5	23,5	24,6
Gini coefficient	35,8	35,4	33,7	34,2	34,5

Source: EU-SILC, Eurostat, 2014

It has been argued that this change of pattern can be explained by the combination of two different processes: the deepening deterioration of the labour market, as shown by indicators such as rising long-term unemployment and the growing inactivity rate, and the impacts of austerity measures − wage devaluation, cutbacks related to social protection, social services and pensions. This has lead to a profound deterioration of the social situation in Portugal, which is expected to worsen in the next years.[180]

4. THE ROLE OF SOCIAL PARTNERS, INDUSTRIAL ACTION AND SOCIAL PROTEST

At peak association level of the Portuguese industrial system the main actors on the side of labour are the *General Confederation of Portuguese Workers* (CGTP) and the *General Workers' Union* (UGT). These two confederations express ideological divisions that emerged within the labour movement in the democratic transition following 1974 and continue to have significant political and practical ramifications.[181] The CGTP remains the largest union confederation, but UGT has a central position in macro-level concertation, in large measure due to its proximity with the political parties of the governing block. On the side of employers is a more fragmented, sector-specific structure, with four confederations: the *Confederation of Industry* (CIP), the Portuguese Trade and Services Confederation (CCP), the *Portuguese Confederation of Agriculture* (CAP) and the *Portuguese Confederation of Portuguese Tourism* (CPT).

The dynamic of social dialogue in Portugal in the context of the current crisis has been labelled a two-way game of boxing and dancing, ranging between the poles of labour protest and participation, that is, the mobilisation for general strikes and the negotiation

[179] Pedros, P. (op.cit., p. 19).,

[180] See for example: Oxfam (2013): *The true cost of austerity and inequality. Portugal Case Study*. Oxfam; Pedroso, P. (op.cit.); Torres and Malo (op.cit.); Valente and Marques (op.cit.).

[181] Several dozen purportedly independent unions remain outside the orbit of these recognised confederations, some of which participate formally within the *Union of Independent Trade Unions* (USI), and do not have direct representation in concertation.

and signing of social pacts.[182] This tension can be explained by the different approaches of the labour confederations to the implementation of the austerity measures as well as the relations among the social partners and the government. Thus, on the one hand, although they voice the particular needs of the sectors they represent, the employers' associations clearly indicated a greater readiness to accept austerity, that is, insofar as they see opportunities to promote their traditional positions and outstanding demands, especially with regard to labour market issues. On the other hand, the employers' positions positions have sporadically diverged from the government and the Troika, particularly to the extent that they see austerity as an obstacle to economic recovery through its restriction upon demand.

On the union side, a fundamental divide exists however between the two confederations: CGTP has showed an all-out opposition to the MoU's terms and goals, pointing to the need for an immediate renegotiation of the debt, the interested payments and deadlines, in order to avoid further recessions and an increased risk of unemployment and poverty. For its part, the UGT has been more cautious and accepting of the memorandum's requirements, stressing the importance of respecting the commitments with the Troika, in order to be able to renegotiate the extension of deadlines and interests.[183]

Three social pacts were signed between the respective governments, UGT and the employers' confederation between 2008 and 2012, all of them facilitating structural adjustments in fundamental issues on social and employment regulations: (a) the *Tripartite agreement for a new system of regulation of industrial relations, employment policy and social protection* signed on 25 June 2008, which set up the basis for the revision of the labour code entering into force in 2009; (b) the *Tripartite Agreement for Competitiveness and Employment* signed on 23 March 2011, which favoured the decentralisation of the collective bargaining at company-level and defined the reduction of severance pay and the creation of a fund to finance it; and (c). the *Compromise on Growth, Competitiveness and Employment* signed on 18 January 2012, which was a step forward in the implementation of the MoU and its commitments were mostly integrated in the revised Labour Code of 2012.

This process of social dialogue has been accompanied in parallel by an increasing level of industrial action and social unrest. Industrial action escalated since 2010, and compared with the last decades far more general and sectoral strikes have taken place. Furthermore, there has been also a rising of the mass protests organized by trade unions and/or the civil society (see box four for a broad picture of this phenomenon)[184]

While the UGT's position has fluctuated between mitigated compliance and defensive criticism, at once hardening its position and then conceding, ranging in its action between participation in protest action, such as general and sectoral strikes, and the signing of social agreements, the CGTP has consistently played a leading role in the opposition to the MoU, expressing its intransigent rejection of the adjustment

[182] Campos, M., and Martín, A. (2011) "Crisis and trade unions challenges in Portugal and Spain: between general strikes and social pacts", *Transfer*, 17 (3), pp 387-402.
[183] Costa, op.cit. (p. 406). Campos (January 2013, op.cit.).
[184] Campos, M:; and Artiles, A. (2014): "Descontentamento na Europa em tempos de austeridade: Da ação coletiva à participação individual no protesto social", *Revista Crítica de Ciências Sociais*, 103, Maio 2014 (pp 137-172); Campos (January 2013, op.cit.); Valente and Marques, op.cit.;

programme. However, it has been a noticeable characteristic of Portuguese protest that the events with the greatest participation have been organized outside of the labour movement. Indeed, the *Fuck the Troika* collective organised the biggest demonstrations since 1974. In this regard, an increasing confluence can be observed between the trade union strategies and the protest of new social movements, though not without tensions.

Box 6.4. Main protest demonstrations and general strikes in Portugal: 2010-2013

Demonstrations	General strikes
2010	
	• 24 November- CGTP and UGT
2011	
• 12 March: "Generation of Rasca" • 1 October: CGTP • 15 October: M12M • 24 November: Movement 15 October	• 24 November- CGTP and UGT
2012	
• 11 February: CGTP • 15 September: Screw the Troika • 29 September: CGTP • 14 November: CGTP and Screw Troika	• 22 March: CGTP • 14 November: CGTP and 14 unions and 4 federations affiliated in UGT (European protest)
2013	
• 2 March: Screw the Troika, with support CGTP • 19 October: CGTP and Fuck the Troika • 26 October: Screw the Troika • 1 November: CGTP	• 27 June 27: CGTP and UGT • 8 November: Public sector strike convened by the affiliated unions in both the unions

Source: Campos, M.; and Artiles, A. (2014): "Descontentamento na Europa em tempos de austeridade: Da ação coletiva à participação individual no protesto social", *Revista Crítica de Ciências Sociais*, 103, Maio 2014 (p. 143).

It is worth noting a similar in other European southern countries, like Spain and Greece, which clearly shows the escalation of social unrest against the negative social impacts of the austerity programmes launched under the New European Economic Governance[185].

5. FINAL REMARKS

As referred to in the introduction, in May 2014, the EC declared that Portugal, following Ireland and Spain, had successfully graduated from the financial assistance programme launched three years before (in spite of the important challenges still to be faced by the country, according to its assessment).

A more critical approach on the implementation of the MoU would oblige us, however, to comment upon some flaws in this process.

Firstly, the enacted measures have had a strong recessionary impact on the economic activity in the short run. Also, there is a great uncertainty about the sustainability of the slights sings of recovery registered at the end of 2013. The reason is that there are

[185] Köhler, H-D; González, S.; and Luque, D. (2013) "Sindicatos, crisis económica y repertorios de protesta en el Sur de Europa" *Anuari del conflicte social 2012*. Observatorie del conflicte social (available at: http://www.observatoridelconflictesocial.org/es/anuario, access on 9 July 2014).

serious doubts with regard to the strategy of boosting the transition to an export-oriented growth model as a real and sustainable alternative to the decreasing internal demand.

Secondly, the enacted labour market reforms −namely, the measures reducing labour costs and the reform of unemployment benefits−, which were aimed to have a positive effect on the employment, have clearly not fulfilled this goal. On the contrary, according to the ILO since the MoU was launched in 2011 there has been a deterioration of the labour market situation without precedent in the recent economic history of Portugal.

Thirdly, the impact of the crisis and the political measures on collective bargaining has been devastating, as shown by the sharp decline in the number of collective agreements published and the plummeting of the share of workers covered by collective agreements to the lowest values in the history of Portuguese democracy at the end of the period. In this sense, it has been argued that the reforms of industrial relations system fail to respect the ILO Convention nº 98.

Fourthly, austerity policies led to massive cuts in areas such as social benefits, pensions, health service, when it most needed due to the consequences of the rising unemployment and long-term unemployment, as well as by the wage devaluation. The result of this process is a dramatic deterioration of the living conditions of the population, as it is shown by the rising figures in the levels of income inequality and poverty registered in 2012.

Fifthly, even if there has been an active involvement of the social partners through the tripartite social dialogue −with the relevant exception of CGTP− many of the measures have been adopted in a unilateral way by the government (including some related to the field of industrial relations).

Finally, the failure in the goal of “mitigating the social negative impacts” of the MoU have provoked a escalating of the industrial action and social unrest, with five general strikes between 2010 and 2013 and the biggest demonstrations since 1974.

Against this background, and unlike the most optimistic recent forecasts on the evolution of the Portuguese economy, it is simply not realistic to expect a sustainable recovery unless action is taken to tackle and address the depressed levels of productive investment as well as unemployment, growing poverty and other trends which are pushing so many people to emigrate or to consider emigration.

It is obvious that the European framework is a limitation upon the room of manoeuvre of Portugal, or any other single country, for that matter. Nevertheless, a new strategy seems to be necessary to tackle the trends identified above, based in a more job-centred approach and devoting special attention to the most disadvantaged groups. If it is not the case, the consequence would be unavoidable the risk of a further deterioration of the social cohesion and a growing social unrest and disaffection among the population.

Chapter 7

Crisis and Austerity Policies in Spain: towards an authoritarian model of industrial relations

Fernando Rocha[186]

INTRODUCTION

The *Great Recession*[187] is having a dramatic social impact in Spain, where the effects of the crisis on labor market have been much more intense than in other European countries with a similar downturn in the economic activity. Thus, between 2008 and 2014 3,2 million jobs were lost in Spain, accounting around 37% of the total job losses in EU28, with a rate of change of 16 for the whole period (more than six fold higher than EU average)[188].

The discussion on the drivers of this phenomenon has been controversial, with wide variations of opinion among scholars, institutions and the social partners.

Summarily put, the orthodox view given by the international institutions, the Spanish government, the employers' organizations and various scholars argue that the higher scale of the crisis in Spain can be explained by two set of reasons. First, the fiscal imbalances caused by the high public deficit and high external debt, which led to the sovereign debt crisis. Secondly, the competitiveness problems of the Spanish economy with respect to central and northern countries due to persistent domestic structural imbalances, especially in the labour market [189].

From an alternative perspective, various authors have rooted the increased crisis of Spain in the weaknesses of the pattern of economic growth consolidated since mid-90s, strongly affected by the remarkable development achieved by the speculative processes in the real estate and building sector, which made this model very vulnerable to the change in the economic cycle, and aggravating their negative effects in terms of job losses.

Particularly, these key factors have been pointed out: (a) the high specialization in sectors characterized by low or intermediate technology, low development of innovation processes and the intense creation of jobs with low skill requirements: construction and low value-added services; (b) the segmentation of the labor market, affecting specially to young people and migrants; (c) the low levels of aggregate productivity growth; (d)

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[186] Sociologist. Fundación 1º de Mayo (Spain).

[187] This is a term coined by various economists to highlight the importance of the 2008 crisis in relation to others recorded in recent decades, drawing a parallel - in terms of severity - with the "Great Depression" of the 30s.

[188] Source: Eurostat (second quarters, population 15-64). In this period were destroyed 8,9 million jobs in the EU38 and 3,5 were created, with a negative net balance of 5,4 million.

[189] Directorate-General for Economic and Financial Affairs, European Commission (2012) *Macroeconomic imbalances –Spain*. European Economy, Occasional Papers, nº103; Jaumotte, F. (2011) *The Spanish Labor Market in a Cross-Country Perspective*. IMF Working Paper 11/11; OECD (2012) *Spain*. OECD Economic Surveys; Gobierno de España (2012) *Programa Nacional de Reformas 2012*. Gobierno de España.

the significant levels of income inequality, associated to wage moderation and stagnation; and (f) the high levels of indebtedness of private companies and households[190].

The responses adopted by the governments have followed different approaches, closely linked to the changes in the anti-crisis policies at European level: a first stage, characterized by the implementation of some stimulus measures on the demand-side. This phase ended with the turning point of the European Council of May 2010, which led to the fully accepting by the Spanish Socialist Government of a programme of budget adjustment and structural reforms with a neoliberal bent, according to the specific recommendations for Spain drawn by the EU institutions within the framework of the New EU Economic Governance. This line of action was later strengthened by the new Conservative Government after winning the General Elections held in November 2011, which launched an aggressive and still ongoing process of fiscal consolidation policies and structural reforms.

It is worth noting that on July 2012 the Spanish Government agreed with the Eurogroup a financial programme for the recapitalisation of the financial institutions for a period of 18 months, which provided an external financing by the euro area Member States of up to EUR 100 billion. This programme was implemented through the measures included in the "*Memorandum of Understanding on Financial on Financial-Sector Policy Conditionality*" (MoU), signed between the European Commission and Spain on July 23, 2012.

The current Spanish Government has made a positive assessment of the set of actions and measures implemented in the last two years. According to its view: (a) between 2012 and 2013 it has been implemented the biggest reform programme in the democratic history of Spain; (b) the fiscal situation has been stabilized, and it has been overcomed an unprecedented debt crisis, which would have led to external intervention; (c) a bank restructuring has been carried out and the Financial Assistance Programme has been completed; (d) there has been a boost to the competitiveness of the economy, guiding growth towards exports and putting an end to job destruction; and (e) Spain is again a credible and solvent country that generates confidence[191].

The European Commission (EC) agreed in its evaluation of March 2014 that the adjustment of the Macroeconomic imbalances identified as excessive has clearly advanced and the return to positive growth has reduced risks. Yet, the EC also noted that the adjustment is far from complete and vulnerabilities persist, with regard to issues such as the high stock of private and public debt ─both domestical and external─ and the high level unemployment[192].

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[190] Rocha, F.; and Aragon, J. (2013) *La crisis y sus efectos sobre el empleo en España*. Fundación 1º de Mayo, Colección de Informes nº 55; Banyuls, J. and Recio, A. (2012) "Spain: the nightmare of Mediterranean neoliberalism", in Lehndorff, S. (Ed.) (2012) *A triumph of failed ideas European models of capitalism in the crisis*. European Trade Union Institute (pp 199-218); International Institute for Labour Studies (2011) *Spain. Quality jobs for a new economy*. ILO.

[191] The Spanish Government, Ministery of Economy and Competitiveness (2013) *2 years of reforms. Towards recovery*. Gobierno de España, Diciembre 2013; and (2014):*The Kingdom of Spain's Economic Policy Strategy and Funding Programme*. Gobierno de España, Julio 2014. Both documents are available in http://www.thespanisheconomy.com (accessed on August 5, 2014).

[192] European Commission, Directorate-General for Economic and Financial Affairs (2014) *Macroeconomic Imbalances. Spain 2014*. European Economy, Occasional Papers 176, March (p.5).

This broadly positive assessment of the outcomes of the anti-crisis policies in Spain has been called into question, however, with regard to various dimensions[193].

First, it has been argued that the austerity measures adopted since May 2010 had a recessionary impact in the short run, due to the negative effect of the fiscal consolidation measures and the induced wage devaluation on the effective aggregate demand, which is a key driver for the economic growth in the so called *wage-led* economies[194].

Secondly, it has been observed that the implementation of these policies led to a strong deterioration of the labor market situation, with remarkable job destruction and the huge increase of unemployment figures till a peak of 6 million people at the end of 2013. Also, various authors have expressed alarm by the rising of the labour precariousness, because the few jobs created in the last years have been based on atypical contracts (temporary and non-voluntary part-time). The result of this process has been a wide and sharp worsening of the working and living conditions, with the consequent increase in poverty figures.

Finally, a particular controversial debate concerns the impact of the legal reforms of the labor market on industrial relations. Since 2010, Labor Law in Spain has been subject to a continuous and intense process of modification. The various regulations approved are diverse in both character and scope, but essentially they are aimed at promoting greater flexibility of the labor market institutions, based on the premise that this issue is essential to encourage the creation of jobs.

The most relevant legal reform of this period is without doubt the one approved in 2012[195], which can be considered as a qualitative leap aimed at promoting an in-depth change of the labor market institutions, with a particular impact on the rules of the collective bargaining system.

This legal reform was strongly confronted by trade unions, in a twofold dimension. On the one hand because it was unilaterally adopted by the government, in spite of the recent successful attempt of the trade unions and employers to bring back the reform of collective bargaining into the purview of autonomous negotiations.

On the other hand, trade unions argued that the new legal regulation seriously damages workers rights' framework, both at national and international level, including the International Labour Organization (ILO) Conventions.

These reasons motivated a complaint addressed by the Spanish trade unions to the *ILO Committee on Freedom of Association*, which concluded that the labor reforms that the

[193] Banyuls and Recio (op.cit.); Rocha and Aragon (op.cit.); Molina, O. and Miguelez, F. (2013) *From negotiation to imposition: Social dialogue in austerity times in Spain*. ILO, WP nº 51; Rocha, F. and Negueruela, E. (2014) *El Mercado de trabajo en España en 2013 ¿Hacia una recuperación frágil y socialmente injusta de la crisis?* Fundaciòn 1º de Mayo, Colección de Informes nº 87; Álvarez, I., Luengo, F.; and Uxo, J. (2013) *Fracturas y crisis en Europa*. Eudeba; Baylos, A. and Trillo, F. (2013): "Social dimension of European Union and the situation of Labour Law in the Member States: Evaluation of the Spanish Experience", in *Revista de Evaluaciòn de Programas y Políticas Públicas*, nº 1 (pp 54-71).
[194] Lavoie, M.; and Stockhammer, E. (2012) *Wage-led Growth. Concept, theories and policies*. ILO.
[195] Royal Decree Law 3/2012 of February 10; Law 3/2012 of July, 6.

Spanish Government imposed in 2012 violate the rights of freedom of association and collective bargaining as recognized by agreements ratified by Spain[196].

A consequence of all these trends is that industrial action launched by trade unions has escalated in the last years in Spain along with mass protest actions, although in many cases these mobilizations have been organized by new social movements (like the "*indignados*" movement).

The main objective of this report is to analyze the effects of the measures implemented within the New EU Economic Governance in the dynamic of industrial relations in Spain. The content of the report is organized as follows: Firstly, a general overview is offered of the anti-crisis policies implemented since 2008. Secondly, there is a detailed analysis of the new cycle of reforms of the Spanish labor law, with special focus on that provisions related to the collective bargaining system. Thirdly, the report addresses the economic and social impacts of the austerity measures and the amendments of labor law. Fourthly, an approach is made to the strategies of the social partners. Finally, the report ends summarizing some final remarks for the debate.

1. FROM THE STIMULUS MEASURES TO THE AUSTERITY FRAMEWORK

The development of the anti-crisis policies in Spain has moved through different stages since 2008. This process was conducted in the first instance by the former Socialist Government and since the end of 2011, after winning the general elections, by the right-wing Government of the "*Partido Popular*" (Popular Party).

At the beginning of this period, the crisis was considered by the Spanish government as a temporary economic downturn that should simply be overcome using measures dealing with current circumstances[197]. This can be explained because, even though the first symptoms of economic deceleration were already noticeable, the general feeling within the government was that the Spanish economy was in a strong position to face deterioration in the international economy whatever its origin and intensity. In this regard, there was confidence that the Spanish economy was stronger than that of other countries, above all because of the banking system[198].

Nevertheless, the growing destruction of employment ─driven to a large extent by a severe contraction of the construction sector, which later was spread to the others sectors─ led to the adoption of a set of extraordinary measures.

In November 2008 the government launched the *Spanish Economy and Employment Stimulation Plan* ("*Plan Español para el Estímulo de la Economía y el Empleo*", otherwise known as "Plan E"). This Plan combined some already existing measures with new ones, organized around four principle axes: (a) the support of small and medium-sized enterprises through financial incentives; (b) employment promotion through hiring benefits and social security rebates for hiring on permanent contracts of

[196] ILO (2014) *371st Report of the Committee on Freedom of Association* (case nº 2947). ILO (pp 84-133).

[197] In fact, the former president *Rodríguez Zapatero* was highly criticized due to his initial refusal to accept the situation of crisis in Spain.

[198] According to the Spanish authorities, including the financial ones, the banking system in Spain was not to be as badly hit in the beginning of the crisis as banks in other countries.

unemployed workers with family obligations; (c) support of the financial system; and (d) further structural reforms in services, transportation, energy and telecommunications, as well as a reform of the pension system.

These measures were not enough however to tackle the consequences of the burst of the real estate & construction bubble, which dragged down the rest of the economy. This process first "involved the banking sector, which has had to deal with unpaid debts and assume ownership of a large amount of residential property. Second, the sudden drop in property transactions has led to a sharp fall in public revenues, causing the public deficit to grow rapidly. The Spanish economy's high external debt and the panic created among foreign lenders has fuelled a rise in external interest rates and put heavy external pressure on the Spanish economy. Then there is also the high social cost of millions of unemployed who have lost their homes and are facing unpayable debts"[199].

Also, it is necessary taking into account the evolution of the crisis at European level. As a consequence of the worsening fiscal position of southern European countries and Ireland, fears of default led to the euro sovereign debt crisis. So, if until 2009 the strategy for exiting the crisis had been mostly regarded as a domestic affair ─with each country expected to develop its own policies─ as the debt crisis deepened the EU adopted a more active role, and put pressure on the so-called "deficit countries" to implement significant cost-cutting measures.

After the Eurozone Summit held in May 2010[200], the Spanish government performed a radical change in the anti-crisis policy giving priority to other priorities such as the recapitalisation of credit institutions or austerity and budget adjustment policies, effectively preventing reform of the banking practices at the root of the crisis and relinquishing a vision on how the real economy could be brought back into recovery.

Following this new approach, the Spanish government launched a set of measures including: (a) cuts in public spending, starting with a reduction of 5 per cent in public sector wages, freezing pensions and eliminating the previous tax breaks for employees; (b) structural reform of the labour market (September 2010, August 2011) concerning collective bargaining (June 2011), public sector pensions (February 2011) and the financial system, especially savings banks; (c) privatization of other parts of the public sector: lotteries, airports; the reform of savings banks also included converting them into private banks with public money, once their finances had been given a clean bill of health; and (d) the modification of the Spanish Constitution (September 2011), including the payment of public debt as the first priority of public budgets and constraining (in 2018) the maximum public structural deficit to 0.4 per cent of GDP.

Also, in 2011 the National Parliament approved the *Law for Sustainable Economy* (Law 2/2011). The purpose of this law was to introduce the structural reforms needed to create conditions that favor sustainable economic development into the legal system. More specifically, its final goal was to foster a gradually change of the Spanish economy from an extensive growth model based on the expansion of employment, to a more sustainable intensive model based on high value-added activities and productivity

[199] Banyuls and Recio, op.cit. (p. 209).

[200] As it is widely known, the heads of States or Governments of the Euro Area agreed in this Summit that "consolidation of public finances is a priority for all of us and we will take all measures needed to meet our fiscal targets this year and in the years ahead in line with excessive deficit procedures".

increases. However, in a context of austerity and budgetary restrictions the lack of resources severely curtailed the impact of this law, and led to the abandonment of most its aspects.

The general elections held in November 2011 led to a political change. According to the new right-wing government of the "*Partido Popular*" (Popular Party), it was urgent to adopt a more radical anti-crisis strategy in order to tackle the structural weaknesses of the Spanish economy, summarized in three main aspects[201]:

- Spain had abandoned fiscal discipline. In 2009, its deficit was 11.12%, nearly double the target. In 2011, it was over 9.07%, three percentage points above the agreed figure.

- The Spanish financial system was a focus for uncertainty. There had been no serious analysis of the real situation, nor had corrective measures been taken.

- The Spanish economy had been losing competitiveness for years. Since the start of economic difficulties, the rigidity of the labor market and the lack of flexible internal mechanisms led to major job losses.

In December 2011 the government launched an aggressive and ongoing programme of austerity measures and structural reforms, focused on three related goals: fiscal consolidation; financial restructuring; and competitiveness[202].

Also, it is important to remark that in June 2012 the Spanish Government requested external financial assistance in the context of the ongoing restructuring and recapitalization of the Spanish banking sector. This assistance was sought under the terms of the Financial Institutions by the The European Financial Stability Facility (EFSF). The programme was agreed by the Eurogroup in July 2012 for a period of 18 months, and provided an external financing by the euro area Member States of up to EUR 100 billion.

This programme was implemented through the measures included in the "*Memorandum of Understanding on Financial on Financial-Sector Policy Conditionality*" (MoU), signed between the European Commission and Spain on July 23, 2012. This MoU mainly focused on issues related with the problems of the banking sector. More specifically, the bank-specific conditionality had three main components: (a) a comprehensive diagnostic as regards the capital needs of individual banks, based on a comprehensive asset quality review and valuation process, and bank-by-bank stress tests; (b) the segregation of impaired assets from the balance sheet of banks receiving public support and their transfer to an external Asset Management Company (Sareb);

[201] The Spanish Government (2013) *Spanish Economic Policy Strategy. 2 years of reforms. Towards recovery*. December 2013. Available in: www.thespanisheconomy.com (accessed on August 7, 2014).

[202] A summary of the main measures and reforms implemented can be found in Spanish Government (2013, op.cit.), and Ministery of Economy (2014) *The Kingdom of Spain's Economic Policy Strategy and Funding Programme*. July 2014 (Available in: www.thespanisheconomy.com (accessed on August 7, 2014).

and (c) the recapitalisation and restructuring of viable banks and an orderly resolution of ultimately non-viable banks, with private sector burden-sharing as a prerequisite.

Horizontal conditionality applied to the entire banking sector and included measures aimed, inter alia, at strengthening the regulatory, supervisory and bank resolution frameworks, enhancing the governance structure of savings banks and of commercial banks controlled by them, improving consumer protection legislation as regards the sale by banks of subordinated debt instruments. The MoU also established the commitment to implement specific recommendations aimed at correcting macroeconomic imbalances, as identified in the Macroeconomic Imbalance Procedure.

According to the evaluation by the European institutions, Spain exited successfully the financial assistance programme for the recapitalisation of financial institutions in January 2014. Eventually, Spain used only close to EUR 38.9 billion for bank recapitalisation, under restructuring and resolution plans approved by the European Commission (EC) under State-aid rules, and around EUR 2.5 billion for capitalising Sareb (the Spanish asset management company). Both the bank-specific conditionality and the horizontal conditionality included in the Memorandum of Understanding (MoU) were fulfilled as scheduled[203].

Nevertheless, after exiting the programme, the monitoring of the Spanish economy and its financial sector has continued in the context of the post-programme surveillance (PPS), as foreseen by Art. 14 of two-pack Regulation (EU) N°472/2013. In this regard, the first post-programme surveillance report published on May 2014 pointed out that "overall, the positive trends of policy progress, ongoing economic adjustment and diminishing financial stress that formed the basis for Spain's programme exit have continued, although important challenges to sustained economic and employment growth, public finances and the banking sector still remain. This assessment is consistent with the conclusions of the Commission's 2014 in-depth review under the macroeconomic imbalances procedure that vulnerabilities are still present and continue requiring specific monitoring and decisive policy action"[204].

2. LABOUR MARKET REFORMS IN SPAIN: A NEVER-ENDING HISTORY?

Since May 2010, labour law in Spain has been subject to a continuous and intense process of modification, which has culminated –for the time being– with the relevant legal reform unilaterally approved by the current conservative government in 2012.

This phenomenon, which has been characterized by some scholars as "a state regulatory exception in employment and working"[205], is not exclusive of Spain; a similar process has been launched in other European countries by the various national governments,

[203] European Commission (2014) *Statement by Vice President Rehn on Spain* (22/1/2014.). Availaible on: http://europa.eu/rapid/press-release_MEMO-14-51_en.htm (accessed on August, 7, 2014).
[204] European Commission (2014) *Spain - Post Programme Surveillance Spring 2014 Report*. European Economy, Occasional Papers, 193, May 2014 (p.5).
[205] Baylos, A. (2012) "El sentido general de la reforma: la ruptura de los equilibrios organizativos y colectivos y la exaltación del poder privado de los empresarios", in *Revista de Derecho Social*, nº 557 (pp 9-18).

although it also should be explained as one of the main outcomes of the new European Economic Governance[206].
The changes in Labour law have been repeatedly requested by various international institutions and the European authorities, but also by leading Spanish think tanks and employers' organizations, who have argued over the past few years that one of the main reasons for the increased impact of the crisis lays in the high level of rigidity of the labour market regulations (in particular, with regard to the collective bargaining system and the employment protection legislation)[207].

This assertion fails to take into account however that, between 1999 and 2007, Spain was the most successful European country in terms of job creation (with the same labour legislation considered later as rigid and considered to be the reason for the rise in unemployment)[208]. Another aspect usually overlooked is that, since the beginning of the current crisis, the levels of unemployment in Spain have shown significant geographical diversity, which can hardly be attributed to common legal regulations for the whole country[209].

Also, the results of a detailed report shows that the various labour reforms implemented in Spain since 1980 ─which with a few exceptions have been clearly oriented towards greater flexibility─ have not had a significant impact on the net creation of jobs, contributing instead to increasing the level of precarious work. In this regard, empirical evidence points out that the creation and destruction of employment in Spain has much more to do with expansionary and recessionary phases of the business cycle than with existing regulations[210].

The new cycle of reforms began as above noted in 2010, with the unilateral adoption by the Socialist Government of the ***Law 35/2010 on Urgent Measures for Labour Market Reform*** (*Ley 35/2010, de 17 de septiembre, de medidas urgentes para la reforma del mercado de trabajo*).

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[206] Clauwert, S. and Schomman, I. (2012) *The crisis and national labour law reforms: a mapping exercise*. European Trade Union Institute; Schomman, I. (2014) *Labour law reforms in Europe: adjusting employment protection legislation for the worse?* European Trade Union Institute; Schulten, Th. and Müller, T. (2013) "A new European interventionism? The impact of the new European economic governance on wages and collective bargaining", in Natali, D. and Vanhercke, V. (Eds) *Social developments in the European Union 2012* (pp 181-214).

[207] European Commission, Directorate-General for Economic and Financial Affairs (2012): *Macroeconomic Imbalances. Spain 2012*. European Economy, Occasional Papers 103 (p 26-28); Jaumotte, F. (2011) *The Spanish Labor Market in a Cross-Country Perspective*. IMF WP 11/11; OECD (2012): *Spain*. OECD Economis Surverys. Wolfi, A., and Mora-Sanguinetti, J. (2011) *Reforming the labour market in Spain*. OECD Economics Department WP, nº. 845; Mora- Sanguinetti, J. and Fuentes, A. (2012) *An analysis of productivity performance in Spain before and during the crisis: exploring the role of institutions*. OECD Economics Department WP, nº. 973.

[208] For an in-depth analysis of the evolution of the Spanish labour market in this period see Rocha, F., Aragón, J., and Cruces, J. (2008) *Cambios productivos y empleo en España*. Ministerio de Trabajo e Inmigraciòn.

[209] For example, the Spanish unemployment rate in the second quarter of 2014 is 24,6%, with a difference of 19 percentage points between the region with the highest rate ─Andalucìa, with the 34,9%─ and the one with the lowest (Navarra, with the 15,9%). Source: *Labour Force Survey*, National Statistical Institute (population aged 16-64).

[210] Fundación 1º de Mayo (2012) *52 reformas del Estatuto de los Trabajadores desde 1980*. Fundación 1º de Mayo; and (2014) *Febrero 2012-2014. 34 reformas laborales. análisis de su alcance y efectos. Menos ocupación, Más desempleo, Más precariedad laboral*. Fundación 1º de Mayo, colección de informes nº 77.

This law, aimed at correcting some structural "inefficiencies" of the labour market, includes a set of provisions structured around four components: (a) changes against the duality of the Spanish labour market; (b) changes to promote internal flexibility (i.e. adjustments in wages and working hours) instead of external flexibility (i.e. dismissals and end of temporary contracts); (c) changes and increases in financial subsidies and contracts for young people (mainly less-skilled, women and long-term unemployed); and (d) measures to improve labour market intermediation and the performance of temporary work agencies).

This legal reform was confronted by trade unions, who called for a general strike on September 29, 2010. The trade unions denounced the reduction in dismissal costs and the fact that the reform was passed unilaterally. This came after the strike of public sector employees on June 8, as a response to the wage cuts approved in the May 12 austerity package.

In June 2011, after the disagreement between social partners, the Socialist Government unilaterally changed the legal framework of collective bargaining, by approving a ***Royal Decree Law on Urgent Measures to Reform Collective Bargaining*** (*Real Decreto-ley 7/2011, de 10 de junio, de medidas urgentes para la reforma de la negociación colectiva*). This reform was aimed at promoting a higher decentralization of collective bargaining, through various measures[211].

In February 2012, the Conservative Government unilaterally adopted a new and "extremely aggressive [212] reform of the labour law, through the ***Royal Decree Law 3/2012 on Urgent Measures to Reform Labour Market*** (*Real Decreto-ley 3/2012, de 10 de febrero, de medidas urgentes para la reforma del mercado laboral*), which was later confirmed with no substantial modifications by the National Parliament as the ***Law 3/2012 on Urgent Measures to Reform Labour Market*** **(***Ley 3/2012, de 6 de julio, de medidas urgentes para la reforma del mercado laboral*).

According to the Government, the general objective of this reform is to "construct a new model of labour relations that puts a stop to job destruction, lays the foundations for the creation of stable and quality jobs and promotes competitiveness". More specifically, its main goals are: (a) favor internal flexibility in companies as an alternative to job destruction; (b) modernize collective bargaining to bring it into line with the specific needs of companies and workers and to promote permanent dialogue within companies; (c) improve the employability of workers through training and effective labour mediation; (d) promote the creation of stable and quality jobs and reduce labour market dualism; and (e) combat unjustified absence from work; and (f) strengthen the mechanisms for controlling and preventing fraud, protecting workers' rights and the fight against unfair competition between companies.

The legal reform includes a set of various provisions related to the regulation of issues such as dismissals, contracts, working time and collective bargaining (box 7.1).

[211] See section 2.1.

[212] Quoting the significant expression used by the Spanish Minister of Economy in an informal dialogue with a representative of the European institutions.

Box 7.1. Spain: 2012 Labour market reform. Summary of main measures

Axis	Measure
Dismissals	Widening of the causes for fair dismissal *Compensation for unfair dismissal* is reduced from 45 days' wages for every year worked (up to a ceiling of 42 monthly wages) to 33 days per year of service (with a ceiling of 24 months' wages). *Simpler modalities for economic redundancies*, compensated at 20 days per year. Businesses may resort to economic redundancies when they experience economic deterioration, such as actual or foreseen losses, or when invoicing or sales levels fall constantly for three quarters in a row. The objective is to make redundancies safer, in legal terms, in order to reverse the trend of employers directly applying unfair dismissals (despido improcedente), which are more costly – they are compensated at 45 days per year spent at the company – but faster, and thus spare them lengthy legal proceedings which may not turn out in their favour. *Opening up the possibility of mass redundancies in public organisations*. Businesses and organisations in the public sector may instigate staff cuts for economic, technical, organisational or production reasons. This was not previously provided for by law. This measure is supposed to make it easier to resize administrations to adjust them to budget reviews[213]. *Removal of authorisation for administrative layoffs*. Permission from national, regional or local public authorities – depending on the size of businesses – is no longer necessary to launch an "*Expediente de regulación de empleo"* (ERE), a collective redundancy programme.
Contracts	Companies with fewer than 50 employees (99 per cent of all companies) may introduce a new employment contract (so-called 'employment contracts in support of entrepreneurs'). It is open- ended with a trial period of one year but with unrestricted dismissal possibilities and compensation during the first year. These contracts will only be valid as long as the country's unemployment rate is higher than 15 %. Unlimited successive temporary contracts are prohibited. The reform restores the ban on successive layoffs for 24 months, which the previous government temporarily suspended on 26 August 2012. The ban will come into force on 31 December 2012. Apprenticeship contracts. The reform provides that the apprenticeship contract, reserved for people below 25 years of age, will be extended to people under 30 until the unemployment rate falls below 15 per cent.
Working time	The new reform removes a rule that has been in force for about 15 years prohibiting standard overtime in part-time employment. In addition to what Spanish law calls *horas complementarias* (specific overtime for part-timers, subject to some formal requirements and numerical limitations: this specific form of overtime continues to be lawful), part-timers can now work standard overtime (*horas extraordinarias*) like any other employee. The annual limit of 80 hours must be applied for part-time employment on a pro rata basis (the limit does not apply if overtime is compensated with time-off within the subsequent four months). Flexible allocation of working hours over the year: after the 2010 labour reform employers could freely allocate up to 5 per cent of annual working hours over the year unless otherwise agreed in the applicable collective agreement. This rule has now been clarified: it can also be applied prior to

[213] Employees who are not civil servants recruited after an entrance exam will get better protection than civil servants with a contract.

	negotiations on a new collective agreement. The law no longer requires that employers obtain permission from the labour authority to temporarily reduce working hours or to institute temporary layoffs. Firms may implement temporary layoffs and temporarily reduce between 10 and 70 per cent of employees' working hours after following the legal procedure of collective consultation with employee representatives.
Collective bargaining	Priority of the company-level agreement Facilitating the temporary derogation of collective bargaining agreements Limiting the statutory extension rule of expired collective agreements up to one year (unlimited before).
Fraud	Modification of the Penal Code Provision of more human resources for the Labour and Social Security Inspectorate in the fight against the black economy

Source: Government of Spain, Ministery of Employment (2013): *Report evaluating the labour market reform*. Ministery of Employment; Clauwert, S. and Schomman, I. (2013): *The crisis and national labour law reforms: a mapping exercise. Country report: Spain*. European Trade Union Institute.

The 2012 labor market reform was fully backed by international institutions like the IMF and the OECD, the European Commission and the European Central Bank. Also, it was welcomed by the Spanish employers' organizations, who characterized the reform as "step forward" in the modernization of the labor law.

Nevertheless, this legal reform was widely criticized by various labor law scholars[214], and strongly confronted by Spanish trade unions, who called for two general strikes on March 29, 2012 and November 14, 2012.

The critics focused on the one hand on *the process of drafting of the reform*, because it was unilaterally designed and approved by the Government with no participation by or negotiation with the social partners: there were no prior consultations on the substance of the regulations, nor any effort to hold functional consultations to allow for an exchange of views and expression of differing perspectives on the reform.

It is important to note that before this reform, on January 25, 2012, the most representative trade unions[215] and employers' organizations[216] had signed the *Second Agreement on Employment and Collective Bargaining 2012, 2013 and 2014* (*Segundo Acuerdo sobre Empleo y Negociación Colectiva*, II AENC). The II AENC is a binding three-year collective agreement that requires the signatory parties to increase their efforts to ensure that all their member organizations –within the framework of their

[214] Baylos and Trillo (op.cit.); Baylos, A (2013) (Coord.) *Políticas de austeridad y crisis en las relaciones laborales: la reforma del 2012*. Editorial Bomarzo; Ramos, M. (Dir.) (2013) *Las reformas del sistema de negociación colectiva en España*. Editorial Bomarzo. Suarez, B. (2013) *Crisis and labour market in Spain*. Labour Law Research Network Inaugural Conference (available in . http://www.upf.edu/gredtiss/en/LLRN/conference.html, accessed on August 10, 2014).

[215] *Comisiones Obreras* (Working Commissions, CCOO) and Unión General de Trabajadores (General Union of Workers, UGT).

[216] *Confederación Española de Organizaciones Empresariales* (Spanish Confederation of Business Organizations , CEOE) and *Confederación Española de Pequeñas y Medianas Empresas* (Spanish Confederation of Small and Medium-Sized Enterprises, CEPYME).

freedom to negotiate– conduct themselves or modify their conduct "with a view to application of the criteria, guidelines and recommendations" contained therein.

This Agreement covers the structure of collective bargaining and agrees and sets out a set of coordination and implementation rules that would govern collective bargaining in the future. The parties again express a preference for collective bargaining at the State or, failing that, the independent level in order to structure the bargaining, and they do not support the elimination of provincial agreements, which, in their view, provide coverage to a significant number of enterprises and workers. They also call for bargaining to be conducted at the enterprise level, whether through conventions or through enterprise agreements and pacts, in order to negotiate on issues relating to "working hours, functions and wages"; the internal flexibility aspects of such negotiations are covered in other parts of the Agreement.

On February 10, 2012, just two weeks after the signature of the Agreement, the Government unilaterally approved the *Royal Decree-Law 3/2012*, which repealed and annulled most of the points that had been negotiated and agreed in the II AENC, particularly those relating to the structure of collective bargaining and the regulation of internal flexibility; it has even been said that the legislation on the state of emergency "fails to reflect, even partially, its content, marginalizing and ignoring it".

On the other hand, critics of this reform have denounced that *the new legal frame causes a rupture of the characteristic balance of power between employers and employees that lies in the roots of labor law* through various ways: (a) strengthening the employers' unilateral power in the regulation of working conditions: internally negotiated flexibility has been replaced by a unilateral decision of the employer, which, without the workers' consent, may decide not to apply the working conditions agreed with the workers' representatives in enterprise agreements; (b) increasing the vulnerability of workers, through cheaper and easier dismissal conditions, and higher level of precariousness in labour contracts; (c) eroding the role and wage-setting power of trade unions, by deepening the decentralization of collective bargaining; and (d) fostering an intense and permanent wage devaluation.

2.1. The reform of the collective bargaining system

The collective bargaining system in Spain has been historically characterized by the following structural features: (a) the prevalence of small and micro-size companies: more than 95% of companies with less than 10 workers.

- A long tradition of collective bargaining and collective agreements, being the sectoral level (national and provincial) the most frequent. This preference for sectoral level branch agreements is due to the small size of most companies and it has played a significant cohesion and homogenization role in terms of working and living conditions.

- Competence to sign collective agreements, at every levels, on behalf of employees is mainly accorded (granted to) with trade unions, except in the company level where worker`s councils are the bodies concerned more frequently.

- On efficacy collective agreements, the main principle is general application to all the workers, affiliated and non-affiliated –ergaomnes efficacy- when collective agreements respects the legal provisions on bargaining legitimacy (arts. 87 and 88 *Estatuto de los Trabajadores*). Nevertheless, trade unions and employer`s associations can also sign collective agreements in which the bodies are not composed respecting legal provisions. In this last case, the contents of collective agreements are applied only to affiliated workers, although individual workers can ask for its application (judicial interpretation).

- One of the most important features is related to the collective agreements validity period, the so called "ultraactividad" clause. It means that a collective bargaining agreement remained in force even after its expiry in absence of a new agreement. In practical terms, it implied that the new agreements were reached only if they provided workers with improved conditions. This kind of provision provides to the workers a major security about their working and living conditions, but at the same time it have brought a certain poorness collective bargaining dynamics, in terms of contents, over the years.

- High degree of wage indexation on inflation, much more widespread in collective agreements than in other countries, even though it is not prescribed by law.

- Collective bargaining coverage rates of these countries are very high. Depending on the source, coverage rate was in 2008 between 80 and 85 per cent or 74,5 per cent[217]. These coverage rates were due to, in some cases as the Italian and Portuguese, extension mechanisms of collective agreements contents (judicial and administrative extension procedures); while, in the Spanish case the main type of collective agreement provides *ergaomnes* efficacy.

According to various international bodies and institutions, these characteristics of the collective bargaining system created additional rigidities in the responsiveness of wages to economic and firm-specific conditions, therefore aggravating the most negative impacts of the crisis[218].

In June 2011, as noted above, the Socialist government unilaterally changed the legal framework of collective bargaining (*Royal Decree-Law 7/2011*). Even though the Royal Decree reflected the limited consensus reached by the trade unions and employers before its approval, the social partners considered it a violation of their collective autonomy.

The Royal Decree Law introduced changes in the structure of collective bargaining by establishing a series of issues for which negotiation at company level had priority. It also modified the procedures and timing for rejecting and renegotiating collective agreements in order to avoid an escalation of conflict and speed up the process.

In February 2012, the new legal framework unilaterally approved by the Conservative government (*Royal Decree law 3/2012* and *Law 3/2012*) meant a qualitative leap, aimed at encouraging an in-depth decentralization of the collective bargaining system.

[217] Sources: National Labour Force Survey and Social Security.
[218] European Commission (2012, op.cit., p. 26); Jaumotte (op.cit.).

It is worth noting that before the 2012 reform, all collective bargaining reforms contained mechanisms for organized decentralization, with higher-level collective agreements establishing the criteria for lower-level agreements. The defence of a multi-level bargaining system where sectoral collective agreements monitor the process of decentralization was a strategy shared by the trade unions and employer organizations to deal with the risks posed by decentralization, as was shown in the II AENC.

Nevertheless, according to the government this new reform was necessary due to the "inadequate system of collective bargaining" prevailing in Spain; more specifically, because "the system of collective bargaining had restricted the possibilities of employers reorganising their productive resources while maintaining jobs"[219].

The 2012 legal reform is aimed at *strengthening the decentralization of the collective bargaining* system through three main mechanisms: (a) temporary non-application of collective bargaining agreements; (b) a new collective bargaining structure that guarantees by law the priority of the company-level collective bargaining agreement; and (c) new regulations governing the periods for which collective bargaining agreements are in force (box 7.2).

Box 7.2. Spain: 2012 legal reform of the collective bargaining system.

Instrument	Provision
Temporary non-application of collective bargaining agreements	This is a new system under which certain conditions included in collective agreements are not applied (the "opt-out"). The main innovations are: (a) easing derogation of company collective agreements; (b) significant relaxing of the conditions and widening the issues subjected to derogation; (c) imposing a binding arbitration when the parties are unable to reach an agreement within a limited period of time.
Priority of the company-level collective bargaining agreement	The legal system prior to the reform put a premium on the regulation of sector-based collective bargaining agreements rather than the company level agreements. Under the reform, the law guarantees that the company agreement prevails when it comes to regulating those matters such as working hours, workers' functions or the system of compensation, which are considered essential for adapting the management of labour relations to the special nature and needs of companies
Limiting the statutory extension rule of expired collective agreements ("ultraactivity")	The labour-market reform includes the possibility of renegotiating a collective bargaining agreement before it expires and has introduced limitations to so-called "ultra-activity". This means that once the agreement has expired and its renegotiation has begun, if there is no new agreement and no agreement to the contrary, the expired agreement will only be applied for a maximum of 1 year, and not indefinitely, as was the case before the reform. This encourage a more balanced and interactive collective bargaining as it creates incentives for negotiation.

Source: The Government of Spain, Ministery of Employment (2013):*Report evaluating the labour market reform*. Ministery of Employment (p. 19).

[219] The Government of Spain, Ministery of Employment (2013, op. cit., p. 5).

This legal reform has been praised as above noted by various international bodies and institutions, as well as by national think thanks and the employers'organizations. But also is has been highly criticized by various authors[220] and strongly confronted by trade unions.

With regard to the changes in the collective bargaining system, critics mainly argued that the new legal frame causes a rupture of the characteristic balance of power between employers and employees that lies in the roots of labor law. In short, it has been remarked that "overall Law 3/2012 exalts unilateral employer decision in working regulation as a principle of new labour law, impacting information, consultation and negotiation rights. Hence, we can say that the new labour law is characterized by a strong legal and employer authoritarianism"[221].

2.2. Measures affecting collective bargaining in the public sector

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

The adoption of these measures, first by the Socialist government and later by the Conservative, was justified due to the current economic situation and the need to reduce the public deficit without impairing the provision of essential public services makes it necessary to increase the efficiency of the use of public resources by the public administrations in order to make progress towards the essential goal, set within the constitutional framework and by the European Union, of achieving budgetary stability.

The *Royal Legislative Decree No. 20/2012* in particular focuses on emergency, urgent and unilateral measures "designed to rationalize and public administration staffing costs and to manage staff more efficiently,. reducing staffing costs and increasing the quality and productivity of public servants".

The measures imposed unilaterally by the Government since 2012 are quite diverse and may be summarized as follows:

- Wages have been reduced by eliminating the additional payment for the month of December 2012 (the bonus). This amounts to an average savings of around 8 per cent and brings the purchasing power of public servants to approximately that of 2012.

- The full benefit for temporary inability to work has been reduced and potential increases have been limited, thereby penalizing public servants who, owing to illness, are temporarily unable to work.

[220] See footnote nº 31. Also, see Escudero, R. (2013) "La reforma sobre el sistema de negociación colectiva: un análisis crítico", in Ramos, M. (Dir.) (2013) *Las reformas del sistema de negociación colectiva en España*. Editorial Bomarzo (pp 27-44); Sampedro, M. (2014) *Aspectos críticos de la ultraactividad en convenios colectivos.* Fundación 1º de Mayo, Colección de Informes, nº 88.
[221] Baylos and Trillo (op.cit., p. 63).

- Working hours in all public administrations have been reorganized across the board by drastically reducing the length of the annual holiday with pay and the number of personal days. This measure has also entailed a reduction in many other types of leave (including, among other things, maternity leave, flexible working hours and leave to care for a dependent relative) beyond the legal minimum.

- Trade union leave has been reduced in the public administrations and subsidiary bodies; this significantly lessens the number of hours with pay that may be used to carry out union or staff representation functions and of full-day waivers of attendance at the workplace.

- In future, collective bargaining in the public administrations will be greatly reduced since the binding force of any collective pact, agreement or convention is subject to the possibility that the public administrations may decide unilaterally to adopt adjustment measures or plans in order to reduce the public deficit. It is possible to "disregard" the provisions of conventions or pacts, regardless of the subject matter and without the need for consultation; the only requirement is to "inform" the unions.

The implementation of these measures led to an ongoing legal debate on the binding nature of the collective agreements of a general scope governing labor relations for workers in public authorities and public companies.

Thus, Spanish trade unions have denounced that these measures have been implemented by suspending all public sector employee agreements, pacts and conventions and amending the legislation (primarily Act No. 7/2007, the Basic Statutes of the Public Service (EBEP)) that regulates the working conditions of public servants. According to the unions, by repealing provisions of all previous collective agreements, pacts and conventions between, on the one hand, the various public administrations (central, autonomous and local) and the rest of the public sector, and, on the other, all public servant unions that are members of the relevant general negotiating committees, the Government's unilateral decision amounts to elimination of the right to bargain collectively[222].

3. THE IMPACTS OF THE CRISIS AND THE AUSTERITY POLICIES. A GENERAL OVERVIEW

The objective of this section is to give a general overview of the economic, labor and social impacts of the crisis and the austerity policies implemented in Spain in the last years, addressing the following points: (a) economic activity; (b) labour market situation; (c) collective bargaining; (d) wages, inequality and poverty.

3.1. Recessionary impact of the austerity policies in the short run and fragile signs of recovery

The economic activity in Spain between 2008 and 2013, as measured by the Real Gross Domestic Product (GDP) followed the same "W" pattern registered in other European countries, namely: a first dip between the end of 2008 and 2009; an anemic growth in

[222] ILO (2014) *371st Report of the Committee on Freedom of Association*. ILO (p.88-90).

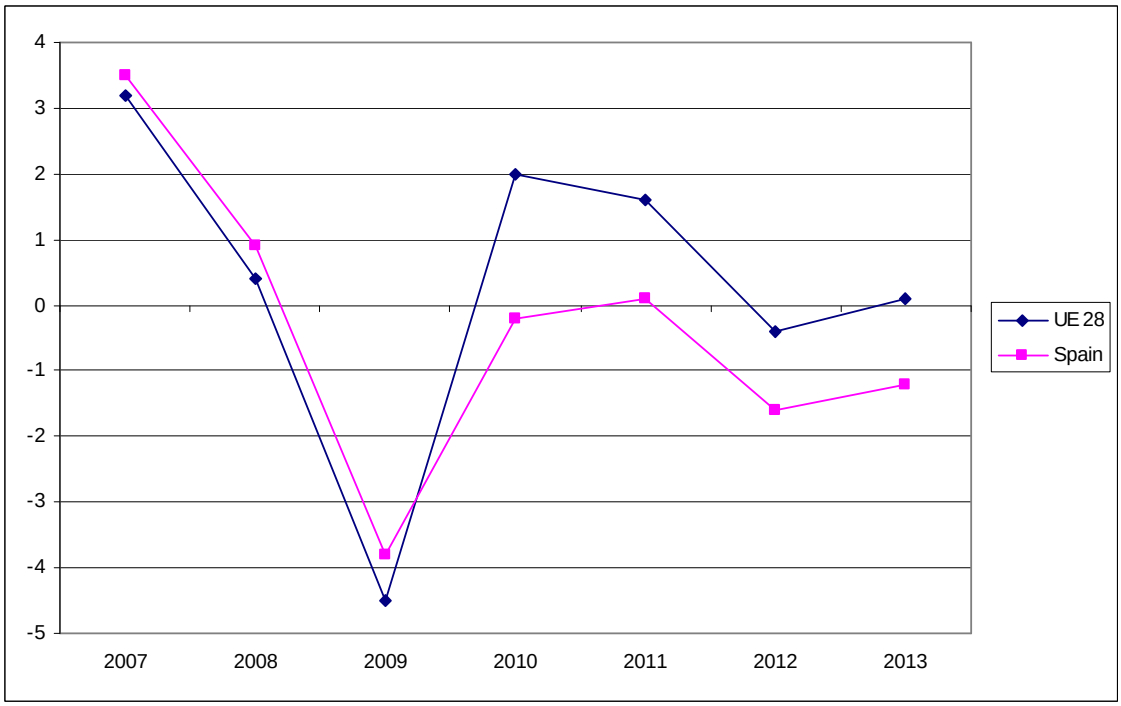
2010, which ended with the double-dip recession registered at the end of 2011 with soaring unemployment. Finally, following the GDP stabilization growth picked up at the end of 2013 on the back of a less negative contribution from internal demand confirmed by the slight improvement of the key macroeconomic indicators (table 7.1 and figure 7.1).

Table 7.1. Macroeconomic indicators in Spain: 2008-2013

Indicator	2008	2009	2010	2011	2012	2013
GDP growth rate (%)	0,9	-3,8	-0,2	0,1	-1,6	-1,2
Internal demand (contribution to GPD growth)	-0,6	-6,7	-0,6	-2,1	-4,1	-2,7
External demand (contribution to GPD growth)	1,5	2,9	0,4	2,2	2,5	1,5
General Government Balance	-4,5	-11,1	-9,6	-9,6	-10,6	-7,2
Gross debt	40,2	54	61,7	70,5	86	4,3
Employment growth rate* (%)	-0,5	-6,8	-2,3	-1,9	-4,6	-3,0
Unemployed* (million)	2,6	4,1	4,6	5	5,8	6
Unemployment rate* (%)	11,4	18,1	20,2	21,8	25,2	26,5
GDP per capita (EU 28=100)	103	103	99	96	96	95

* Population 16-64
Source: AMECO and Eurostat

Figure 7.1. Real GDP growth in EU28 and Spain: 2008-2013 (%)



Source: Own elaboration based on Eurostat data (accessed on August 2014)

There is a general consensus on the short run negative impact of the austerity policies on effective aggregate demand, which lead to the double dip recession at the end of 2011[223]. However, the debate is open and controversial with regard to the sustainability of the slight signals of recovery of the economic activity recorded at the end of 2013.

[223] This has been recognized by various authors and international institutions, including IMF and the European Commission. See for example: IMF (2012) *World Economic Outlook. October 2012. Coping*

According to the Spanish Government, the "aggressive and ambitious" programme of austerity measures and structural reforms implemented since the end of 2011 has laid the grounds for the recovery of the economic activity, and a successful way-out of the crisis based in the transition from an internal investment- and consumption based economy with huge current account deficits into one with an increasing surplus[224]. This interpretation would be supported by the various projections made by international institutions, which point to a consolidation of the recovery of the economic situation in 2014 and 2015[225].

The European Commission agreed that in several areas the adjustment of the imbalances identified as excessive in Spain has clearly advanced, and the return to positive growth has reduced risks. Yet, it is also remarked that "the magnitude and inter-related nature of the imbalances, in particular high domestic and external debt levels and high unemployment, mean that vulnerabilities are still present"[226].

The optimistic view on the sustainability of the economic recovery in Spain has been criticized in a twofold dimension. First, it has been argued that the slight turnaround in GDP recorded in late 2013 due to a slight recovery in domestic demand and increased public spending, coincides with a slowdown in export growth. This fact would call into question the government policies on competitiveness, wage devaluation and fiscal austerity[227].

Secondly it has been noted that, taking into account the size of the Spanish economy, boosting exports via wage devaluation can never compensate for the fall in domestic demand. Internal wage devaluation driven by the governments, in addition to being socially painful, has proven to be ineffective in economic terms, as it reduces the growth capacity of the economy in sectors unrelated to export activity, which are the vastly the most significant in terms of employment.

3.2. A sharp deterioration of the labour market situation

The current crisis is having a dramatic social impact in Spain, where the effects on labor market have been much more intense than in other European countries with a similar downturn in the economic activity (figure 7.2).

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with high debt and sluggish growth. IMF. As for an in depth analysis in Spain, see Consejo Económico y Social (2013): *Memoria sobre la situación socioeconómica y laboral. España 2012*. CES.

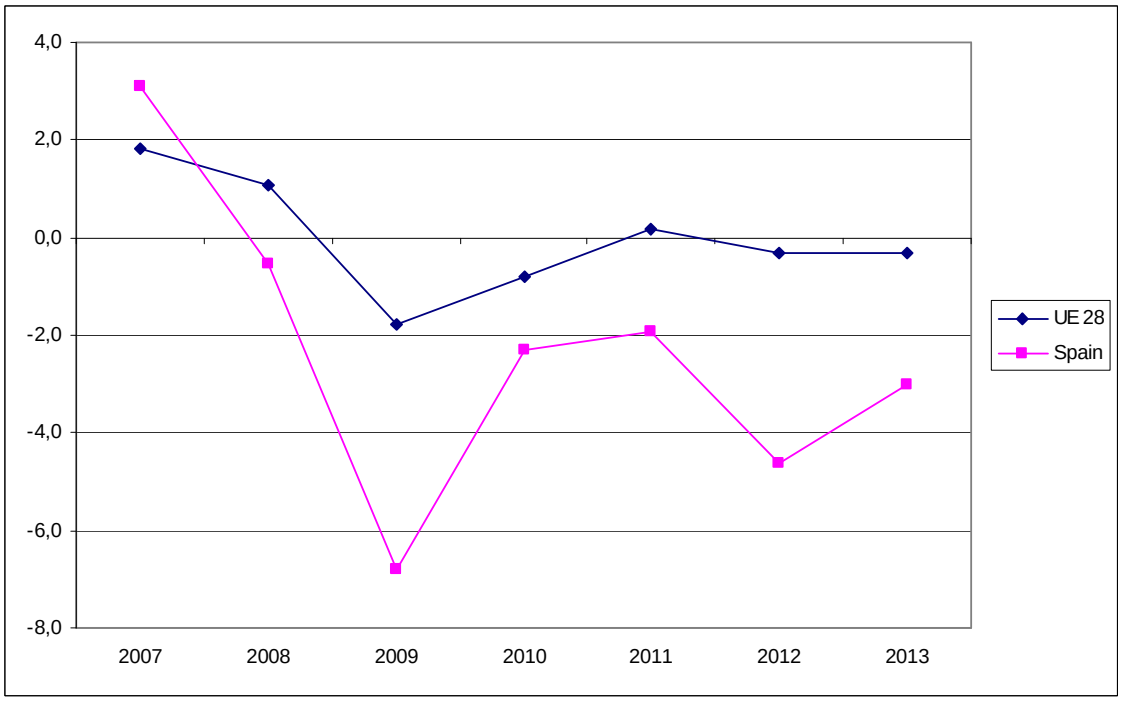
[224] Ministery of Economy (2014): *The Kingdom of Spain's Economic Policy Strategy and Funding Programme*. July 2014 (Available in: www.thespanisheconomy.com (accessed on August 7, 2014)

[225] EC (2014) *Spring 2014 European Economic Forecast* (5/5/2014). According to this forecast, Real GDP in Spain is expected to grow by 1% in 2014 and further accelerate to 1,7% in 2015.

[226] European Commission, Directorate-General for Economic and Financial Affairs (2014) *Macroeconomic Imbalances. Spain 2014*. European Economy, Occasional Papers 176, March (p.5).

[227] Estrada, B. (Coordinador); Cruces, J.; Inurrieta, A.; y Lago, M. (2013) *Informe de Coyuntura 1/2013*. Fundación 1º de Mayo, colección Informes de Coyuntura.

Figure 7.2. Employment in EU28 and Spain: 2008-2013 (year on year, %)



Source: Own elaboration based on Eurostat data (annual data, population 15-64) (accessed on August 2014)

Taking into account the most updated data, the Spanish labour market recorded a net balance of 3,3 million jobs lost between 2008 and 2014, with a rate of change for the whole period of 16%[228].

The consequence of this process has been a profound deterioration of the main labour market indicators by the end of this period (table 7.2). Thus, the employment rate has declined by around 9 percentage points since 2008. This represents the largest decline in employment rates in the EU, after Greece.

Table 7.2. Activity, employment and unemployment rates in Spain. 2008-2014 (%)

Rate	2008	2009	2010	2011	2012	2013	2014
Activity	73,7	74,3	74,7	75,0	75,3	75,2	75,3
Employment	66,1	61,0	59,7	59,5	56,9	55,5	56,8
Unemployment	10,4	17,9	20,0	20,8	24,5	26,2	24,6

Source*: Labour Force Survey*, National Institute of Statistics (second quarters, population 16-64).

The fall in employment has translated into increasing unemployment, which reached a peak of 6 million people in 2013. As a result, the unemployment rate reached till 26,2% that year, although it slightly declined in 2014[229].

[228] Source: *Labour Force Survey*, National Institute of Statistics (second quarters, population 16-64).
[229] It is worth noting that the impact of this process has not been homogeneous between the various groups of population, being young people and migrants the most affected in relative terms.

Related to this, another element of concern is the continuous increase in long-term unemployment – corresponding to the percentage of jobseekers that have been without work for one year or over – to a number of 3,5 million people in the second quarter of 2014 (62,1 % of total unemployed).

This situation implies an extremely worrying scenario. On the one hand, because long-term unemployment contributes significantly to increasing the risk of poverty and social exclusion (especially if we take into account that these people stops receiving unemployment benefits and other subsidies such as job seeker's allowance). On the other hand, due to the increasing risk of hysteresis (namely, that the high level of unemployment becomes structural).

Against this background, there is an ongoing debate in Spain about the effects of the 2012 legal reform of the labour market. According to the first evaluation published by the Spanish Government, "despite seven successive quarters of recession, the faster pace of the credit squeeze and the loss of nearly 400,000 jobs in the public sector, the reform has managed to contain the increase in unemployment, stop the destruction of jobs and improve the flexibility of the labour market. It has allowed companies to adapt easier to the economic context and made our economy more competitive"[230].

This evaluation has been backed by international bodies and institutions such as the IMF, OECD and the European Commission, which estimates that the 2012 reform has achieved various positive issues, as: promoting the internal flexibility of firms; reducing dismissal costs; contributing to significant wage moderation; increasing hiring of permanent contracts; and fostering a higher decentralization of collective bargaining. Nevertheless, also it has been remarked that the Spanish labour market still shows structural weaknesses, so further efforts and reforms ─in terms of greater flexibility─ should be envisaged in the short run[231].

The positive assessment of the effects of the labour market reforms has been called into question, however, with regard to various dimensions[232]. First, it has been noted that empirical analysis clearly shows the negative impact of the austerity measures and structural reforms on the labour market performance in the short run, due to the reccesionary impact of the effective aggregate demand and also by the negative impacts on employment in public and private sector[233].

Secondly, it has been denounced that the legal reforms have led to a rising of precariousness because of the massive destruction of full time jobs, and the creation at

[230] Government of Spain, Ministery of Employment (2013) *Report evaluating the labour market reform.* Ministery of Employment (p. 4).
[231] Bassanini, A. and Mestres, J. (2013) *The 2012 labour market reform in Spain: a preliminary assessment*. OECD; International Monetary Fund (2014). *Spain. 2014 Article IV Consultation—Staff Report*. IMF Country Report No. 14/192; European Commission (2014, op.cit.).
[232] Navarro, V. (2014) "The Disastrous Labor And Social Reforms In Spain", *Social Europe Journal*, 3/3/2014 (availaible in http://www.social-europe.eu/2014/03/social-reforms/, accessed on August, 12, 2014); Janssen, R. (2014) "Flexploitation: The case of the 2012 Spanish labour market reform", *Social Europe Journal*, 30/4/2014 (availaible in http://www.social-europe.eu/2014/04/labour-market-reform/, accessed on August, 12, 2014); Lago, M. (2013) *Un análisis cuantificado de los efectos de la Reforma Laboral en el empleo*. Fundación 1º de Mayo, Colecciòn de Estudios nº 6.; Rocha and Aragon (2012, op. cit.); Rocha, F.; and Negueruela, E (2014, op.cit.).
[233] A quantitative assessment of the impacts of the labour market reforms on employment can be found in Lagos (op.cit).

the same time of employment based on atypical contracts (temporary and non-voluntary part time)[234].

The creation of part time jobs is usually welcomed and encouraged, because it supposedly provides employers with the flexibility they would need in the organisation of the workload. However, from a critical view it has been argued that non voluntary part time work allows business to cut wage costs by exploiting workers. The reason is that part time workers are being paid an hourly wage rate that is substantially lower than the wage of full time workers; this makes it a lot cheaper to get two part timers to do the job of one full timer. In addition, in many cases employers are reported to abuse overtime work by having part timers work longer hours for no pay.

Finally, against the argument that "flexibility reforms" are to trigger a so called "job rich" recovery, it can be said that the recovery will not be able to sustain itself if the jobs that appear boil down to low paid, part time and insecure jobs. In this regard, "precarious jobs make for a precarious recovery and the final outcome may well be a *job unfriendly* stagnation and not a *job rich recovery*"[235].

3.3. Decline in the number of collective agreements, stability of the structure of collective bargaining, huge increase of temporary derogation of collective agreements, and uncertainty with regard to the limitation of "ultra-activity"

The evaluation of the effects of legal reforms on collective bargaining in the current economic context must face some methodological constraints, such as: (a) difficulties to differentiate the specific effects of labour market reforms of the general effects of the crisis; (b) the short time elapsed since the practical implementation of the reforms; and (c) the gaps and weaknesses of statistical sources on collective bargaining.

In spite of these limitations, the analysis of the available statistical sources[236], as well as the outcomes of various reports[237] and the information provided by the social partners[238], allow us to highlight the main trends of the dynamic of the collective bargaining since 2008.

Decline in the number of collective agreements with a rebound at the end of the period

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[234] Guamán, A. (Direct) (2013) *Temporalidad y precariedad del trabajo asalariado: ¿el fin de la estabilidad laboral?* Editorial Bomarzo.

[235] Janssen (op.cit.).

[236] The main statistical source is the *Statistics of Collective Agreements*, produced by the Ministery of Employment (http://www.empleo.gob.es/estadisticas/cct/welcome.htm). Also, recently it has been created a new tool: the Registration of Collective Agreements (REGCON), which provides useful information.

[237] Consejo Económico y Social (2014) *Memoria sobre la situación socioeconómica y laboral. España 2013*. CES; Cruz, J. (2013) "Impacto de las reformas laborales sobre la negociación colectiva", en *Temas Laborales, Revista Andaluza de Trabajo y Bienestar Social* nº 120 (pp 13-32); Pérez, J. (2013) "Las reformas de la negociación colectiva desde una perspectiva económica: naturaleza y resultados", en *Temas Laborales, Revista Andaluza de Trabajo y Bienestar Social*, nº 120 (pp 35-83); Calvo, F. (2013) "El impacto de las últimas reformas laborales sobre la negociación colectiva", en *Temas Laborales, Revista Andaluza de Trabajo y Bienestar Social*, nº 120 (pp 123-180); Ministery of Employment (2013, op.cit.); Bassanini, A. and Mestres, J. (2013, op.cit.); Izquierdo, M., Lacuesta, A and Lapuente, S. (2013) "La reforma laboral de 2012: un primer análisis de algunos de sus efectos sobre el mercado de trabajo", *Boletín Económico del Banco de España*, septiembre.

[238] Secretaría Confederal de Acción Sindical de CCOO (2014) *La negociación colectiva tras dos años de Reforma Laboral*. CCOO.

The crisis has affected in a negative way to the dynamic of the collective bargaining in Spain, which shows a decline trend in the number of collective agreements since 2008, with a significant fall since 2010 (table 7.3).

Table 7.3. Collective agreements registered and workers covered in Spain. 2008-2013

	Collective agreements		Workers	
Year	Nº	%	Nº (1000)	%
2008	5.987	-0,5	11.968,1	3,1
2009	5.689	-5,0	11.557,8	-3,4
2010	5.067	-10,9	10.794,3	-6,6
2011	4.585	-9,5	10.662,8	-1,2
2012*	3.998	- -	9.889,9	- -
2013*	2.371	- -	6.937,1	- -

* 2012 and 2013: provisional data[239]
Source: *Statistics of Collective Agreements* (data registered up to July 2014).

This process can be explained due to the worsening of the economic situation of many companies; and also to a large extent due to the employers` organizations strategy, who by that time were pressing to the government for a legal reform of the labour market, which led to a virtual paralysis of the collective bargaining.

In 2013 there has been a rebound of the collective bargaining −new agreements- in comparison with precedent years. The government and the employers' organizations estimate that this can be considered a positive outcome of the 2012 labour market reform. Trade unions for its part point out that the reason of this rebound is that workers' representatives have given priority to preserve the collective agreements by renewing for one or more years, even though it meant a high prize in terms of devaluation of wages and other working conditions[240].

The fall in the number of agreements and the workers affected has also led to a decline of the coverage rate of the collective bargaining, although it is still relatively high (around 80-85% in 2011, according to various national and international sources)[241].

Rising in the number of company-level agreements, but without significant change in the structure of collective bargaining

The statistical data on the new collective agreements signed in the last years shows a clear rising in the number of company-level agreements, in particular since 2012 (table 7.4). This trend seems to have been favored by the 2012 labour market reform, which as above noted was aimed at fostering the decentralization of collective bargaining.

[239] Annual variations for 2012 and 2013 are not included, because the data for these years are provisional.
[240] Secretaría Confederal de Acción Sindical de CCOO (op.cit., p. 7).
[241] Pérez, J. (2013, op.cit., pp. 59).

Table 7.4. New collective agreements by year of signature and workers covered in Spain. 2011-2013

	Collective agreements		Workers	
Year	Company level	Higher level	Company level	Higher level
2011	1.033	329	251.573	2.374.434
2012	1.236	341	288.205	2.905.789
2013	1.831	601	363.122	4.884.173

* 2012 and 2013: provisional data
Source: *Statistics of Collective Agreements* (data registered up to July 2014).

Nevertheless, it is important to note that the weight of company-level agreements in terms of workers affected is still quite small, around 10%; so this evolutionary change is equally modest. It can be said therefore that 2012 reform, which gives priority to the company-level agreements, not appear to have yet a significant effect on the structure of the collective bargaining, although it may be producing indirect consequences in the employers' strategies and the negotiation processes.

Significant increasing of the temporary derogation of collective agreements

The 2012 labour market reform changed in a significant way the regulation of the temporary derogations of collective agreements, as above noted[242], which has caused a serious impact in the dynamic of collective bargaining. The main outcome has been a huge increase in the number of temporary derogations of collective agreements (table 7.5).

Certainly, if these figures are compared with the total number of workers affected by collective agreements, the figure as a whole is not so relevant, but notwithstanding it is important from a qualitative perspective as showing the major shift that is occurring.

Table 7.5. Temporary derogations of collective agreements in Spain. 2012-2014

Year	Nº derogations	Workers affected
2012	748	29.352
2013	2.512	159.550
2014*	1.532	50.232

Provisional data.
Source: *Statistics of Collective Agreements* (data registered up to July 2014).

The detailed analysis of the data shows that mostly the derogations are focused on wages and working hours, leading to a strengthening of the internal devaluation process at company level.

Also, it is worth noting that around 90% of these temporary derogations have been agreed between employers and workers' representatives, even though trade unions have serious doubts about the legality of the procedures, in particular with regard to the status

[242] See box 3.

of worker's representatives in many of the agreements signed in the micro-size companies[243].

Uncertainty with regard to the limitation of "ultra-activity"

One of the most controversial innovations of the 2012 labour market reform has been the legal limitation of the statutory extension rule of expired collective agreements ─the so called "ultra-activity"─ for a maximum of 1 year. This has been a radical change from the previous legal regulation, in which the period of "ultra-activity" in the absence of agreement to the contrary remained throughout the negotiations to renew the agreement.

It is worth noting that, before the entry in force of this new regulation scheduled for July 2013, the most representative social partners signed on May 2013 a bipartite agreement with regard to this issue: *Agreement of the follow-up commission of the II AENC on ultra-activity of the collective agreements* (*Acuerdo de la comisión de seguimiento del II AENC sobre ultraactividad de los convenios colectivos*)[244].

In short, it states that the social partners at national level will encourage affiliates covered by a collective agreement to observe the following guidelines, designed to encourage renewal of previous agreements: (a) renew and update all collective agreements to improve companies' competitiveness and employees' security, while respecting the autonomy of the bargaining parties; (b) allow companies to adjust factors such as working time, wages, and professional classification to their specific circumstances, to avoid job losses; (c) promote the renewal of innovative collective agreements, to guarantee greater efficacy; (d) clarify and simplify the clauses of agreements, improving understanding between workers and employers and avoiding conflict over interpretation; (e) speed up all negotiations that were on course to deliver renewed agreements before July 2013; (f) agree to observe expired collective agreements while renewal negotiations are being concluded; (g) call for extra juridical mechanisms, such as mediation or voluntary arbitration, where negotiations over collective agreements that expired after 7 July 2013 are deadlocked; and (h) commit themselves to do everything necessary to foster the renewal of collective agreements.

There is still no enough aggregate and reliable information to support a rigorous evaluation of the impacts. Trade unions have denounced, however, that the new legal limitation of "ultra-activity" poses a serious threat to the dynamic of collective bargaining, and therefore for the regulation of the labour conditions for millions of workers.

[243] Secretaría Confederal de Acción Sindical de CCOO (op.cit., p.p 59-61).
[244] The agreement was signed on May, 23, 2013 by CCOO, UGT, CEOE and CEPYME.

3.4. Wage devaluation, decline of the wage share, increasing levels of poverty and in-work poverty, rising of inequality

Over the past decade, wage dynamics in collective bargaining in Spain has been adjusted to the objective for curbing inflation, which led to significant wage moderation[245].

In the first two years of the current crisis stage there was a certain mismatch between the evolution of agreed wages and GDP growth, which can be mainly explained by the "delay effect" of the collective bargaining (table 7.6). This has been widely shown as a proof of the rigidity of wage formation in Spain in a context of economic recession. Nevertheless, although temporary inertia of collective bargaining in these two years led to a certain lack of wage flexibility also it had a positive effect, namely, to prevent further decline in private consumption and effective demand the whole economy.

This situation changed towards higher wage moderation as a result of the *First Agreement on Employment and Collective Bargaining 2010, 2011 and 2012* (*Primer Acuerdo sobre Empleo y Negociación Colectiva, I AENC*), signed on May 2010 by the most representative social partners statewide. This Agreement established the following thresholds for agreed wage increases: till 1% in 2010, between 1% and 2% in 2011, and between 1,5% and 2,5% in 2012.

On May 25, 2012, this was signed the renewal of this Agreement: the II AENC, which established following thresholds for agreed wage increases: till 0,5% in 2012, lower than the previous limit regulated in the I AENC; and 0,6% in 2013.

The process of wage moderation has been significantly reinforced by the approval of the legal reforms of the labour market. In particular the 2012 reform, which has strengthen the unilateral power of employers on the regulation of working conditions, and also has favored the rising of the derogations of the collective agreements at company level (mostly focused on wages).

The evolution of nominal gross wages (compensation per employee) has followed a similar pattern. Despite difficulties arising of working with aggregated data, two different periods can be identified. In the first one, from 2008 to 2009, there was a rebound in nominal gross wages despite the consequences of the economic crisis. This specific trend can be explained to a large extent due to the so-called "composition effect caused by the significant destruction of temporary and low-wages jobs, which led to a statistical rising of the wage levels (table 7.6).

[245] Nevertheless, in most of this period, agreed wages growth was slightly higher than inflation due to wage indexation clauses included in collective agreements, so in general terms workers preserved their purchasing power. See for a detailed analysis Pérez (op.cit.).

Table 7.6. Nominal compensation per employee, agreed wages and wage drift in Spain. 2008-2013

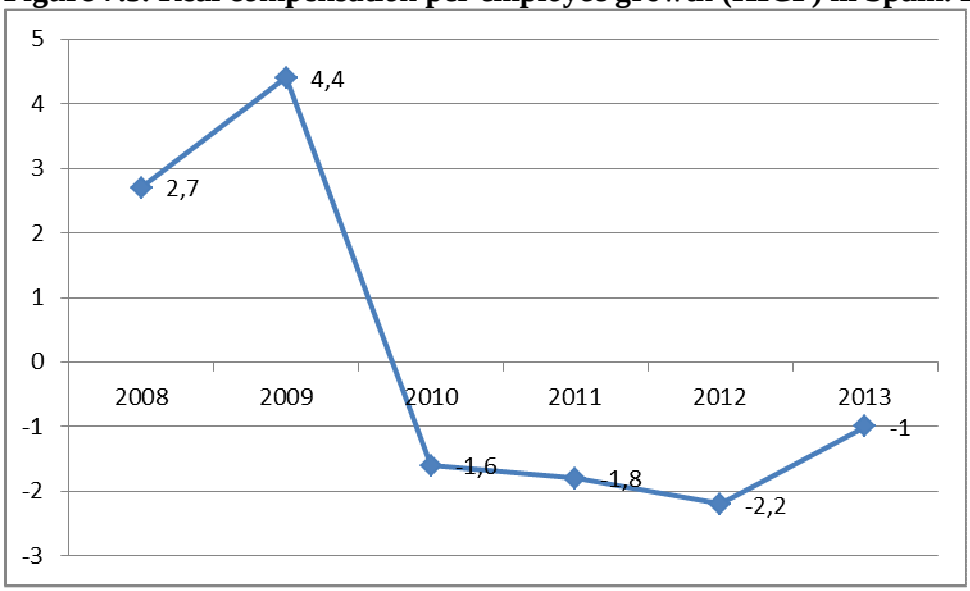
	A	B	C
2008	6,84	3,60	3,24
2009	4,16	2,24	1,92
2010	0,42	2,16	-1,74
2011	1,33	2,29	-0,96
2012	0,24	1,17	-0,93
2013	0,66	0,53	0,13

A= Nominal compensation per employee. B= Nominal agreed wages.
Source: AMECO and Statistics of Collective Agreements (data registered up to July 2014).

In the second period (2010-2013), the dynamics of gross wages was significantly lower than the EU average, with a much more modest evolution than in the previous periods. In this regard, this process has been driven to a large extent by the cuts on public sector (employment and wages) implemented in Spain since 2010 within the new austerity framework.

The wage devaluation process is even more visible through the evolution of real gross wages, deflated by HICP (figure 7.3). Thus, while real gross wages increases in 2008 and 2009 due to the above mentioned composition effect", since 2010 they recorder a sharp fall till a peak on -2,2% in 2012.

Figure 7.3. Real compensation per employee growth (HICP) in Spain. 2008-2013



Source: own elaboration based on AMECO data (accessed on August 2014).

In short, it can be concluded that the worsening of the economic situation along with the effects of the austerity policies have led to a strong wage devaluation in Spain. As a result, there has been a fall of the adjusted wage share, especially remarkable in 2012[246].

[246] This negative effect has been recognized in a contradictory way by international bodies like OECD, which notes in a recent report that the large downwards adjustment in wages has helped to restore competitiveness in Spain, but also "has been painful for workers and their families, in particular for the

The negative evolution of the key labour indicators, combined with the process of wage devaluation and other negative effects of the austerity policies ─ for example, cuts affecting social expenditure, public sector and social services ─ has contributed to an increased deterioration of the social situation in Spain, in comparison with other European countries[247]. This has led to a general rising of the inequality and poverty levels in the country, which has prompted to a further segmentation and impoverishment of the working population (table 7.7).

Table 7.7. Income inequality and poverty indicators in Spain. 2008-2013.

Indicator	2008	2009	2010	2011	2012	2013*
Adjusted wage share (% PIB market prices)	57,1	57,9	56,8	56,2	54,6	53,3
Gini coefficient	31,9	33	34,4	34,5	35	33,7
S80/S20 income quintile share ratio	5,7	6,4	7,2	7,1	7,2	6,3
People at risk of poverty or social exclusion (%)	24,5	24,5	26,7	27,7	28,2	27,3
In-work at-risk-of-poverty rate (18-64 years)	11,1	11,6	12,6	12,1	12,3	10,5

*2013: break-time series
Source: Eurostat

4. THE ROLE OF SOCIAL PARTNERS, INDUSTRIAL ACTION AND SOCIAL PROTEST

The dynamic of social dialogue in Spain since the beginning of the crisis has been labelled a two-way game of boxing and dancing, ranging between the poles of industrial action and the negotiation and signing of social pacts[248].

4.1. The changing role of tripartite social dialogue

Tripartite social dialogue has played a fundamental role in Spain as a socio-economic governance mechanism since the reestablishment of the constitutional democracy, even though it has not been a homogeneous process and it has gone through several phases due to the different economic and social conditions, but also because of the various actors involved, the contents addressed and the outcomes achieved[249].

The role of tripartite social dialogue has also been subject to various changes since 2008, closely linked to the evolution of the governance of the anti-crisis policies above analyzed.

low-paid workers who face the greatest risk of economic hardship". OECD (2014): "How does Spain Compare?", *OECD Employment Outlook 2014* (available in http://www.oecd.org/els/emp/oecd-employment-outlook-country-notes.htm, accesed on September 4, 2014).

[247] Yancheva, A.; Lagneaux F.; Maquet-Engsted, I,; Aujean, L.; Arranz, D.; Joseph, E. (2014) "Key employment and social trends in the face of a long delayed and fragile recovery", *Employment and Social Developments in Europe 2013*. European Commission (pp.17-62).

[248] Campos, M., and Martín, A. (2011) "Crisis and trade unions challenges in Portugal and Spain: between general strikes and social pacts", *Transfer*, 17 (3), pp 387-402.

[249] Pérez, J. (2009) "La concertaciòn y el diálogo social en España: 1977-2007", i n *Revista del Ministerio de Trabajo e Inmigraciòn*, nº 81 (pp. 41-70).

Thus, a first phase can be identified between 2008 and May 2010, where the social partners played an active role in the governance of the crisis, reaching various agreements with the government.
The turning point of May 2010 marked the beginning of a new stage, characterized by a mix of unilateral approach by the Socialist Government and a diminished role of the social dialogue.

This situation continued till the arrival of the new Conservative Government at the end of 2011, which in the following two years clearly opted by the unilateral governance of the anti-crisis policies. The outcome of this was the paralysis of the tripartite social dialogue between 2012 and 2013, the breakdown of social dialogue in Public Administrations, and the deterioration of the role of the National Parliament due to the continuous use of the exceptional regulation (Royal-Decree laws) by the government.

Finally, it is worth noting that there has been a recent attempt to recover the role of the tripartite social dialogue, through a Joint Declaration signed on July 29, 2014 by the Government and the most representative social partners: *Agreement on proposals for the tripartite negotiation to strengthen economic growth and employment* (*Acuerdo de propuestas para la negociación tripartita para fortalecer el crecimiento económico y el empleo*)[250].

The document recognizes that social dialogue must play a key role in the current context of crisis, and that it can contribute to a "greater economic growth, increased employment and a balanced distribution of profits, efforts and burdens to strengthen social cohesion". In this regard, the Government and social partners have made the commitment to tackle the following proposals and lines of action, for which the necessary financial resources will be allocated:

- To strengthen the process of negotiated agreement with the social partners with the European Council, the Council, the Commission and the Parliament.

- The Employment Plan and a boost to activity, addressing issues such as: (a) Long-term unemployed who have to improve their employability and level of protection in situations of need; (b) the fight against youth unemployment; (c) Improvement in the intermediation process; (d) the fight against dualism; (e) Special Plan for Equality between Men and Women in the Area of Work and against Wage Discrimination; (f) the Spanish Strategy for Safety and Health at Work; and (g) Reform of the law governing the Labour Inspectorate

- Training for employment

- Collective bargaining, with regard the improvement of the information available on collective bargaining

- Social protection, addressing goals such as: (a) improving the effectiveness and efficiency of the social protection mechanisms (b) greater levels of social protection; and (c) the Sustainability of the Welfare State

[250] Availaible in http://www.lamoncloa.gob.es (accesed on August 7, 2014).

- The importance of acting on the productive model to improve competitiveness and employment, including an Agenda for strengthening the industrial sector in Spain

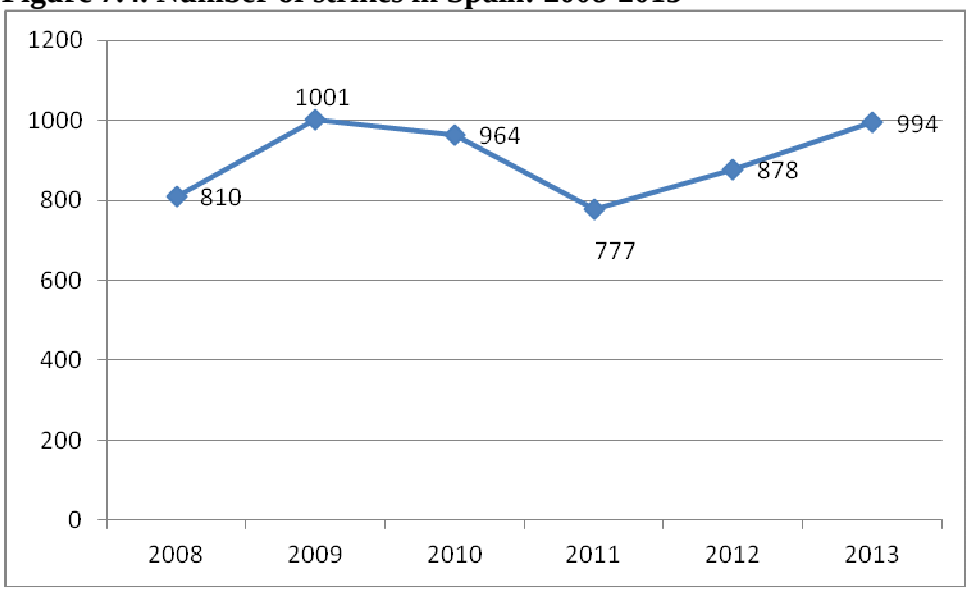
- Boost to the social economy and social responsibility

- Budget and fiscal policy

4.2. Rising of industrial action and social protests

This changing evolution of the social dialogue has been accompanied in parallel by an increasing level of industrial action, including three general strikes: one in 2010 and two in 2012 (figure 7.4)[251].

Figure 7.4. Number of strikes in Spain: 2008-2013



Source: *Statistics of strikes and lock-outs*, Ministery of Employment and Social Security

Furthermore, there has been also a rising of the mass protests organized by trade unions and/or the civil society. In this regard, it is remarkable the rising of social movements like the "*indignados*" movement or the platform anti-home evictions, which have conducted massive protests since 2010 against the austerity policies, with a high level of support of the population.

In this regard, trade unions have launched various initiatives aimed at strengthen alliances with social movements such as the constitution of the so called "Social Summit", which integrates more than 150 social organizations along with the most representative trade unions; and the participation in the so-called "social tides": movements composed of workers and citizens, which have celebrated massive protests against the social cuts in sectors such as health and education.

[251] The official statistics underestimates the number of strikes, because it doesn`t include neither the two general strikes of 2012, nor other various strikes in the education sector (Secretaría de acción sindical de CCOO, op.cit., p. 70).

Against this background, the Government's response has been a tightening up of the Penal Code and the repression of the social protests, as it has been denounced by the trade unions and international institutions such as the International Labour Organization[252].

5. FINAL REMARKS

The current crisis is having a deeper and longer-lasting negative effect in Spain than in other European countries, especially with regard to the employment situation. In an effort to cope with the various challenges, Spain has undergone an unprecedented period of reforms, particularly from early 2010 onwards. In this regard, not only have there been many changes in labour market regulation, employment policy and industrial relations, but in many aspects these reforms have implied an overhaul of the existing institutional edifice[253].

The present report has mainly focused on the consequences of the anti-crisis policies on industrial relations. In this regard, there are several considerations to be drawn.

First, it can be remarked a "democratic deficit" in the governance of the anti-crisis policies, as the austerity measures and structural reforms have been adopted unilaterally by the governments, eroding the role of social partners and even of the national Parliament. It is important to note however the recent attempt to recover the role of tripartite social dialogue, through the agreement signed on July 2014 by the government and the most representative social partners statewide.

Secondly, if there is a broad consensus on the short run recessionary impact of the austerity measures implemented after the European Council of May 2010, the debate is still open, however, with regard to the consolidation of the slight signals of economic recovery recorded at the end of 2013. Nevertheless, there are serious doubts about the sustainability of the recovery process mainly driven by the fostering of exports, taking into account the size of the Spanish economy, and also that it can be classified as a *wage-led economy*[254].

Also, it is necessary taking into account the impact in the short run of the changing evolution of the economic activity within the European Union. In particular, with regard to some important countries like France, Germany or Italy, where GDP has suffered stagnation or even a slight decrease in the second quarter of 2014[255].

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[252] Baylos, A., Aparicio, J., Gorriz, R., Lezcano, F., and Benito, R. (2104): *Ofensiva penal contra el derecho de huelga*. Fundación 1º de Mayo, Colección de Estudios nº 37; Preciado, C. (2014): *Represión penal y derecho de huelga. La vuelta de España al siglo XIX*. Fundación 1º de Mayo, Colección de Informes, nº 100.

[253] Molina y Miguélez (op.cit., 1).

[254] A wage-led economy can be defined as that in which an increase or decrease in wage shares has significant effects on the economic growth (because of its several effects on the effective aggregate demand). Even if this conceptualization is subject to an ongoing debate, recent studies and available empirical evidence show that domestic demand regimes are likely to be wage-led in most advanced economies. See, Lavoie, M.; and Stockhammer, E. (2012): *Wage-led Growth. Concept, theories and policies*. ILO.

[255] Eurostat (2014): "GDP stable in the euro area and up by 0.2% in the EU28", *Eurostat newsrelease euroindicator*s, 125/2014. Available in http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-14082014-AP/EN/2-14082014-AP-EN.PDF (accesed on August 15, 2014).

Thirdly, empirical data taken from the *National Labour Force Survey* clearly show that the profound deterioration of employment caused by the economic crisis ─in particular, by the burst of the real state and the construction bubble─ have been aggravated since 2010, due to the unilateral implementation of the budget cuts and the legal reforms of the labour law.

Furthermore, these legal reforms also have led to a rising of precariousness because they have encouraged the massive destruction of full time jobs, and the creation at the same time of employment based on atypical contracts (temporary and non-voluntary part time). In this regard, against the argument that the "flexibility reforms" are to trigger a so called "job rich" recovery, it can be said that the recovery will not be able to sustain itself if the jobs that appear boil down to low paid, part time and insecure jobs.

Fourthly, the new legal frame of the collective bargaining system has caused a rupture of the characteristic balance of power between employers and employees that lies in the roots of labour law. It can be affirmed that the 2012 legal reform has launched a radical change towards the consolidation of an authoritarian model of industrial relations, which exalts unilateral employer decision in working regulation as a principle of new labour law, impacting information, consultation and negotiation rights.

Also it is worth noting that, in a country like Spain with majority of small and micro-size companies, the reforms aimed at encouraging a unilateral process of decentralization opens up the risk of a labour market in which the only real collective bargaining may take place in a small number of companies.

Fifthly, the worsening of the economic situation along with the effects of the austerity policies in the public sector and the legal reforms of the collective bargaining, has led to a significant process of wage devaluation, with a serious negative impact on the living conditions of the workers and households, but also in macroeconomic terms on the effective aggregate demand.

Sixthly, the rising levels of unemployment, long-term unemployment and precariousness, combined with the process of wage devaluation and other negative effects of the austerity policies, has contributed to an increased deterioration of the social situation in Spain. This has led to a general rising of the inequality and poverty levels in the country, which has prompted to a further segmentation and impoverishment of the working population.

Finally, it is worth noting the growing social unrest caused by the implementation of the austerity measures and structural reforms, which has led to an unprecedented escalation of mass protests in the country. The response of the government has been a tightening up of the Penal Code and of the repression of the protests, even affecting to the right to strike.

Against this background the urgent need of a *new economic approach, alternative to the one-dimensional austerity framework prevalent at national at European level, arises*. This new path should be aimed at stimulating the recovery of the economic activity in

the short run, and also at laying the grounds for the transition towards a more sustainable economic model (including the creation of decent jobs)[256].

This strategy should re-formulate the foundations of economic governance, strengthening and promoting social dialogue processes ─ and hence the involvement of the social partners─ as a centerpiece of the management of anti-crisis policies, at European and national level.

Also, this strategy should ensure the role of a fair collective bargaining based in a real balance of power between employers and workers, as a key tool for the development of a more sustainable pattern of economic growth at a sector and company level. Also, against the pressure in favor of unilateral decentralization, it should be required instead the encouragement of higher levels of coordination and articulation of the collective bargaining system, following the guidelines shared by the social partners in various agreements.

This is an essential element in a historical juncture especially critical because the crisis, and the incompetence manifested in promoting a cooperative outlet thereof at the supranational level, have contributed to increasing public disaffection with the European project.

[256] In this line, the European Trade Union Confederation (ETUC) has proposed a long-term recovery plan for sustainable growth and decent jobs, with a target of investing an additional 2% of EU GDP per year over a 10-year period. For details, see: ETUC (2013): *A new path for Europe: ETUC plan for investment, sustainable growth and quality job*. Resolution Adopted at the meeting of the ETUC Executive Committee on 7 November 2013.