

## The Troika and Multi-Employer Bargaining How European pressure is destroying national collective bargaining systems

by Thorsten Schulten

Collective agreements that extend beyond the immediate workplace or company level are rightly seen as one of the unique institutional features of the European social model. No other world region has any comparably well-developed system of multi-employer collective bargaining in which agreements cover not only entire industries but in some cases apply even nationally. The existence of collective agreements with such extensive coverage is one of the reasons why a clear majority of employees continue to be covered by collective bargaining in Europe. By contrast, in countries and regions in which the predominant level of bargaining is at the workplace or company, only a minority of employees have their employment conditions secured by collective agreement.

Although the past two decades have seen a shift to a greater decentralisation of collective bargaining in Europe, the core features of multi-employer collective agreements have remained remarkably stable in most European countries. In Western Europe, only the UK, beginning in the 1980s under Margaret Thatcher, has undergone a fundamental change from a system in which industry level bargaining played a major part to one that is overwhelmingly characterised by workplace bargaining. After 1990, the UK was joined by a number of Eastern European countries in which it has not been possible to construct a system of industry or national level bargaining. However, aside from these cases, multi-employer collective agreements, embracing a number of workplaces or even sectors, have remained the dominant constitutive feature of collective bargaining in Europe.

However, against a background of deep economic crisis, an increasing number of European countries are now moving towards a radical decentralisation of collective bargaining, characterised by direct state intervention into free collective bargaining, that is leading to the destruction of long-standing structures of national and industry negotiation. In almost all cases, the driving force behind these developments has been the so-called 'Troika' of the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF), which has linked the granting of loans or purchasing of government bonds to the implementation of extensive 'structural reforms', especially of the labour market.

### European crisis management and the role of collective bargaining

The current dominant approach to crisis management in Europe is based on the assumption that the crisis is primarily rooted in debt and competitiveness. This has led to the adoption of two main 'therapies': firstly, severe austerity policies to consolidate

public finances; and secondly, fundamental structural reforms aimed at improving national competitiveness.

The Euro-Plus-Pact, adopted at the instigation of Angela Merkel and Nicholas Sarkozy in 2011, expressly included a reference to the significance of wages and collective bargaining for both these therapies. In the case of consolidating public finances, the main concern was to impose pay cuts and freezes in the public sector, as now implemented by majority of European countries. On the issue of raising competitiveness, the argument was that wages and unit labour costs would need to be lowered. Moreover, national collective bargaining systems were to be reformed to allow companies to adapt flexibly to changes in the economic environment in order to reduce the 'downward wage rigidity'.

What such a 'competitive' set of wage-setting arrangements should look like was revealed, with commendable frankness, in a report prepared by the European Commission's Directorate General for Economic and Financial Affairs (DG ECFIN). Under the heading of 'employment-friendly reforms', it lists the following measures (European Commission, 2012: 104).

- General decentralisation of wage setting and collective bargaining.
- Introduction of or wider scope for opportunities to derogate from industry-level agreements at workplace level.
- Limitation or abolition of the 'favourability principle', under which the most favourable agreed term provision in a hierarchy of agreements will apply to employees. Typically, this means that workplace agreements may not provide for poorer terms and conditions than those negotiated at industry level.
- Limitations and reduction in the scope for the extension of collective agreements to non-signatory employers.

In addition, the recommendations also refer directly to:

- 'decreasing bargaining coverage' and
- 'an overall reduction in the wage-setting power of trade unions'

as an 'employment-friendly reform'. These last two points in particular reveal the intention and overall direction of this catalogue of proposals.

DG ECFIN's recommendations amount to a radical decentralisation of collective bargaining, aimed not only at eroding or even abolishing national and industry-level bargaining but quite deliberately pursuing a strategy of weakening collective bargaining machinery and the role of trade unions. Although this view is not unanimously subscribed to within the EC, and has been openly criticised by the Directorate General for Employment and Social Affairs (DG EMPL), within the Troika it is specifically DG ECFIN which, together with the ECB and IMF, sets out the guidelines that national 'reform programmes' have to comply with.

### **Reconstructing collective bargaining in EU's crisis countries**

The Troika sees radical decentralisation as the blueprint for reconstructing collective bargaining systems in Europe. This strategy has four main constituents, the relevance of which varies from country to country (Schulten and Müller 2013).

The *first* is the termination or abolition of national-level collective agreements. For example, Greece and Romania had national framework collective agreements that laid down minimum wages, among other provisions. National governments in both these countries have now suspended negotiations on minimum wages under pressure from the Troika and in the case of Greece have cut the minimum wage by more than 20 per cent, an act condemned by the International Labour Organisation (ILO) as constituting 'repeated and extensive' interference into the principle of free collective bargaining. The practice of national outline agreements was also terminated in Ireland, where the employers considered that it would be easier to push through wage concessions in the context of decentralised bargaining.

The *second* aspect, evident in nearly all countries, is the extension of the scope for workplace derogation from industry-level collective agreements. In some countries, such as Italy and Spain, trade unions initially agreed to formal 'opening' clauses with employer associations, under which workplace deviation from industry agreements would be permitted under specified and controlled circumstances, and subject to trade union agreement. However, governments in both countries have simply disregarded these agreements and opted for a more radical strategy of decentralisation via legislation by abolishing the 'favourability principle' and, in effect, allowing workplace agreements to have unrestricted priority over terms and conditions agreed at a higher level.

The *third* aspect has been the introduction of more stringent preconditions for extending collective agreements by legislative means to non-signatory employers. The widespread use of extension is a core mechanism in the stability of collective bargaining systems in many European economies and an instrument for securing a high level of collective bargaining coverage. In Portugal, for example, until recently almost all important industry-level collective agreements were extended to the whole industry on a quasi-automatic base. Under pressure

from the Troika, Portugal has now followed a pattern set in Germany and has raised the barriers to extension, so that in future only a very small number of collective agreements are likely to be extended.

Finally, the *fourth* element is the dismantlement of the trade monopoly over negotiating on terms and conditions and the granting of scope for non-union employee organisations and employee groups to conclude workplace collective agreements. Decentralised wage setting confronts small and medium-sized enterprises with the problem that there might not be a trade union negotiating partner at the workplace. Despite this, and in order to permit workplace derogations from industry-level agreements, in some countries, including Greece, Spain and Portugal, negotiating rights have been granted to non-union employee groups.

The consequences of the strategy of radical decentralisation advocated by the Troika are already evident. Systems of collective bargaining that were once robust have been systematically eroded and destroyed. The collective agreement itself – as an instrument for collectively regulating wages and other employment conditions – is manifestly now at risk. For example, in Spain the number of valid collective agreements almost halved between 2007 and 2012. In many countries, these transformations in collective bargaining machinery have led to a dramatic decline in bargaining coverage. Ultimately, this has also culminated in a massive loss of power for trade unions, which are no longer able to prevent substantial cuts in real wages against the background of rising unemployment triggered by the crisis.

*Thorsten Schulten is a senior researcher at the Wirtschafts- und Sozialwissenschaftliches Institut (WSI) within the Hans-Böckler-Stiftung in Düsseldorf, Germany.*

### **REFERENCES**

- European Commission (2012). *Labour Market Developments in Europe 2012*. European Economy No. 5/2012. ([http://ec.europa.eu/economy\\_finance/publications/european\\_economy/2012/pdf/ee-2012-5\\_en.pdf](http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee-2012-5_en.pdf))
- 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 EU 2012*. European Trade Union Institute and the European Social Observatory, Brussels.