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The Crisis, Structural Reform and the Fortification of Neoliberalism in Europe

by Christoph Hermann

The European Commission President, Jose Manuel Barroso, recently made the recommendation that fiscal consolidation (read "austerity"!) must continue in Europe, and that the European Union (EU) member states "should now intensify their efforts on structural reforms for competitiveness". He specifically highlighted the need for comprehensive labour market reforms as "the best way to kick-start job creation".[1] The call for structural reform to supplement austerity policies is not new. A number of EU member states have introduced far-reaching institutional reforms during the crisis – several of them under pressure from the European Central Bank, the European Commission and the International Monetary Fund. Structural reforms differ from regular austerity measures since their main goal is to change the country's institutional framework to allegedly boost economic growth.

In the following paragraphs we summaries major structural reforms that we have found in eleven EU member states that were strongly affected by the crisis.[2]

State sector employment

The state sector (especially state sector employment) is a popular site for financial consolidation and structural reform. The Greek government is aiming to reduce public employment by a third. The United Kingdom (UK) government has also articulated this position, aiming to shed almost half a million public sector jobs until 2014. In countries we have analysed, most job cuts are planned in education and health care; while the UK simply dismisses public sector workers, other countries shrink the workforce primarily through the non-replacement of retirees, or through voluntary dismissals. After a temporary ban on new hiring, only every tenth state sector employee is meant to be replaced in Greece. In Romania this applies to every seventh and in Italy to every fifth worker who leaves the state sector. Job cuts are also frequently combined with wage cuts and pay freezes. Thus, while thousands of jobs were axed, Greece and Spain also increased working time for the remaining state sector workers.

While state sector reforms were accompanied by a reduction of public expenses, other reforms had no immediate effect on public finances. The aim of these reforms was, instead, to unleash a process of internal devaluation, which would supposedly increase the country's competitiveness, attract investments, create jobs and boost growth. In Greece and Ireland, internal devaluation included lowering the national minimum wage – in Greece by 22 per cent, and in Ireland by 12 per cent (in Ireland, the cut was reversed after a change in government). While cuts in minimum wages are an exception, a number of countries have introduced minimum wage freezes, and some, the possibility for companies to unilaterally cut wages for a limited period.

Labour markets

Labour markets are a popular target of structural reforms during the crisis and a number of countries have relaxed regulations on fixed-term employment. Greece and Spain have also introduced new employment contracts for younger (and in the case of Spain, unskilled) workers. These contracts extend for a period of two years and pay between 75-80 per cent of the national minimum wage. However, workers under these contracts do not only earn less, but they can also be laid off at any time, without being eligible for unemployment benefits. These workers can also be dismissed without reason during probation. Hence, some countries have extended the probation period, with the example of Greece extending it from two months to one year.

As part of the flexibilisation agenda, other changes have also made it easier to lay off workers. Special protection for vulnerable groups such as pregnant women, or workers on sick leave, have been relaxed, notice periods have been shortened, and severance pay has been cut back. Thus, new barriers have been introduced to struggles against unfair dismissals; and mass layoffs have been made easier (see table 1, below).

TABLE 1: Labour market reforms

Promotion of non-standard employment		
	Promotion of fixed-term employment and agency work	EE, EL, LT, RO, PT
	Introduction of new employment contracts with less pay and job security	EL, ES
	Extension of probation periods	ET, GR, RO
Reduction of job security		
	Weakening of employment protection for civil servants	EL
	Weakening of employment protection for particular vulnerable groups of employees	EE, HU, RO
	Shortening of notice periods	EL, ES
	Increasing thresholds and reducing obligations for mass layoffs	EE, EL, ES, RO
	Changes in the definition of fair and unfair dismissals	ES, IT, UK
	Reduction of severance pay	EE, ES, EL, PT
	Restriction of access to court and reduction of fines for unfair dismissals	HU, UK
	Elimination or weakening of the right to be reinstated after an unfair dismissal or after a mass layoff	ES, IT, RO

EE=Estonia, EL=Greece, ES=Spain, IE=Ireland, IT=Italy, LT=Lithuania, LV=Latvia, HU=Hungary, PT=Portugal, RO=Romania, UK=United Kingdom. Source: Own elaboration.

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Collective bargaining

There has been a dramatic change in collective bargaining systems, where various measures implemented enable a profound decentralisation, and an erosion of collective bargaining systems. These are indicated in table 2, below.

Decentralisation has been imposed in three different ways: Firstly, countries have abandoned national or sector-wide collective agreements. Secondly, they have eradicated the "favourability" principle, which stipulates that in the case of multiple collective agreements, the regulations that prevail are those that grant the most favourable conditions for the workers. With the suspension of this principle, employment and working conditions are now easily determined at company level. Thirdly, countries have promoted decentralisation through the granting of exceptions and exemptions, as well as the acceptance of deviations from sectoral standards.

Decentralisation is complemented by a weakening of bargaining institutions. A number of countries have suspended (or severely restricted) extension procedures through which agreements concluded by one (or more) employer organisations and unions are made binding for entire sectors or regions. Collective bargaining systems have also suffered from the elimination (or shortening) of the "after effect" whereby regulations remain in force after agreements expire.

The crisis has also encouraged governments to interfere in collective bargaining in other ways. In Greece and Romania, new legislation limits the duration of collective agreements to three and two years respectively. In both cases, the International Labour Organisation has criticised the changes since they violate the principle of free bargaining. The erosion of the bargaining systems is complemented by a weakening of trade union representation. In Greece, for example, company agreements can now be negotiated by non-union affiliated staff representatives.

TABLE 2: Reform of collective bargaining

Decentralising collective bargaining		
	Elimination or suspension of national collective agreements	IE, RO
	Suspension of the favourability principle	EL, ES
	Approval of exceptions and divergences	IT
Weakening of collective bargaining		
	Suspension or reduction of extension procedures	EL, HU, PT, RO
	Limitation of the ‚after effect' of expired collective agreements	EE, EL, ES
	Limitation of arbitration	EL
Interventions in collective bargaining		
	Suspension of existing agreements	EL
	Limitation of the duration of agreements	EL, RO
Weakening of trade unions		
	Higher thresholds for representativeness of trade union organisations and abolishment of tripartite institutions	RO, HU
	Promotion of alternative forms of employee representation at the cost of works councils and trade unions	EL, HU, PT

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Source: Own elaboration.

Structural reform and redistribution of wealth

The structural reforms adopted during the crisis have generally expanded the possibilities for companies to increase profits at the expense of workers; despite the upward redistribution of wealth, from labour to capital, the outcome of austerity and structural adjustment for growth and recovery has, so far, been miserable.

With the exception of Britain (whose growth perspectives are nonetheless rather fragile), none of the countries covered in this analysis have made up for the Gross Domestic Product (GDP) losses incurred since the start of the crisis. Greece has suffered from five straight years of economic contraction, and lost about a quarter of its GDP. Negative or slow growth is complemented by record-high unemployment and a growth in absolute poverty and material deprivation. However, while support for austerity seems to weaken in the wake of continuously negative growth forecasts, Brussels is determined to continue and accelerate its structural reform agenda. The result of this policy is a fortification of neoliberalism in Europe.

1 Jose Manuel Barroso, Press Conference Brussels. 29 May 2013.

2 For the full study (in German) see: Hermann Christoph and Karl Hinrichs, ‚Die Finanzkrise und ihre Auswirkungen auf Sozialstaaten und Arbeitsbeziehungen – ein europäischer Rundblick', Austrian Chamber of Labour, Vienna, (http://media.arbeiterkammer.at/wien/PDF/studien/Forba-Studie_Finanzkrise_2012_neu.pdf)

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