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The governance of policy reforms in southern Europe and Ireland

Social dialogue actors and institutions in times of crisis

Edited by Konstantinos Papadakis
and Youcef Ghellab

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in southern Europe and Ireland**

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in times of crisis*



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Konstantinos Papadakis and Youcef Ghellab

International Labour Office, Geneva

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FOREWORD

In 2012 the ILO and the European Commission (EC) partnered on a joint research and capacity-building project that aimed to analyse the impact of structural reform and fiscal consolidation policies on the labour market and industrial relations of selected European countries; to assess the role of social dialogue during the adjustment process; and to understand the latter's main impact. The project focused on severely hit crisis countries that have been under the assistance programmes financed by the International Monetary Fund (IMF), the EC, and the European Central Bank (ECB), in particular, Cyprus, Greece, Ireland and Portugal – but also Spain – which received financial support to repair its financial sector, as well as Italy, which has also been facing a debt problem and very weak economic growth, and implemented significant reforms accordingly.

The research component of this project – which built on ILO research initiated since 2008 on “good practices” in the area of policy responses to crises, and the Global Jobs Pact adopted by the International Labour Conference (ILC) in June 2009 – involved national studies on key industrial relations developments as of 2010 (i.e. the onset of the public debt crisis). The studies served as background material for a series of policy-dialogue and capacity-building seminars that took place in 2012 and 2013, in Geneva, Dublin, Lisbon, Athens and Nicosia.

These seminars, coordinated by the ILO, have been the first effort to bring together in policy dialogue national policy-makers, social partners and representatives from the IMF, EC and ECB, to assess the labour and industrial relations situation in Europe, and discuss the merits of social partnership as a key component for equitable recovery. In addition to facilitating dialogue, the seminars also contributed to sharing experiences between national constituents and social partners from other countries on crisis-related matters.

The national seminars portrayed an urgent need for policy-makers to ensure a greater commitment to international policy coherence, in order to reconstruct or strengthen tripartite economic and social institutions that have been weakened by the crisis. From an ILO perspective, social dialogue cannot thrive in an environment where freedom of association and collective bargaining rights are weakened, where the space for social concertation is reduced and where social partners are weak or fragmented.

The seminars also served to identify areas where ILO assistance could be sought during the structural adjustment process, and to design follow-up. For instance, after the June 2013 Athens Seminar, the ILO, with support from the EC and the Greek Government, launched technical assistance activities aimed at reviving social dialogue and modernizing labour legislation in Greece. Also, the ILO provided technical support to the Government of Portugal in the area of dispute resolution.

The present volume draws on national studies as well as the themes that were extensively presented and debated during the national seminars. Its main purpose is to capture the major changes that were introduced into national systems of industrial relations, as well as their future policy implications.

We would like to express our sincere appreciation to the authors and the editors of this volume; to Jonathan Aspin for his key support in putting together the volume; and to Sylvain Baffi as organizer of the national seminars where the first versions of this volume's chapters were presented and debated. All chapters have benefited from the valuable support of Nancy Varela and Sarah Doyle from the Governance department, who provided research and administrative support at all stages of this project. We would also like to thank Chris Edgar and José Garcia for providing invaluable support in the final stages of the preparation of this publication and to the three anonymous external and ILO peer reviewers for their critical comments on the draft versions. Last but not least, special thanks go to the tripartite constituents from Cyprus, Greece, Portugal and Ireland, as well as to the representatives of the EC, IMF and ECB, who participated in the four national seminars' panels and debates, and the Geneva research workshop. Their insightful comments have been key in improving the comprehensiveness of the volume chapters, and inspiring the drafting of others.

The views expressed in this edited volume are the authors' only and do not necessarily reflect those of the ILO or the EC.

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ABBREVIATIONS

CEACR	Committee of Experts on the Application of Conventions and Recommendations
ECB	European Central Bank
EC	European Commission
ECHR	European Convention on Human Rights
ECSR	European Committee on Social Rights
EMU	Economic and Monetary Union
EU	European Union
EDP	Excessive Deficit Procedure
GDP	Gross Domestic Product
GNP	Gross National Product
ILO	International Labour Organization
IMF	International Monetary Fund
IMP	Integrated Mediterranean Programme
ITF	International Transport Workers' Federation
MOU	Memorandum of Understanding
OECD	Organization for Economic Co-operation and Development
OMED	Organization for Mediation and Arbitration
SAP	Structural Adjustment Programme
VAT	Value-Added Tax



INTRODUCTION: POLICY REFORM IN SOUTHERN EUROPE AND IRELAND AND THE ROLE OF SOCIAL DIALOGUE

Konstantinos Papadakis and Youcef Ghellab

Structural reforms and fiscal consolidation policies aimed at reducing sovereign debt in Europe have affected industrial relations and social dialogue. The purpose of this edited volume is to provide an overview of the impacts of the economic crisis and subsequent policies on industrial relations systems in selected countries, as well as to provide a comparative analysis of the current state of industrial relations in Europe. As part of a partnership agreement between the International Labour Organization (ILO) and the Directorate-General for Employment, Social Affairs and Inclusion (DG EMPLOYMENT) of the European Commission (EC), this volume is based on background documents and themes presented and debated in a series of high-level policy dialogue forums organized in 2012 and 2013, and does not capture developments beyond this period.

These forums were an early effort to bring together, for the first time since the outbreak of the sovereign debt crisis in 2010, ministries of labour, social partners, the ILO, and national teams of experts from the main countries concerned – Cyprus, Greece, Ireland, Italy, Portugal and Spain – as well as representatives of international organizations involved in structural adjustment across Europe, notably the International Monetary Fund (IMF), the European Central Bank (ECB) and the EC, from the Directorate-General for Economic and Financial Affairs (DG ECFIN) and DG EMPLOYMENT. The volume gives a snapshot view of some of the most debated topics and papers, notably until late 2013, following major changes in the European industrial relations landscape.

FINANCIAL CONSIDERATIONS MOVED TO CENTRE STAGE OF POLICY REFORM

Around the middle of 2010, when global recovery was still extremely fragile and unemployment high or rising, governments in several European countries, particularly along the southern rim, became increasingly alarmed by mounting fiscal deficits and public debt ratios, and many of them abruptly shifted the focus of public policy from stimulating the economy to cutting public spending, in order to restore “fiscal balance”. The reasoning is still debated – as seen in the present volume (and the selected bibliography for this chapter).

Most of these European governments had come under heavy pressure from financial markets to address their budget deficit and to reduce it sharply and immediately. The most affected countries in Europe – namely Greece, Portugal, Ireland, and Cyprus – resorted to financial assistance programmes buttressed by the IMF, ECB and EC. Within the framework of this international loan mechanism, governments were advised and agreed to implement structural reforms and fiscal consolidation measures in order to reduce sovereign debt and to increase competitiveness. The reforms and fiscal consolidation policies since 2010 introduced significant changes to national systems of industrial relations, ranging from decentralizing collective bargaining to cutting and freezing wages in the public sector. Other crisis-hit countries, such as Italy and Spain, also adopted similar adjustment policies in an effort to reduce public debt and fiscal deficit and restore economic growth. The most important of these reforms and their impacts are discussed in this volume.

Social dialogue and tripartism were given a less prominent role in their societies and political systems. Above all, during the design of structural adjustment, public deliberation was weakened, even though, admittedly, the reforms triggered major and longstanding impacts on socio-economic policy choices. This trend stands in stark contrast to the initial phase of the financial and economic crisis, where tripartite social dialogue played a key role in devising and implementing national tripartite responses to mitigate the social impact of the crisis. As macroeconomic imbalances emerged and countries in Europe began to witness increasing debt and unemployment, social dialogue was given a less prominent role than before the outbreak of the sovereign debt crisis.

Indeed, at the start of the global crisis in 2008, social partners' involvement in economic and social policy-making made it possible for some European countries to agree on early packages of economic and labour-market crisis measures in tripartite settings. From 2008 to 2010 government and social partners in some countries, with well-developed social dialogue and collective bargaining mechanisms proposed and adopted solutions, that helped to facilitate adjustment, and that mitigated the effects of the crisis on workers and firms. Tripartite partners negotiated packages that responded to the economic uncertainty; that met the interests of employers to reduce costs and of workers to prevent layoffs and protect earnings; and that reduced the impact of the crisis on work inequalities.¹

As the crisis deepened, however, social dialogue played a far less prominent role in the design of structural reforms and fiscal consolidation policies. In some cases, the social partners were not consulted on important measures and reforms, or where there was a tripartite agreement, it was not always respected. Social dialogue processes seemed a luxury that some EU countries

¹ Vaughan-Whitehead, D. (ed.). 2011. *Work inequalities in the crisis: Evidence from Europe* (Cheltenham, UK and Geneva, Edward Elgar and ILO).

could not afford at a time when urgent reforms were needed to stop the rise of fiscal deficits and sovereign debt and to save the Eurozone from the risk of collapse. Both EU Commissioner Laszlo Andor and ILO Director General Guy Ryder warned against such an approach: they repeatedly stressed, including at the high level ILO-EC conference in Athens on 25 June 2013, that there could not be a sustainable economic and jobs recovery without social dialogue.

SNAPSHOT OF REFORM IMPACTS, 2013

The impacts of anti-crisis measures on labour markets and industrial relations by mid- or late 2013 are reviewed in this volume, which looks closely at those taken as part of larger fiscal consolidation packages within the framework of the international loan mechanism agreed with the IMF, ECB and EC. Fiscal consolidation involved tough adjustments aimed at reducing fiscal deficits by lowering public expenditure, gradually eliminating various subsidies, raising prices of utilities, freezing or reducing public-sector pay, and capping pension payments and social benefits. Many of these moves were met with strikes and public opposition.

Collective bargaining, especially in debt crisis-affected countries (Greece, Ireland, Portugal and Cyprus) has become much more decentralized – from national or sectoral multi-employer to enterprise bargaining, thus accentuating the long-term trend of decentralizing collective bargaining. Yet forced decentralization by governments using legislative and administrative means contradicts the ILO's fundamental principles on freedom of association and collective bargaining, which protect the freedom of social partners in choosing the level at which they want to negotiate, in full independence.

Thus countries adopting wide-ranging fiscal consolidation measures included reforms on the grounds of facilitating wage adjustment and ensuring that wage bargaining took account of regional and enterprise differences in productivity (Portugal, for instance).²

In some countries, reforms were introduced allowing enterprise agreements to deviate from higher agreements and even statutory regulations – for example, Greece (Law 4024/11) or Italy (Accordo interconfederale fra Confindustria e CGIL, CISL e UIL, of 28 June 2011), and also Spain (Real Decreto ley de medidas urgentes para la reforma de la negociación colectiva, of 10 June 2011) – see Dedoussopoulos; Pedersini and Regini; and Molina and Miguélez in this

² Allard, C.; Everaert, L. 2010. *Lifting euro area growth: Priorities for structural reforms and governance*, IMF Staff Discussion Note 19 (Washington, DC, IMF); Holm-Hadulla, F.; Kamath, K.; Lamo, A.; Pérez, J. J.; Schuknecht, L. 2010. *Public wages in the euro area-towards securing stability and competitiveness* (No. 112), European Central Bank, Occasional Paper Series 112 (Frankfurt am Main, ECB).

volume. Other countries reformed extension provisions, such as Portugal (Resolution No. 90/2012 of 10 October 2012) – see Ramalho in this volume.

Many countries have made significant cuts in employment, wages and expenditure in the public sector, which were most marked in countries with high public debt, such as Greece, Portugal and Spain. The cuts led to a deterioration of wages and working conditions in the public sector, especially in education, health and public administration, giving rise to a new phenomenon of low pay in the public sector. Preliminary evidence also highlights the negative effects to be expected on the future quality of public services in these sectors.³

These measures have often been presented as inevitable and non-negotiable by most governments to restore fiscal balance and reduce public debt, highlighting the minimalist approach to social dialogue. Although countries were forced to address unsustainable fiscal deficits generated largely because of pitfalls of the design of the financial markets, it is workers and taxpayers who have often shouldered the brunt of the measures.⁴ Policy reforms have weakened collective bargaining structures, minimum wages and pensions and employment protection laws, without visible signs of a sustainable recovery or job creation prospects. An additional crucial issue is whether social dialogue and collective bargaining will be used to distribute productivity gains when recovery comes, or to continue moderating wages.⁵

The introduction of fiscal consolidation measures during conditions of recession was contested by most trade unions, which argued that it would weaken aggregate demand and thus be recessionary. They also strongly criticized the side-lining of social dialogue in designing and implementing policy reforms, the haste of the reforms and the measures' permanence. And while most employers' organizations supported government moves towards fiscal consolidation they often did it with reservations on specific measures, sometimes distancing themselves from fiscal consolidation policies, given their negative impact on aggregate demand and thus on enterprise profitability and sustainability, particularly for small and medium-sized enterprises, which suffered as direct and indirect taxes rose and consumption went down.

³ Vaughan-Whitehead, D. (ed.). 2013. *Public Sector Shock: The Impact of Policy Retrenchment in Europe* (Cheltenham, UK and Geneva, Edward Elgar and ILO).

⁴ International Institute for Labour Studies (IILS). 2012. *World of Work Report 2012: Better jobs for a better economy*, International Labour Organisation (Geneva, ILO).

⁵ International Labour Office (ILO). 2013. Social Dialogue, Recurrent discussion under the ILO Declaration on Social Justice for a Fair Globalization, International Labour Conference Report VI, 102nd Session, 2013 para. 90 (Geneva, ILO). Available at: http://www.ilo.org/ilc/ILCSessions/102/reports/reports-submitted/WCMS_205955/lang-en/index.htm [accessed 10 October 2014]

The reforms' design and implementation took place in a very tense social climate in practically all the countries examined in this volume. Industrial action and protests were organized by trade unions as well as other groups in all these countries in an attempt to forge alliances against fiscal consolidation policies imposed by governments.

Lacking effective recourse to social dialogue, trade unions were left with two options: organize strikes and street protests; or go through the courts and sometimes to ILO supervisory bodies.

In Greece, the General Confederation of Greek Workers (GSEE) filed in July 2010 urgent observations with the ILO Committee of Experts on the Application of Conventions and Recommendations (CEACR) for non-observance by the Greek government of 11 Conventions ratified by Greece. Spanish trade unions submitted similar comments to the CEACR. The latter, while recognizing the exceptional economic circumstances these countries were experiencing, stated clearly that the crisis should not be used as an excuse to undermine labour rights enshrined in international labour conventions and to reduce the space for social dialogue and tripartite consultation between governments and social partners. Yet following GSEE's submission of the reform package to Greece's Administrative Court (*Symvoulio tis Epikratias*), the majority of labour market reforms were declared constitutional in mid-2014, apart from the elimination of unilateral recourse to arbitration (Law 4046/2012). In Spain too, the Constitutional Court rejected the trade unions' claim of unconstitutionality against public sector wage cuts through Royal Decree-Law 8/2010. Instead it stressed the exceptional circumstances and urgency to take these measures. Conversely, in Portugal measures adopted in line with the Memorandum of Understanding were found unlawful and in breach of the country's constitution on two occasions.

The European Committee on Social Rights also reached decisions criticizing these measures when it considered them in light of the requirements of the European Social Charter in 2012.⁶

Concerns about the impact of fiscal consolidation on economic, social and cultural rights have also been expressed by the Chairperson of the Committee on Economic, Social and Cultural Rights in a statement delivered at the UN General Assembly on 23 October 2012 as well as by the Office of the High Commissioner for Human Rights.⁷

⁶ European Committee on Social Rights (ECSR): *General Federation of Employees of the National Electric Power Corporation (GENOP-DEI) and Confederation of Greek Civil Servants' Trade Unions (ADEDY) v. Greece*, complaints 65/2011 and 66/2011.

⁷ Office of the High Commissioner for Human Rights. 2012. *Austerity measures may violate human rights*, 2 October, available at: <http://www.ohchr.org/EN/NewsEvents/Pages/AusterityMeasures.aspx> [accessed 7 November 2012].

At the time of writing the present chapter, the European Parliament has taken interest in examining and expressed concern over the impacts of fiscal consolidation following “troika” action in programme countries calling on the EC to ask the ILO and the Council of Europe to draft reports “on corrective measures and incentives to ensure full compliance with the European Social Charter and ILO core Conventions”.⁸

OVERVIEW OF CHAPTERS

Christian Welz and Andrea Broughton in chapter 2, “Impact of the crisis on industrial relations in Europe”, map the impacts of the global financial, economic and public debt crisis on industrial relations and working conditions nationally in the EU from 2008 to 2013. They reveal two stages of the impacts: 2008–2010 and 2011–2013. In the former, Europe’s various industrial relations systems weathered the economic and social impact of the crisis. The latter saw many far-reaching impacts on industrial relations across the EU – although it is hard to disentangle the impact of the crisis from other, long-term industrial relations trends, with stark variations in impacts among both countries and sectors. The authors also point to the continued, secular, multi-country trend towards decentralization in collective bargaining, accelerated by the crisis; the steady decline of collective bargaining coverage; and – arguably – greater resilience among industrial relations systems of Nordic and Central European than Mediterranean countries.

Aidan Regan picks up on this “north-south” divide in chapter 3, “Explaining the institutional architecture of the Eurozone and its implications for social dialogue”, suggesting that the strategic capacity for a coordinated response to the crisis with a series of “trade-offs” involving trade unions in reform is available only to northern European economies with coordinated collective bargaining. Southern European countries, in contrast, have neither flexible-liberal nor coordinated-market institutions to internalize a coherent labour market response – leaving them, in one way, in the worst of all worlds, which does not bode well for trade unions or social partnership in a more integrated EU.

Iyanatul Islam shares this rather bleak outlook in chapter 4, “The rise and decline of the fiscal austerity doctrine: Implications for the Euro area crisis”. He argues that the benefits of fiscal austerity – however packaged – have been

⁸ E.g. Cercas, A. 2013. *Draft Opinion of the Committee on Employment and Social Affairs for the Committee on Economic and Monetary Affairs on Enquiry report on the role and operations of the Troika (ECB, Commission and IMF) with regard to the euro area programme countries (2013/2277(INI))*, Group of the Progressive Alliance of Socialists and Democrats, European Parliament, December. <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2f%2fEP%2f%2fNONGML%2bCOMPARL%2bPE-524.750%2b01%2bDOC%2bPDF%2bV0%2f%2fEN> [accessed 7 January 2014]

oversold, and that most EU countries made a premature transition from stimulus to fiscal consolidation, significantly worsening the situation of millions.

So what should they do? The author argues for supra-national initiatives, including looking once again at debt forgiveness and following up with a comprehensive strategy of institutionalized fiscal transfers within the Eurozone; recommitting to a strategy of public investment-driven fiscal expansion in creditor countries; reversing the emphasis on wage moderation; reviewing the ultra-low inflation target set by the ECB and the way it triggers monetary policy actions; enabling the ECB to act as a lender of last resort; and engaging in a Eurozone-wide external devaluation to boost continental competitiveness.

In the first of the “country” chapters – chapter 5, “Greece revisited” – A. Dedoussopoulos examines the impact of policies since mid-2012 on the labour market and on industrial and employment relations, after the election of a new coalition government. The new government’s aim was two-fold: to keep Greece within the Eurozone; and to renegotiate the Memorandum II agreement reached in February 2012, primarily to introduce measures for growth into policies. It succeeded on the first, but on the second failed to renegotiate any major aspect, leaving the economy in a long recession which, unless there is a bounce-back soon, will affect future funding of the social security system, individuals’ pension eligibility, long-run economic productivity, and, possibly, social cohesion.

The marginalization of institutions for tripartite social dialogue in the last few years in Spain is the focus of chapter 6, “From negotiation to imposition: Social dialogue in times of austerity in Spain”. Oscar Molina and Fausto Miguélez catalogue the impact of the 2008 global economic crisis and the 2010 sovereign debt crisis, arguing that the latter especially, via fiscal consolidation policies and reforms, has harmed citizens’ perceptions of political institutions and processes. Tripartite social dialogue, which played an important role in Spain’s strong economic development and stability for more than three decades, following the country’s accession to democracy and then to the EU, has seen its role weakened considerably since 2011. To revitalize social dialogue – badly needed to rebuild the country’s economic model – they urge the Spanish government to reach out again to social partners and to put tripartite consultation mechanisms at the centre of policy deliberations and to regenerate trust and sustain the current economic recovery. These efforts however, saw the revival of tripartite social dialogue in July 2014, with the conclusion of a pact on proposals for tripartite negotiations in order to strengthen economic growth and employment. This included the social partners’ commitment to build a new model of economic growth, promote employment and expand social protection, especially among those groups most at risk of exclusion.⁹

⁹ International Labour Organisation (ILO). 2014. *Spain: Growing with Jobs, Studies on Growth with Equity*, (Geneva, ILO).

Moving across to Italy, the focus stays on the impact of the global economic crisis on social dialogue, drawing in collective bargaining (both the structure and content of collective agreements) and government policies. Roberto Pedersini and Marino Regini in chapter 7, “Coping with the crisis in Italy: Employment relations and social dialogue amid recession”, attempt to untangle that impact from secular trends. They find that both the political and industrial relations systems have come under severe strain from the crisis, from policies to attain financial stability and restore economic growth (including derogations to company level from industry-wide agreements), and from industrial relations strategies adopted by prominent companies.

Chapter 8, “The impact of the Eurozone adjustment on Ireland” by Aidan Regan, reviews the origins of the Irish crisis; the collapse of social partnership in 2008–2010; the impact of fiscal adjustment on wage, labour and social policy in 2010–2013; the impact of the crisis on collective bargaining in the public and private sectors as well as on social partnership; and looks at the future of that partnership in the Economic and Monetary Union (EMU). He finds that the crisis has not led to a breakdown in industrial relations, largely because of the social partners’ pragmatic preference for stability.

In chapter 9, “Portuguese labour law and industrial relations during the crisis”, Maria do Rosário Palma Ramalho gives a legalistic overview of employment law, industrial relations and social dialogue in Portugal immediately before the financial crisis; describes briefly the anti-crisis measures; and looks at the effects of the crisis and the anti-crisis measures on employment and industrial relations. She, too, finds that companies seem to be informally adapting to the crisis, as the number of collective agreements – that had declined consistently since 2008 – fell sharply in 2012; as for the first time, that year, the number of plant-level agreements reached the number of high-level agreements; as numbers of workers covered by collective agreements fell; and as the number of workers covered by collective agreements tumbled after the second semester of 2011. Although the economic outlook has improved somewhat since, the dynamics of collective bargaining remain uninspiring.

In chapter 10, “The Greek adjustment programme: Fiscal metrics without economic goals?”, Zafiris Tzannatos gives an overview of the developments in Greece leading up to the crisis in 2009 and the Memoranda of Understanding implemented since then. He details the severity of the recession and its effects on the Greek economy, employment, industrial relations system and other social sectors. He describes recent developments, in particular the financial assistance programme, as a “modern Greek tragedy”. The author argues that the lessons from earlier structural adjustment programmes were mainly ignored in the Greek case. He concludes by identifying possible scenarios for the future, stating that addressing the Greek problem remains part of the broader European problem and that solutions should be sought in fundamental reforms in the structure of the Eurozone.

CONCLUDING REMARKS

Addressing economic, financial and debt crises presents a serious challenge for governments and social partners, and promoting a sustainable and job-rich recovery is not an ordinary public policy exercise – it is a societal project that requires broad consultation and careful preparation. Anti-crisis measures, particularly fiscal consolidation policy and adjustment, affect large portions of the population and have potentially long-term impacts on social cohesion. Times of adjustment and reform call for collective responses based on cooperation between tripartite partners. Social partners' participation in designing and implementing structural reforms is vital.

From an ILO perspective, there are compelling reasons that make social dialogue essential, even in times of crisis: it provides policy-makers with all the necessary information for effective policy design; it improves the chances of buy-in (“ownership”) and therefore effective implementation of such policies; and it increases the chances of maintaining the necessary balance between macroeconomic stability and employment growth and protection of the most vulnerable groups. Most important, as argued by the ILO as early as 2010,¹⁰ a reinforcement of institutions of social dialogue and collective bargaining is fundamental if the solution for a sustainable recovery lies in “income-led growth” models – that is via the growth of real wages in a way that reflects productivity gains and reduces the need for sustaining consumption through recourse to private debt or government subsidies.

If social dialogue plays its role, not only is adjustment likely to follow the right sequence and pace; it could also help to promote alternative policy choices which are equitable for all and more sustainable, thus effectively reversing one-size-fits-all policy decisions, which are often presented as inevitable by financial markets. For this to happen, there is still a need to strengthen social partners' voice and rebalance their negotiating capacities in times of structural adjustment.

One important way of strengthening social dialogue is to build the capacity of the social partners and ministry of labour officials to enable them to fully participate in the design and implementation of fiscal consolidation measures. Such participation can help to re-politicize fiscal consolidation measures, which are more often than not presented as a technical response that has no alternative and that offers little room for political deliberation.¹¹

¹⁰ Torres, R. 2010. “Incomplete crisis responses: Socio-economic costs and policy implications”, in *International Labour Review*, Vol. 149, No. 2, pp. 227–237; International Institute for Labour Studies, *World of Work Report 2010: From one crisis to the next?*, International Labour Organization (Geneva, ILO).

¹¹ Stiglitz, J. 2002. *Globalization and its discontents* (W.W. Norton, New York); Supiot, A. 2010. “A legal perspective on the economic crisis of 2008”, in *International Labour Review*, Vol. 149, No. 2. pp. 151–162.

Several ILO tools aimed at tackling the crisis highlight the essential role of social dialogue. In June 2009, the ILO and its tripartite constituents adopted the Global Jobs Pact in response to the economic crisis. This global policy instrument promotes a productive recovery centred on investment, employment and social protection.¹² The Pact recognizes social dialogue and collective bargaining, as invaluable mechanisms for reducing social tensions in times of crisis and designing policies to fit national needs.

In light of the deepening crisis in Europe and in a move to restore confidence in jobs and growth in the region, the ILO in collaboration with the Government of the Kingdom of Norway held its 9th European Regional Meeting in April 2013, which led to the adoption of the Oslo Declaration.¹³ As the Declaration adopted by 51 ILO member States, stated: “Fiscal consolidation, structural reform and competitiveness, on the one hand, and stimulus packages, investment in the real economy, quality jobs, increased credit for enterprises, on the other, should not be competing paradigms. It is in our common interest to elaborate sustainable approaches in order to promote jobs, growth and social justice.”

To achieve this objective, the role of international institutions such as the ILO, which draws its legitimacy from its tripartite structure and its constant connection with the real economy, is key, not least in assisting in the promotion of policy coherence at national and international levels. Due to “its tripartite nature and its mandate, the ILO is ideally placed to assist constituents to address social and economic crises and to help design sound and equitable reform policies.”¹⁴ One such initiative was the high level tripartite social dialogue on labour law reforms between the Greek Minister of Labour, Social Security and Welfare and the leadership of all Greek social partners, under the chairmanship of the Director-General of the ILO (30 September 2014). This initiative aimed at launching social dialogue under the auspices of the ILO for the first time since the beginning of the structural adjustment programme in Greece, on key labour law reforms, and led to the adoption of a landmark joint text.¹⁵

The EC has also taken steps towards developing the social dimension of the EMU – that is, to develop not only economic and financial surveillance of EU Member States but also social and employment surveillance. The EC

¹² International Labour Office (ILO). 2009. *Recovering from the crisis: A Global Jobs Pact*, International Labour Conference, 98th Session, Geneva, 19 June 2009 (Geneva).

¹³ International Labour Organization (ILO). 2013. *The Oslo Declaration: Restoring confidence in jobs and growth*, Ninth European Regional Meeting, Oslo, Norway, 8–11 April 2013, available at http://www.ilo.org/global/meetings-and-events/regional-meetings/europe-and-central-asia/erm-9/WCMS_210356/lang-nl/index.htm [accessed 1 January 2014].

¹⁴ *Ibid.*

¹⁵ International Labour Organization. 2014. “ILO hosts top-level talks to restart social dialogue on Greek labour questions”, News | 30 September 2014, available at: http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_310535/lang-en/index.htm.

Communication on strengthening the social dimension of the EMU¹⁶ has identified the reinforcement of the role of social dialogue in developing euro-wide area and national strategies through appropriate involvement of the social partners as one of the areas where progress is needed. According to the EC, the involvement of social partners in framing and implementing economic and employment policies needs to be commensurate with the developments in monitoring and coordination mechanisms if reinforced EMU governance is to be effective and inclusive. For its part, the European Council pointed -as early as June 2013- to the need to improve the role of social partners and social dialogue at both EU and national levels, showing that EU institutions themselves recognize that they might have neglected the social dimension – especially social dialogue – when shaping the rules of EU economic governance and deploying reforms.

¹⁶ Communication from the Commission to the European Parliament and the Council: Strengthening the Social Dimension of the Economic and Monetary Union. Brussels, COM (2013) 690, 2.10.2013.

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IMPACT OF THE CRISIS ON INDUSTRIAL RELATIONS IN EUROPE

Christian Welz and Andrea Broughton

INTRODUCTION

“Labour relations have always been sensitive to economic crises”

(Brandl and Traxler, 2011)

The focus of this chapter is to map the impact and consequences of the global financial, economic and public debt crisis on industrial relations and working conditions at national level – in European Union (EU) Member States – from 2008 to end-2012. For industrial relations, the impact is mapped as follows:

- on actors, and public actors and social partner organizations in particular;
- on processes, such as collective bargaining levels, decentralization of collective bargaining, wage setting and mechanisms, industrial action and dispute resolution; and
- in terms of outcomes of national industrial relations systems, focusing on collective agreements or other joint social partner texts.

One of the main difficulties is demonstrating direct causality between the crisis and a particular development or impact at national level, particularly if the impact has a link to an existing longer-term industrial relations trend, for example decentralization of collective bargaining. Impacts may also be related to incoming new governments (Hungary, for example, in 2010) opting for paradigm shifts in the established industrial relations systems. Nevertheless, this paper attempts to describe all major impacts that have taken place in the context of the crisis, or which may have been accelerated or exacerbated by it. It is based on the findings of two publications. The first is a comparative analytical report (CAR) carried out for Eurofound by the authors in 2013 on the impact of the crisis on industrial relations in Europe (Eurofound 2013b). The methodology for this report involved drawing up a questionnaire and sending it to Eurofound’s network of national correspondents in each EU Member State plus Norway. The report was then compiled on the basis of these national responses, which were the products of desk research and interviews with national social partners. The second is a literature review, carried out by the authors and others, for Eurofound (Eurofound 2013d), which reviewed all relevant publications to the theme of the crisis and the impact that this has had on industrial relations institutions, processes and outcomes in Europe.

DRIVERS OF THE IMPACT

The EU's economic governance¹⁷ measures, which aim to stabilize the EU's economy in the context of the economic crisis, have had a varying impact on individual EU Member States. The impact of measures such as the so-called six pack of initiatives and the Euro Plus Pact¹⁸ depend on the extent to which individual economies are holding up during the crisis.

The six pack entered into force in December 2011 and comprises five regulations and one directive. It covers fiscal and macroeconomic surveillance under the new Macroeconomic Imbalance Procedure and strengthens the EU's Stability and Growth Pact. The Euro Plus Pact commits signatories to stronger economic coordination for competitiveness and convergence, with concrete goals agreed and reviewed annually by heads of state or government. The Euro Plus Pact is integrated into the European semester cycle of policy governance and the European Commission monitors implementation of commitments. The recommendations made by the Commission in the framework of the European Semester concerning specifically the wages levels or the wage setting mechanisms have incrementally increased the pressure on the national industrial relations systems.

According to Eurofound (2013g) eight Member States received recommendations from the European Commission in relation to their wage policies for 2013–2014, for example, to review or reform the existing wage-setting mechanisms in consultation with the relevant social partners (Belgium, Italy, Luxembourg and Malta, regarding their indexation systems). For Finland and Slovenia the main recommendation is that wage growth should support competitiveness and job creation, and for France that it should lower the cost of labour. Germany, in contrast, is asked to align wage growth support with domestic demand.

In addition to the EU economic governance, the impact of the troika memoranda on those EU Member States that have requested additional financial assistance (Ireland, Greece, Spain, Portugal, Latvia and Romania) has been even more marked if not “intrusive” (Barnard, 2012, p. 110; Degryse et al., 2013, p. 31), due to the more stringent fiscal monitoring and debt reductions required for these countries.

National instruments are also key drivers of impact on industrial relations systems. In some cases, these national measures result from direct conditions or recommendations at EU level. In others, however, the measures are a national

¹⁷ European Commission. 2014. Economic and Financial Affairs, EU Economic Governance, available at: http://ec.europa.eu/economy_finance/economic_governance.

¹⁸ The Euro Plus Pact was signed by the Eurozone Member States plus Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania. The Czech Republic, Hungary, Sweden and the United Kingdom did not join.

response to the crisis, involving actions such as cuts in public spending, or changes to welfare and employment legislation.

With regard to the social partners' role in the crisis, two main phases can be identified: the first goes from early 2008 to end-2009 and the second from 2010 to 2013 and beyond (the precise time lines vary, however, according to country).

The first period is characterized by a high degree of consensus across countries on the necessity of measures taken by the government for stimulating the economy, although there was some divergence of views between social partners and employers' organizations. Indeed, "employers' organizations gave priority to ensuring access to credit for companies – measures that reduce labour costs – and reductions in taxation. Trade unions tended to urge a larger fiscal stimulus and measures to sustain purchasing power and to boost public investment" (European Commission, 2011, p. 76; see also Freyssinet, 2010, p. 1; Gennard, 2009, p. 454; Glassner and Keune, 2010a and 2010b; and Rychly, 2009, p. 27).

The second period is characterized by more disagreement between employers' organizations and trade unions "over the conditions required for business activity to be restored" as well as over proposed austerity measures (European Commission, 2011, pp. 66-67).

IMPACT ON ACTORS

This section describes the impact of the crisis on industrial relations actors – principally the public industrial relations actors, bi- and tripartite bodies as well as social partners at all levels (national, regional, sectoral and company).

As often in comparative industrial relations the results are diverse, encompassing issues such as reorganizations of social partners, changes in membership levels (up and down), shifts in the role and visibility of the social partners, and the changing role of the state as an industrial relations actor. Despite the difficulties that the crisis has wrought and the strain that it has placed on cooperation between the social partners in many ways, in some countries trade unions have become more visible on account of their protesting stance. Again the issue of causality is at stake: many developments had been planned before the crisis and so cannot directly be linked to it.

An assessment by the Center for Economic Development of Bulgaria seems to hold true for a large majority of the EU 28 Member States regarding the impact: "The crisis and the strict austerity policy are seriously affecting the system of industrial relations both in terms of environment which results in a new balance of power distribution and in terms of the actors' roles and behaviour within it" (CED, 2012, p. 43).

TABLE 2.1: IMPACT ON ACTORS

Impact	Countries
Successful tripartite agreements in first phase of crisis (2008–2010)	BE, BG, CZ, EE, FR, LT, LV, NL, PL, PT
Breakdown of tripartite negotiations	BE (2011/12), ES, FI, GR, HR, HU, IE, IT, LU, PL (2011/12), SI
Reorganization of public actors	ES, GR, HR, HU, IE, LU, RO
Reorganization of bi- or tripartite bodies	CZ, BG, HU, NL, RO, SK
Decline in trade union density	CY, BG, DK, EE, LT, LV, SE, SI, SK, UK
Halt in trade union density decline/ increase in trade union density	AT, CZ, DE, EE (for transport), LT
Changes to membership of employer bodies	CY (increase in membership), DE (increase in members not bound by collective agreement), LT (decline, followed by more recent increase in membership)
Decreasing influence and visibility	BE, DK, EE, HU, IE, LV, NL
Increased cooperation between the social partners	DE, HU, LT, NL
Emergence of new social actors/movements	ES, GR, PT, SI
Increased government unilateralism	BE, BG, EE, ES, GR, HR, IE, PL, PT, SI (+/-)
New balance of power among actors	BG, EE, ES, GR, LT, LV, PT

Note: AT, Austria; BE, Belgium; BG, Bulgaria; CY, Cyprus; CZ, Czech Republic; DE, Germany; DK, Denmark; EE, Estonia; ES, Spain; FI, Finland; FR, France; GR, Greece; HR, Croatia; HU, Hungary; IE, Ireland; IS, Iceland; IT, Italy; LI, Liechtenstein; LT, Lithuania; LU, Luxembourg; LV, Latvia; MT, Malta; NL, Netherlands; PL, Poland; PT, Portugal; RO, Romania; SE, Sweden; SI, Slovenia; SK, Slovakia; UK, United Kingdom.

Sources: Eurofound 2012, 2013b and d.

Public industrial relations actors and relationship with social partners

The crisis has had a mixed impact on joint social partner bodies, both in bi- and tripartite configurations. In a number of Member States (for instance, BE, BG, HU, LU, PL and RO) the role of certain tripartite social dialogue institutions has been diminished, often with detrimental effects on the dialogue itself.

According to Glassner and Keune, the economic crisis has redefined the role of the state. Indeed, it is “back as a key economic actor” and has “been buying banks and companies in crisis”, but most importantly, “developing massive labour markets programmes to keep workers in employment, etc.” (Glassner and Keune, 2010b, p. 1).

Furthermore, public policy responses to the crisis have played a great role “in shaping the environment for collective bargaining” (Glassner and Keune, 2010b, p. 5). All in all, the State seems to have moved to the forefront as a major industrial relations actor in a large number of Member States.

Social partners

The decline in trade union density seems to have decelerated since the onset of the crisis, with some evidence of an increase in membership for some unions. Austrian commentators attribute this to the fact that trade unions have been more visible since the crisis, particularly in sectors where they have been staging protests. In the Czech Republic, there is reported to be greater interest in joining trade unions among employees in sectors threatened by the crisis, within the context of an overall decline in trade union density. In Estonia, the picture is mixed – there is an overall trend of trade union density decline, exacerbated by the crisis in sectors such as manufacturing, but membership in the transport sector has actually increased during the crisis. This was also the case in Lithuania, where trade union membership rose by 3.3 per cent in 2009, after earlier decline, although the decline resumed in 2010 and 2011. In Germany too, a slowing of the decline was reported during the crisis. In Portugal the trade unions encountered serious losses in members during the crisis. In the UK, trade union density is also falling, although the crisis does not seem to have had any particular effect on the trend: the 2011 Workplace Employment Relations Survey (WERS), published in January 2013, found that there had been no real change in the proportion of employees belonging to a trade union in the UK – there was a small decline from 32 per cent in 2004 to 30 per cent in 2011 (Eurofound, 2013b).

On the employers’ side, there is a mixed picture. In some countries such as Cyprus there appears to have been an increase in membership of employer bodies accompanied by a decrease in revenues, due to a fall in member-company revenues. In Germany, the figures are quite interesting: there has been a rise in the number of companies opting for membership without a binding commitment to the sectoral agreement, but only in western Germany, while the number of eastern German companies bound by sectoral collective agreements actually rose slightly in 2007–2011. However, the overall figure for membership of employer organizations in Germany is on a downward trend. In Lithuania, there was a decline in employer organization membership in

2008–2009, attributed to a high level of bankruptcies, but an increase in 2010–2011 (Eurofound, 2013b).

In some countries (BE, GR, IT and MT), there have been mergers and reorganizations of the social partners on both sides. However, many had been planned for some time and are difficult to attribute to the crisis. In the case of trade unions, there is an ongoing trend towards mergers on the grounds of cost-saving and resource-pooling, against a backdrop of falling membership.

New social actors

According to the Eurofound Comparative Analytical Report (CAR) one interesting development in some countries, and particularly those in the most difficult financial circumstances, has been the emergence of new social movements or new competing actors at company level. These changes in bargaining competence at company level extended to non-union representatives are mainly induced by government imposition (Marginson and Welz, 2014).

In Greece, many business-level agreements are now being drawn up by informal associations of workers established under the provisions of the new rules on collective bargaining. The reform caters to the possibility of signing collective agreements at company level, with either a trade union, or in the case that such a union does not exist, with the “associations of persons”. These associations may be created by three fifths of the workforce at firm level, regardless of the total number of the company’s employees and without imposing time limits on the duration of the collective agreements. Company agreements now dominate all other collective arrangements (Dedoussopoulos, 2012, p. 40).

These new actors are seen by some as an obstacle to involving sectoral unions, since they take precedence in concluding company collective agreements (Dedoussopoulos, 2012, p. 40). According to Patra, associations of workers are not very popular, since they are seen as competitors to the established trade unions (Patra, 2012, p. 24).

In Portugal, too, new social movements surfaced during the crisis. The mass protests against austerity and declining labour standards began on 12 March 2011. The protests, sometimes referred to as the *Geração à Rasca* (“precarious generation”) assembled 300,000 people in the streets without any form of direct support by political parties or trade unions and created the conditions for creating the *Plataforma 15 de Outubro*. Since then, that platform (a grouping of some 41 independent organizations) has mobilized many thousands of participants on several occasions. While the initial focus of the movement was on youth, it unites several groups addressing the demands of the “precarious generation” (Eurofound, 2013b).

In Slovenia, too, there has been a rise since 2011 in the creation of new social movements, partly supported by nongovernment organizations. These movements aim to support workers who have been hit by the crisis, but who are not

represented (or are under-represented) by trade unions, principally migrant, young or precarious workers.

Spain saw the creation of the 15-Movement (or *Indignados*), protesting in support of radical political changes and the rejection of cuts to welfare (Meardi, 2012b, p. 18).

IMPACT ON PROCESSES

Collective bargaining is one of the key processes of industrial relations, and is deeply rooted in national traditions. It usually takes place at a specific dominant level – interprofessional, sectoral or company. Yet already before the crisis the main level for collective bargaining changed over time. In only a very few Member States was it the interprofessional level at which wage setting took place. Before the crisis this was the case in Belgium, Finland, Ireland and Slovenia. Only recently before the crisis, Finland had decentralized to sectoral level; now, at the peak of the crisis, Finland is the only Member State to have re-centralized collective bargaining to interprofessional level.

In most Central European and Nordic Member States the prevalent level of collective bargaining was sectoral. In many of these countries, collective bargaining usually follows a set pattern, with one sector acting as the trendsetter. The company level is the main playing field in the UK and Ireland (in connection with the national level in IE before the crisis) and in the vast majority of new Member States in Central and Eastern Europe as well as in Cyprus and Malta. The crisis has had an impact on these traditional arrangements in many of these countries.

But other industrial relations processes, such as information, consultation, participation, and dispute resolution, also came under strain during the crisis. This led, concomitantly, to an increase in another well-established industrial relations process – industrial action. The following section maps and analyses these process changes in times of crisis.

Decentralization of collective bargaining/changes in wage-setting mechanisms

The impact of the crisis on levels of bargaining is of particular interest to researchers of industrial relations. From the 2013–2014 Eurofound studies (Eurofound, 2013a–g), it appears that the main impact of the crisis on collective bargaining appears to have been a further downward trend towards decentralization. There is significant evidence from both the CAR and the literature review of State intervention (Eurofound, 2013b and d) in decentralization processes of collective bargaining that in some this was a direct response to EU-level recommendations, including Greece, Ireland, Portugal and Spain. This decentralization has taken the form of a movement away from sector- to company-level bargaining, and the introduction or increased use of opening

TABLE 2.2: IMPACT ON PROCESSES

Impact	Countries
Decentralization of collective bargaining	AT, BG, CY, DE, ES, GR, HU, IE, IT, LT, PT, RO, SE, SI, SK
Recentralization of collective bargaining	BE, FI
Changes in the setting of minimum pay	DK, GR, HU, IE, PL, RO
Changes to minimum wages (including cuts and freezes)	CZ, DK, EE, FR, GR, HU, IE, LT, LV, RO, PL, PT, SI, UK
Changes to extension mechanisms	ES, GR, IE, PT, SK
Introduction of/increase in opening clauses	AT, BG, DE, ES, GR, HU, IT, SE, SI
Changes to 'automatic' continuation of collective agreements on expiry	EE, ES, GR, PT
Debate on/changes to wage indexation	BE, CY, ES, LU, MT
Organization of protests and strike action	AT, BE, BG, CY, CZ, EE, ES, GR, FR, IE, IT, LT, LV, PT, RO, SI, UK
Changes or planned changes to dispute resolution	BG, ES, GR, IE, SI, UK

Note: See table 2.1 for country abbreviations.

Sources: Eurofound 2013b and d.

clauses that allow company-level agreements to deviate from sectoral agreements. There have also been moves to shorten the period of validity of expired collective agreements and to suspend extension mechanisms where these were used before the crisis (Eurofound, 2013b).

Recentralization of collective bargaining

Very few countries have experienced a trend towards centralization – the main exceptions are Belgium and, more so, Finland.

In Belgium, the most recent central agreement, which relates to 2011–2012, was not signed by all social partners (two employers' organizations did not sign), but has been given legislative force by the government. It does not allow deviation from pay provisions at sectoral level (Eurofound, 2013b).

In Finland, national-level centralized bargaining was reintroduced following a period of sectoral bargaining from 2007. Decentralization had not proved ef-

fective and employers “have been encouraged to join the national collective agreement” (Clauwaert and Schömann, 2012, p. 13). Following this, the Finnish Confederation of Finnish Industries (EK) announced that it was willing to start negotiations for a centralized national accord. The condition of the agreement is a pay freeze over 2012–2014. The trade union side has considered EK’s willingness for centralized bargaining as positive, but unions have widely rejected the proposed pay freeze. In sum, the employers want a national centralized agreement without wage rises, but unions say no accord will be possible without these. After a first round of exploratory talks, the boards of the three main trade union confederations have expressed their willingness to continue negotiations. The reason for a return to a centralized accord was mainly the uncertain economic situation in Europe (Eurofound, 2013b).

Changes in setting minimum pay

Minimum rates of pay are an important feature of wage-setting. Many countries have a statutory national minimum wage, set either by the government alone or with the social partners. In countries that do not have a statutory national minimum, some form of minimum wage-setting is usually present, most often by means of agreed minimum rates in sectoral collective agreements. Recent years have seen a range of discussions around the setting of minimum rates, often, seemingly, precipitated by the crisis, as for example, in countries with a statutory national minimum wage, which either opted for a cut, freeze, or only marginal increases (CZ, DK, EE, FR, GR, HU, IE, LT, LV, RO, PL, PT, SI and UK).

Changes to extension mechanisms

The majority of EU Member States have some sort of mechanism in place that provide for the extension of collective agreements (in only six Member States is there no legal procedure for extending agreements – Cyprus, Denmark, Italy, Malta, Sweden and the UK (Eurofound, 2011). Extension can be an important means of ensuring coverage of agreement across a whole sector. There have been some changes to extension mechanisms in some countries, although not all directly linked to the crisis.

Introduction of opening clauses

The introduction, or increased use, of opening clauses can be seen as an element of decentralization in that it adds flexibility to the application of a collective agreement, specifically providing for deviation at a lower level – typically company-level agreements deviating from sectorally agreed provisions. Various countries have made increased use of opening clauses to provide for more flexibility during the crisis (AT, BG, DE, ES, GR, HU, IT, SE and SI).

Another impact on processes stemming from the crisis is deviations containing amendments to worsen collective agreements, that is, "... allowing lower-level bargaining outcomes to deviate unfavourably from the protection provided by higher collective agreements or even statutory legislation" (Clauwaert and Schömann, 2012, p. 13). As these authors explain, the crisis has encouraged an "on-going trend of collective bargaining decentralization in many countries, with a preference for enterprise-level bargaining decentralization" (Clauwaert and Schömann, 2012, p. 10).

Changes to automatic continuation of collective agreements on expiry

The end of the automatic continuation of collective agreements on the expiry adds a further component of insecurity and fragility to the new industrial relations system.

In Estonia the law was changed in 2012. Before, collective agreements were valid until a new collective agreement was signed; now, they can be terminated by one of the social partners after expiry (EIRO, 2012).

In Greece, indefinite collective agreements were abolished and a minimum time validity of one year and a maximum of three years set (Dedoussopoulos, 2012, p. 41).

The Memorandum of Understanding of the Financial Assistance Programme in Portugal contains the intention to shorten the validity of collective agreements on expiry ('sobrevigência') (Romalho, 2013, p. 11).

Spain saw a major change introduced on the principle of 'ultra-activity'. This principle, established in article 86.3 of the Workers' Statute of 2012, states that an expired collective agreement will remain in force until a new agreement is reached. Employers' organizations believed it is necessary to establish exactly how long an expired collective agreement can be maintained. They proposed that if a new agreement is not reached within six to eight months, general conditions or sectoral agreements should be applied. In practice this means that a collective agreement will cease to be in force one year after termination, provided that no new agreement was concluded or an arbitration ruling issued (Sanz, 2013).

Changes in wage indexation

Relatively few countries (notably Belgium, Cyprus, Luxembourg, Malta and Spain) have wage-indexation mechanisms. As seen, these countries have come under pressure to revise them. Accordingly, there have been high-profile debates in for example Belgium and Malta, although it is thought unlikely that significant reforms to these countries' indexation systems will take place.

Dispute resolution

The crisis also affected the use of alternative dispute resolution mechanisms at the expense of labour court proceedings (Bulgaria, Greece, Spain and UK).

Two prominent examples are Greece and the UK: “In Greece, arbitration must be triggered by the joint request of the parties and is restricted to basic wage demands. In the United Kingdom, access to labour tribunals has been restricted”. (Clauwaert and Schömann, 2012, p. 14).

IMPACT ON OUTCOMES

This last section examines the impact of the crisis on industrial relations outcomes, focusing on collective agreements at all levels. One may distinguish between formal outcomes (such as number and length of collective agreements) and material outcomes regulating issues of pay and working time.

The main impacts include shorter or longer duration of agreements, non-renewal of agreements, reduced levels of pay, pay pauses and freezes, and the implementation of parts of collective agreements only. The impacts vary, however, not only by country, but also by sector. Although some trends are not directly attributable to the crisis, it would appear that most of the trends in this section are.

Duration of agreements

One trend in some countries has been the conclusion of shorter agreements than previously, largely in response to an uncertain economic climate. Trade unions have generally been keen to allow scope to revisit issues such as wage

TABLE 2.3: IMPACT ON OUTCOMES

Impact on outcomes	Countries
Decrease in duration of agreements	BG, CY, DK, GR, LV, ES, SE
Increase in duration of agreements	AT, DE
Inconclusive outcomes	BG, CY, CZ, ES, FR, HR, HU, IE, MT, NL, PT, SI
Decrease in number of agreements	CY, CZ, EE, LV, MT, PT, RO, SI
Pay cuts or freezes	AT, BE, BG, DE, DK, ES, FI, GR, HU, IE, IT, LT, LU, LV, NL, PL, PT, SI, SK, UK
Working-time reduction/short-time working	AT, BE, BG, DE, FR, HU, IT, LT, NL, PL, SI, SK
Inconclusive outcomes	AT, CY, CZ, ES, HR, HU, IE, LT, LV, MT, NL, PT, SI

Note: See table 2.1 for country abbreviations.

Sources: Eurofound 2013b and d.

increases at a not too distant date, in the hope that the economic situation will have improved.

Pay provisions

The public sector has borne the brunt of pay cuts and pay freezes, with evidence of this in many countries. Some countries have also reduced the size of the public sector workforce as a way of cutting costs. Welfare and pension provisions have been reduced in many countries, to cut back on public spending. Common outcomes are reductions in unemployment and other welfare payments, and pension reforms that typically increase the retirement age and change how payments are calculated (Guardiancich, 2012).

The level of pay increases negotiated by collective agreements has fallen in many countries, as a result of the difficult economic circumstances. In some countries, below-inflation increases have been negotiated (if increases have been agreed at all), with the emphasis on training and on maintaining employment. Pay pauses and freezes have been agreed in many countries, particularly in the public sector, as a way to cut costs. The crisis has been a period of reduced and often moderate collectively agreed pay increases in most EU countries (Eurofound, 2011c, p. 4).

Working time and work organization

Changes to working time and to work organization have been agreed in some countries in an attempt to increase productivity. One of the main responses to the crisis in various European countries was to bring in “short-time working arrangements aimed at maintaining employment by setting a framework for the collective reduction of working time and by providing workers and employers with financial compensation from public (unemployment) funds” (ETUI, 2010, p. 61).

In countries such as Austria, Belgium, France, Germany, Italy and the Netherlands, short-time schemes already existed before the crisis. But with the crisis they have been extended by governments, while in countries like Bulgaria, Hungary, Poland and Slovenia, legal provisions for short-time working have been introduced. The social partners have played an important role in implementing those schemes: in “Austria, Germany, Belgium and the Netherlands, a number of sectoral collective agreements contain provisions on the implementation of short-time working schemes” (ETUI, 2010, p. 62).

Inconclusive outcomes

Another trend has been increasing difficulty of negotiations, leading to inconclusive outcomes or none at all, as the bargaining parties remain too far apart (as in BG, CY, CZ, EE, ES, LV, MT, NL, PT, RO and SI).

In Portugal, for example, this trend appears particularly dramatic. The number of multi-sectoral, sectoral and company agreements fell drastically during the crisis, where in 2011 the Ministry of Labour published 200 collective agreements, covering 1.2 million workers – the fewest since 2008. The number of sectoral and multi-employer collective agreements is reported to have fallen sharply in Portugal over 2009–2012, particularly in 2012, leading to a sharp decline in collective bargaining coverage (Eurofound, 2013b).

CONCLUSIONS

Two phases and faces of the crisis

In the early phase of the crisis (2008–2010) many of the cases examined show that, despite variations across the continent, the various European systems of industrial relations have weathered the economic and social impact of the crisis. Countries with strong social dialogue/industrial relations systems have tended to fare better on co-operation between the state, employers and their employees (Eurofound, 2012). This conclusion is shared by Glassner et al.: “... collective bargaining responses to the crisis have been much more frequent in multi-employer bargaining systems than in single-employer bargaining systems, both at sectoral and company level” (Glassner, Keune and Marginson, 2011, p. 303; also see Glassner, 2010a; Ghellab, 2009, pp. 8-9).

In the second phase of the crisis (2011–2013), there have been many significant and far-reaching impacts on a range of aspects of industrial relations in the EU’s 28 Member States, although in many cases it is hard to disentangle the impact of the crisis from other factors and developments, such as longer-standing national industrial relations trends (“megatrends”). Also, the impact of the crisis has not been even across all groups or sectors. Even in countries that have emerged relatively unscathed from the crisis, such as Austria, it is reported that the impact has been most severe on young and older workers (Eurofound, 2013b). By sector, too, the impact has been uneven, even within countries (Eurofound, 2013b).

New actors

Some countries, particularly those in the most difficult financial straits, have seen the emergence of new social movements, such as the 15-Movement in Spain. In Greece, recent reforms allow a role for “associations of persons”. New social movements also surfaced in Portugal and Slovenia. Given these developments, Schulten (2013) refers to a “... dismantlement of the trade union monopoly over negotiating on terms and conditions”.

From organized to disorganized decentralization?

Another – if not the clearest – result of the Eurofound research has been a multi-country trend towards decentralization in collective bargaining. It could

be argued that this trend has been in train for some decades now, and that the crisis has merely exacerbated and accelerated the process, owing to the need for more flexibility and more tailoring of agreements to companies' individual circumstances. Glassner and Keune share this view, according to whom "the crisis has also tended to reinforce longer-term trends, such as the decentralization of collective bargaining, shrinking bargaining coverage, and declining union densities (Glassner and Keune, 2012, p. 368). The only countries with a trend towards centralization have been Finland and, to a limited extent, Belgium. The collective agreement itself – as an instrument for collectively regulating wages and other employment conditions – is manifestly now at risk there (Schulten, 2013). In the same vein, Marginson argues that articulated, multi-employer bargaining has come under further threat from the crisis (Marginson, 2013).

In the light of the Eurofound and other studies it appears that, in the Nordic and Central-western European industrial relations regimes, decentralization if it happened took place in a more organized manner, whereas in the programme countries, and here in particular in the Mediterranean systems, disorganized centralization seems to prevail (ETUI, 2013, p. 56). In the Mediterranean Member States the combined effect of more governmental unilateralism and decentralization of collective bargaining led to less multi-employer bargaining and a drop in collective bargaining coverage. In sum, the principle of horizontal subsidiarity was hollowed out in many of the 28 Member States and a certain degree of convergence towards the Central and East European regimes of industrial relations can be observed (ETUI, 2013, p. 56; Meardi, 2012a). One is tempted to call this the "East-Europeanization" of industrial relations in times of crisis. This process is marked by a vanishing importance of sectoral collective bargaining as well as weakening linkages between the interprofessional, sectoral and company levels of collective bargaining (Ghellab and Vaughan-Whitehead, 2004; Visser, 2013a). Yet even within the model of Central and East European industrial relations, a drift towards the more voluntaristic and less tripartite or neo-corporatist structures and processes seems to have taken place (Glassner, 2013).

Collective bargaining coverage in steady decline

Another paradigmatic change concerned collective bargaining coverage and its related mechanisms either extending or reducing the scope of application of collective agreements: more extension mechanisms, more opt-out and derogation clauses, less favourability, and non-continuation of collective agreements on expiry.

The majority of EU Member States have some sort of mechanism that provides for extending collective agreements. Extension can be important for ensuring agreement coverage across a whole sector. Some countries have

made changes to extension mechanisms, although not all directly linked to the crisis. This trend follows another that has been prevalent in Germany for several years already: the introduction or increased use of opening clauses (Eurofound, 2013b). We see here another dimension of decentralization via the abolition of the ‘favourability principle’ in according workplace agreements unrestricted priority over higher level agreements (Schulten, 2013). According to Visser (2013b) the introduction of opening clauses does away with this principle.

In some Member States there exists an automatic continuation of collective agreements on expiry, for example in Spain (‘ultraactividad’), Greece (‘met-energeia’) and Portugal (‘sobrevigência’). These automatic extensions came under immense pressure during the crisis and have been revised in several Member States.

Other impacts on collective bargaining have included a drop in the overall volume of bargaining, as the bargaining parties find it hard to agree; the conclusion of agreements of shorter duration, deemed to be more suited to the changing economic climate and uncertain times and in some countries; and curbs on provisions allowing collective agreements to remain in force for a period once they have expired.

Marginson argues that “... the viability of multi-employer bargaining arrangements as a cornerstone of labour market regulation across much of western Europe has rested on a number of features, including a high degree of employer organization and (less crucially) union organization which have ensured a high level of workforce coverage, supportive state policies including mechanisms to legally extend the coverage of agreements to all of the relevant workforce, and the capacity to articulate bargaining across different units and at different levels” (Marginson, 2013). As the literature review (Eurofound, 2013d) and the Eurofound CAR (Eurofound, 2013b) have shown, four of the above features of the European social model have come under increased stress in the crisis: multi-employer bargaining, trade union density, extension mechanisms and level coordination. Only employer density rates have remained relatively stable during the crisis.

Different industrial relations models and their degree of resilience

On the question of whether the severity of the crisis impact on industrial relations can be linked to industrial relations typologies, a case could be made that those countries in the Mediterranean grouping appear to have suffered much more than those in the Nordic or Central groupings. It is, of course, difficult to disentangle the different threads here – the countries in which the impact of the crisis has been most severe on industrial relations are also those where the crisis has had the most severe economic impact. The social partners in Greece,

Portugal and Spain, for example, have had little room for manoeuvre, given the scale of the economic adjustments these countries have had to make.¹⁹

Finally, academia argues that the industrial relations systems of Nordic and Central countries contain more potential flexibility for actors and processes (for example, opening clauses in collective agreements), enabling them to adapt more readily to changes in the economic environment. Further, it argues, these countries have more solid linkages between levels and an overall less adversarial industrial relations climate and culture, all of which may well have contributed to their resilience during the crisis. Also in countries where the tripartite systems are well established and function strongly, there seems to be more scope for a joint response to the crisis, provided that these were not dismantled. Dølvik et al. (2012) note that the Nordic models still seems to retain much of the flexible adjustment capacity earlier attributed to them, and that trade unions have shown wage restraint and consented to new forms of local flexibility in working time and pay in order to safeguard jobs. Still, Marginson argues that "... the overall effect amounts to a frontal assault on existing multi-employer bargaining arrangements among a significant number of the relevant EU member states" (Marginson, 2013).

We conclude with a quote from Hyman: "In times of economic crisis, the overriding challenge is therefore to interlink bipartite subsidiarity and decentralization with higher-level authoritative norm-setting, creating new links between different levels of regulation and different issues on the regulatory agenda. Without this, social dialogue in hard times is likely to prove increasingly ineffectual (Hyman, 2010, p. 14)."

¹⁹ Yet the crisis also seems to have had fundamental impacts on industrial relations in the Central and Eastern European countries, although the industrial relations regimes there do not constitute a homogeneous bloc. Academia tends to group them around neoliberal (Bulgaria, Estonia, Latvia, Lithuania and Romania), embedded neoliberal (Czech Republic, Hungary, Poland and Slovakia) and neocorporatist (Slovenia) clusters. The crisis has provoked a shift towards the neoliberal cluster (Glassner, 2013).

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EXPLAINING THE INSTITUTIONAL ARCHITECTURE OF THE EUROZONE AND ITS IMPLICATIONS FOR SOCIAL DIALOGUE

Aidan Regan

LABOUR MARKET POLICY

The Economic and Monetary Union (EMU) in Europe seems to be built on the assumption that labour market actors, particularly encompassing trade unions, either do not exist or are too weak to resist competitive downward pressure on wages. The design of Europe's shared currency is premised on the non-existence of collective bargaining (Crouch, 2000) and largely shares the neoclassical assumption that labour markets can and do operate in perfectly competitive markets. This implicit design of the monetary union assumes that if asymmetric shocks hit, national economies, regions and sectoral industries will automatically adapt through a reduction in labour costs, and generate the conditions to improve national competitiveness. This reduction in labour costs is presumed to act as a functional equivalent to currency devaluations at a macro level (Hall and Gingerich, 2004).

Currency devaluation traditionally externalized excessive endogenous labour costs to the main trading partners of a given national economy (Crouch, 2000). Devaluation and exchange rate adjustments acted as a cushion to avoid social dislocation when national economies became over inflated. This option is no longer available for countries of the Eurozone. The implication is that an "internal devaluation" must be pursued by Member States when confronted with an economic shock. This does not take into consideration the structural and current account imbalances within the Eurozone nor the distributional implications of shifting the burden of adjustment on to wages and public spending. Nor does it recognize the fact that most southern European economies are built around economic growth regimes that give priority to domestic demand, and lack the coordinated wage-setting institutions characteristic of export-oriented northern European labour markets, which guarantee non-inflationary wage growth.

The assumption that the entire burden of cost adjustment can fall on labour market actors tends to ignore the embedded and historically diverse structures of collective bargaining in European economies. Collective bargaining is one of the core features of coordinated market capitalism or "social Europe". Every country in the Eurozone with the exception of Ireland, Estonia and Slovakia, has collective bargaining coverage above 50 per cent. Austria, Belgium, Finland,

France, Greece, Italy, the Netherlands, Slovenia and Spain all have collective bargaining coverage at 80 per cent or more (Visser, 2009). This involvement of trade union and employer associations in wage-setting makes it difficult to unilaterally impose downward labour cost reductions across the economy. Neither will adjustment be so extensive that it can act as the functional equivalent to currency devaluation. Any adjustment in labour costs will be negotiated between labour market actors (at sectoral or national level) unless trade unions are so weak that they cannot resist the unilateral imposition of wage cuts. However, the constraint of the EMU's fiscal pact requirement means that government as *employer* must impose a reduction in pay rates in the public sector as a response to the crisis.

Given the institutionally and historically evolved structure of coordinated wage setting in Europe, one should not assume that organized labour markets are strategically incapable of reducing labour costs through collective bargaining. Most research indicates that those economic sectors most exposed to international competition have been capable of concession bargaining and internalizing significant levels of wage restraint (Hancké and Johnston, 2009; Traxler and Brandl, 2010; Crouch, 2000) or adopting alternative labour market policies such as short-term working to reduce costs. This is most obvious in the policies pursued by German trade unions over the past 15 years. The challenge for governments in Ireland and southern Europe, in the midst of current crisis, is whether those sheltered sectors not exposed to international trade, particularly those within the public sector, can do the same.

The Calmfors and Driffill (1988) model presented two scenarios for non-inflationary wage growth. On one side of the U-trough are self-clearing liberal markets. There is no empirical evidence to support this scenario (outside the US and the UK) even if it is deduced to be the most efficient mechanism of coordinating wages (Soskice, 1990). On the other side of the U-trough are peak level wage bargaining actors who coordinate wages at national level, which is a required incentive for trade unions to internalize the costs of inflationary wage agreements. Most European countries, however, have evolved away from centralized bargaining at national level. This led many economists to conclude that the advent of the EMU would provide an incentive for the complete deregulation of wage-setting to firm level. This did not occur. As illustrated by Visser (2009), wage-setting institutions evolved and adapted to new economic constraints. Most labour market actors pursued an "organized decentralization" (Austria, Germany and Netherlands) of collective bargaining, whilst some integrated centralized wage negotiations into national tax-based income agreements (Finland and Ireland). The new monetarist paradigm acted as a stimulus for wage-setting and industrial relations institutions to change but the trajectory of this change was mediated by national labour market regimes and actors.

The European response to the Eurozone crisis simply *assumes* that embedded institutions of collective bargaining do not exist, or if they do, governments

should consider them a constraint on the downward reduction in wages that require “structural reform”. Most trade unions in the Euro periphery – Ireland and southern Europe – did not internalize the constraint that, if confronted with a macroeconomic shock, and lacking the capacity to engage in currency devaluation, the entire burden of adjustment would have to fall on wages, employment and public spending. Nor did they provide for sufficient collective buffers to offset the negative effects of an economic crisis. The new reality of how to adjust in an asymmetric monetary union is the primary challenge facing trade unions in Europe today, and by extension social dialogue.

FISCAL POLICY

The EMU was designed for a symmetric pan-European economy but operates in an asymmetric way (Hancké and Johnston, 2009). The narrow focus on wage-cost competitiveness and fiscal consolidation ignores the institutional diversity, complex problems and structural imbalances both across and within Eurozone economies. Policy-makers particularly in the ECB assumed that all Eurozone economies would converge in both price and wage costs. Most of the evidence indicates, however, that post-EMU, national and regional economies increasingly *diverged* on these indicators (Lane, 2009). Countries shared a currency but not the corresponding institutional governance required to coordinate economic policy. In this context market processes alone, and an almost exclusive focus on liberalization and structural reforms, have proved to be a rather ineffective means of European integration (Scharpf, 2011).

From 1999 to 2008, Germany generated large current account surpluses. This surplus capital was channelled into peripheral economies of the Eurozone either through public (Greece) or private channels (Spain and Ireland) creating an unnecessary oversupply of credit (and facilitated by the one-size-fits-all ECB interest rates). When this cheap credit was transmitted through private banking channels it was generally invested in real estate, leading to a property boom. The outcome has been a divergence in the current and capital account between regions of EMU.

This structural divergence is not likely to be resolved through monetary policy alone. In the absence of a central government or a functional equivalent, each member-state continues to govern as though they are institutionally independent. The crisis in the sovereign bond markets, however, has provided an exogenous stimulus for all Eurozone governments to recognize the extent of their financial interdependence, and the instability of integrated European capital markets. Yet the policy prescriptions to solve the Eurozone crisis are largely oriented toward austerity packages which are not based on coordinated strategies of collective action to tackle structural imbalances that have accumulated since 2000 (Felipe and Kumar, 2011).

The implicit assumption of the EMU is that economic problems only emerge from budgetary indiscipline, not risky and unsustainable economic behaviour in the private market (Pisani-Ferry, 2010). The fiscal compact was designed on the basis that public spending is the primary challenge facing national governments. The crisis in much of Ireland and southern Europe, however, was the direct result of a collapse in domestic demand and the associated tax revenues governments had come to depend upon. Both Ireland and Spain experienced an asset price (housing) boom on entry to the EMU. Non-fiscal asset price bubbles facilitated by cheap credit and low ECB interest rates created this problem, not government spending. Or, more precisely, the problem is not labour costs and government spending but the mishandling of private capital by private actors coupled with an unsustainable tax base. The ECB, however, operates according to average (mean) indicators of labour costs and inflation across 18 Eurozone economies. Hence, whilst some countries were overheating internally, the ECB continued to cut interest rates to encourage higher levels of economic growth in what was perceived to be the underperforming economies of France and Germany.

Furthermore, during 1999–2009, it was Greece, Germany, Italy and France that regularly exceeded the 3 per cent deficit rule of the growth and stability pact. Ireland, as will be shown in chapter 8, went from a stable budget balance to a fiscal deficit of 14.7 per cent in less than 24 months. Spain went from a stable budget surplus to a deficit of 10.1 per cent in less than 18 months. Spain actually ran a fiscal surplus in 2004–2008 (European Commission, 2010). This begs the question as to whether it is genuinely feasible to use the statistical mean of the growth and stability pact, and the new fiscal compact treaty, as a basis for how national governments should manage their budget deficits in an economic crisis. With the exception of Greece, all European political economies, by this “fiscal” indicator, behaved relatively prudently in the post-EMU era.

These fiscal indicators, however, mask the type and level of government tax-and-spend policies specific to particular national economies. Countries with property booms such as Ireland and Spain did not run a significant deficit but successive governments institutionalized an unsustainable tax regime based around political budget cycles. Government revenue became reliant on consumption and pro-cyclical taxes that evaporated when its liquidity-rich and credit-fuelled housing bubble burst. The EMU is not designed to tackle unsustainable growth strategies or the structural composition of tax revenues. The European Commission and international rating agencies never questioned the underlying economic growth models of Ireland and southern Europe. They simply assume that public sector spending is the core problem facing these countries, and can be now resolved through cuts in social spending, structural reforms of the labour market and stricter fiscal rules.

Hence, the almost exclusive focus on budget deficits and cost competitiveness (central to the troika inspired adjustment policies) in the aftermath of the cri-

sis is based on the assumption that the problems facing “peripheral” countries of the Eurozone (Greece, Ireland, Italy, Portugal and Spain) were the same. This does not seem to have been the case. The Greek problem was definitively fiscal, related to government spending and specific to its own national administrative culture and features as shown in chapter 10. Portugal and Italy have had long-term productivity problems that had little to do with government spending or the absence of labour market reforms. Ireland and Spain regularly ran budget surpluses and institutionalized a low tax regime that was supported by international bodies such as the IMF and the OECD. Both countries rank below the EU-27 average on two policy indicators that normally affect budget deficits: total government expenditure as a share of GDP, and total spending on social protection as a share of GDP. Total taxation as a share of GDP is also significantly below the EU-27 average. Yet the European policy response in all these countries is to cut public spending, further removing their capacity to compete with northern European countries with large and encompassing social welfare states.

COORDINATED WAGE-SETTING

One of the defining features of the politics of adjustment to EMU throughout the 1990s and early 2000s was the negotiation of *national social pacts* among governments, unions and employers. This process of negotiated reform took place in various European countries as a response to different problems. Centralized corporatist deals in some countries embedded social partnership in the politics of industrial relations, while in others social pacts were one-shot negotiations aimed at labour market flexibilization, wage restraint and social policy reform (Rhodes 1998). Ireland and southern European countries such as Italy and Spain stood out in the literature because they did not have the embedded collective bargaining arrangements characteristic of coordinated market economies (CMEs), in which governments engaged with unions in policy concertation. Scholars who observed these processes found that they were adopted by weak governments that needed the support of the social partners in order to push through difficult political reforms (Avdagic, 2010; Baccaro and Simoni, 2008).

National social pacts as they emerged in Ireland and southern Europe in the build-up to EMU can be distinguished from sectoral and firm negotiation in wage bargaining. They were predominately an instrument of *government* to involve trade unions in the formulation of public policy reform but systematically tied to the negotiation of wage restraint in sheltered sectors of the economy (Traxler and Brandl, 2010). In the absence of this wage-setting or economic function, social pacts provided an “expressive” largely function to act as a symbolic legitimization of government-led reforms. The bilateral social dialogue arrangements that have emerged in Ireland and southern Europe during the

Eurozone crisis arguably fall into this latter category. National social pacts that would provide trade unions with the capacity to influence the worst effects of a euro-induced adjustment have been conspicuous by their absence (see the country-specific case studies).

If social pacts were a political strategy to manage labour costs in sheltered sectors of the economy (in particular, the public sector), it can be hypothesized that it is this process that will come under greatest pressure for deregulation in the current crisis. Governments faced with the requirement to cut budget deficits have very little to exchange with trade unions when public sector pay is a significant portion of general government expenditure. Governments and employers operating in a labour market that lacks the non-inflationary, wage-moderating characteristics of northern CMEs are more likely to pursue a unilateral strategy of adjustment. Coordinated wage bargaining that is inclusive across the economy confers significant bargaining power on the social partners to negotiate labour market reform aimed at wage moderation with full employment. This institutional framework (as seen in Austria, Finland, Germany and the Netherlands) enables trade union and employer associations to coordinate their interests autonomously. Given this strategic capacity (or power resource), labour market actors are likely to use internal (firm/sectoral) and external (national) collective bargaining processes when negotiating a cost adjustment, despite the monetary constraints of the EMU.

It is those countries lacking the characteristics of coordinated labour markets (centralized and encompassing trade unions and employers) that are more likely to experience unilateral government reforms.²⁰ The micro conditions in these labour markets limit the capacity of the social partners to adopt a coordinated response to the crisis. This is particularly the case when negotiated wage agreements are not just exclusive to the unionized sectors of the economy but contain no legal constraint on employers to engage in collective bargaining. An industrial relations regime that is predominately organized at firm level complements a market-based adjustment. Employer associations, in this context, do not encompass the majority of firms covered by collective bargaining – making tripartite structures of social dialogue almost entirely dependent on the political preference of the government. This explains the ease with which the government eviscerated social partnership arrangements in those countries most affected by the Eurozone crisis – particularly Greece, Ireland, Italy and Spain.

Hence, it is in those countries where collective bargaining is uncoordinated and primarily applicable to the unionized sectors of the economy (Ireland and southern Europe), as opposed to inclusive and employer-led institutions of collective bargaining (northern Europe), where social partnership has col-

²⁰ This leads to increased labour market dualization between the unionized and the non-unionized workforce.

lapsed. Higher levels of trade union and employer density increase the capacity for negotiated labour market cost reductions when combined with high levels of collective bargaining coverage. From the perspective of the government and employers, weak institutional foundations in the labour market make it easier for them to avoid a negotiated adjustment with trade unions, even if this is less effective than a programme of reform based on deliberative agreement or consensus. National governments can opt out of social partnership arrangements with little repercussion because trade unions have neither “carrot nor stick” to be considered a social partner. This exclusion of organized labour in favour of unilateral government action fits the current policy preference of the troika as well as the ministries of finance across the Eurozone, as it gives priority to firm-level bargaining.

CONCLUSION

Liberal political economies (where market processes act as the main incentive for labour market coordination, firm level wage-setting predominates, and legislation is prioritized over collective bargaining in resolving employment disputes) are better placed to internalize the macroeconomic shocks in the Eurozone. In the EMU, only Ireland falls into this category. The macroeconomic regime in this country makes it easier to implement the adjustment programme as the institutional complementarities governing labour market, fiscal and wage policy fit the market-driven assumptions built into the design of the EMU. The implication, however, is that there is no coordinated response to the crisis aimed at a series of trade-offs that would include trade unions in the process of reform based on social dialogue. This strategic capacity is only available in northern European economies with coordinated collective bargaining. On the other hand, southern European countries have neither flexible-liberal nor coordinated-market institutions to internalize a coherent labour market response. They have relatively strong unions and centralized industrial relations that lack the coordinating capacities for non-inflationary wage growth. In this sense they seem to be stuck in the worst of all worlds. The empirical conditions to construct the necessary political and economic institutions that would provide trade unions with the strategic capacity to negotiate a series of trade-offs in favour of full employment do not exist at this moment. This does not bode well for trade unions or social partnership in a more integrated EMU.

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THE RISE AND DECLINE OF THE FISCAL AUSTERITY DOCTRINE: IMPLICATIONS FOR THE EURO AREA CRISIS

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INTRODUCTION

The fiscal austerity doctrine (FAD) – emerged in full force in the Euro area in the first half of 2010. By then, apprehensions of a sovereign debt crisis that had been brewing since the last quarter of 2009 became a harsh reality for countries such as Greece. The government signed a bail-out plan with the troika of creditors – the European Central Bank, European Union (EU) and International Monetary Fund (IMF) – to stave off a default. Drastic and time-bound reductions in the fiscal deficit became a core plank of this plan. Similar bail-out plans followed for Ireland (November 2010), Portugal (May 2011), and Cyprus (May 2013). Indeed, for the EU as a whole, fiscal consolidation appears to be the norm rather than the exception (Weisbrot and Jorgensen, 2013).

The emergence of FAD represented a sharp break from 2008–2009. At that time, the global community was united behind fiscal stimulus packages to fight the worst global recession since the end of the Second World War.

What was the economic rationale behind FAD? Why did it become so controversial and contested to the point that the intellectual support for FAD is in a state of decline? What are the implications for the Euro area as it struggles to graduate from its worst ever recession and mass unemployment?

These are the issues that form the substance of this chapter, which draws attention to the premature transition from fiscal stimulus to austerity that took place from 2009 to 2010 among the advanced economies. It then proceeds to discuss three variants of FAD ranging from the most optimistic to a more hybrid version. The first of the three variants of FAD maintains that fiscal austerity is expansionary; the second suggests that countries that respect debt thresholds reap growth and jobs dividends; the third acknowledges that fiscal austerity, while essential in reining in unsustainable public finances in the Euro area, can be painful, but in the case of a currency union this can be offset through appropriate monetary policy conducted at the supra-national level, internal devaluation and structural reforms.

The chapter argues that all versions of FAD can be, and have been, subjected to robust empirical critique. Iconic publications that have been used to support

²¹ This chapter draws on Chowdhury and Islam (2012) and Islam and Kucera (2013).

FAD have been discredited, while the promise that appropriate supra-national monetary policy, internal devaluation and structural reforms can offset the contractionary consequences of fiscal austerity appears to have been oversold. The chapter concludes with brief remarks on the implications that these findings have for dealing with the continuing Euro area crisis.

FROM STIMULUS TO AUSTERITY: A PREMATURE TRANSITION

When the G20 leaders met in London in April 2009, the emphasis was on global coordination of fiscal stimulus packages to stave off a severe global recession. According to an ILO/World Bank survey of 77 countries, the vast majority of countries at all levels of income enacted fiscal stimulus packages entailing a combination of tax rebates and expenditure increases (ILO and World Bank, 2012). This was complemented by monetary and related policies to boost labour demand. Yet by June 2010 the leaders of the G20 at the Toronto Summit declared that “advanced economies have committed to fiscal plans that will at least halve deficits by 2013 and stabilize or reduce government debt-to-GDP ratios by 2016”. To be fair, the Toronto Summit also highlighted the “risk that synchronized fiscal adjustment across several major economies could adversely impact the recovery”. Nevertheless, the G20 declaration was based on the optimistic premise that a global recovery was well underway.²²

The G20 leaders’ proclamations at Toronto on specific fiscal targets for advanced economies were a concrete manifestation of a similar message issued by the G7 in February 2010. Krugman (2013, p. 4), drawing on the work of Irwin (2012), regards this as a pivotal development. He observes:

Neil Irwin ... gives us a time and place at which the major advanced countries abruptly pivoted from stimulus to austerity. The time was early February 2010; the place was ... the remote Canadian arctic settlement of Iqaluit, where the Group of Seven finance ministers held one of their regularly scheduled summits. Sometimes ... such summits are little more than ceremonial occasions ... But this time ... the leaders of the world economy collectively agreed that their great challenge had shifted. The economy seemed to be healing; it was time for them to turn their attention away from boosting growth. No more stimulus.²³

²² The G20 Toronto Summit, Declaration, June 26-27, 2010, available at: www.g20.utoronto.ca/2010/g20_declaration_en.pdf.

²³ The actual summary by the Canadian chair of the Iqaluit meeting was less dramatic and couched in suitably diplomatic language. The Chair noted: ‘The global economic situation has, of course, improved and is improving. We need to ... to look ahead to exit strategies (from stimulus) and move to a more sustainable fiscal track, consistent with continued recovery’, G7 Chair’s Summary, 6 February 2010, Iqaluit, available at: http://www.fin.gc.ca/n10/10-010_1-eng.asp.

What were the key reasons behind the shift from counter-cyclical policies to fiscal austerity, often euphemistically called fiscal consolidation? Farrell and Quiggin (2012) have suggested that an implicit collusion between some leading conservative economists in the US and influential members of the policy elite in Europe managed to sow the seeds of discord against a globally synchronized fiscal expansion. This discord reflected several factors: the long-standing intellectual ascendancy of a conservative strain of conventional (or post-1980s) macroeconomics in which counter-cyclical fiscal policy within a Keynesian framework is seen to be ineffective which is, in turn, a reflection of the historical influence of “dangerous ideas” in economics (Blyth, 2013); the fact that, by mid-2009, the global recession was considered to be over; and the unleashing of a sovereign debt crisis in Greece in late 2009 and early 2010. The intellectual foundation was offered by two iconic publications: 2010 saw the launch of the much publicized work of Harvard economists Carmen Reinhart and Kenneth Rogoff in which a key conclusion based on historical data was that crossing the 90 per cent debt-to-GDP threshold led to a sharp growth slow-down in a sample of high-income countries. It was also the year in which Alberto Alesina, also a Harvard economist, was invited by the European finance ministers to present his case of “expansionary fiscal consolidation”, that is, the seemingly paradoxical idea that fiscal austerity can promote growth. More importantly, he argued that fiscal austerity was not an electoral and political liability.

Thus by 2010, dealing with, and reducing, unsustainable public debt in advanced economies became the key challenge in a post-crisis world. An IMF Staff Discussion paper by Blanchard, Dell’Arricia and Mauro (2013) offers a succinct statement of this view. It suggests that “strong fiscal stimulus” was appropriate “early in the crisis” which prevented a “much worse decrease in demand than actually took place... Once the collapse was averted, the increase in debt... led the IMF to recommend a shift from fiscal stimulus to fiscal consolidation. Further fiscal consolidation would have made the debt unsustainable, leading eventually to sovereign default” (Blanchard, Dell’Arricia and Mauro, p. 14).

The various versions of FAD in the Euro area thus need to be located in a specific historical and global context. It cannot be separated from the collective resolve by the leaders of the advanced countries to regard unsustainable public finances as the primary challenge of today. The outbreak of the sovereign debt crisis in southern Europe in late 2009 simply reinforced this resolve.

In retrospect, it appears that the transition from austerity and stimulus was premature and incompatible with basic macroeconomic principles. Counter-cyclical policies should only be withdrawn once the “output gap” (that is, the difference between actual aggregate output or GDP during a downturn and full employment output) is eliminated. Suggesting that stimulus packages should be withdrawn once the worst is over is incompatible with that criterion. Despite this, is it possible to justify fiscal austerity on other more compelling

grounds? This is where it is necessary to discuss the different variants of FAD and their empirical robustness.

THREE VARIANTS OF FAD

“Expansionary” fiscal austerity: questioning an oxymoron

The textbook models of macroeconomics steeped in the Keynesian tradition typically suggest that fiscal austerity is contractionary and should be undertaken when the economy experiences “overheating” manifested in high inflation, out-of-control budget deficits and an unsustainable balance-of-payments position. The proponents of “expansionary” fiscal austerity seek to contest that with “non-Keynesian” arguments, which stem from three related theses: the consequences of crowding out; the phenomenon of Ricardian equivalence; and the stimulating role of market confidence.

The crowding-out hypothesis is that government borrowing drive up interest rates and adversely affects private investment and consumption. However, it ignores the consequences of a depressed economy (e.g. low profitability, bankruptcies) in the absence of increased government spending. It also ignores the productivity-enhancing impact of government spending on infrastructure, education, and research and development (R&D). In any case, even in a simple Keynesian model, “full” crowding out takes place in the special case when money demand to hold cash balances is insensitive to changes in interest rates. Outside this special case, there will be “partial” crowding out, which means that a fiscal expansion will raise aggregate demand and output and facilitate the move towards “full employment”. Admittedly, “full” crowding out is possible in open economy macroeconomic models through the exchange rate channel. This suggests that the efficacy of fiscal policy is context specific. It is thus difficult to sustain the assertion that “crowding out” is a general phenomenon.

The Ricardian equivalence argument holds that forward-looking individuals are mindful of the fact that a fiscal expansion entailing an increase in public indebtedness would need to be financed by future tax increases. Hence, they save more in order to fully offset future tax liabilities. The discussion of Ricardian equivalence requires a distinction between temporary and permanent fiscal expansions. As Wren-Lewis (2011. p. R8) has pointed out, in a Ricardian economy, “...fiscal expansion that involves cutting lump sum taxes would have no impact on demand, because the tax cut would be saved. However, exactly the same model implies that a temporary increase in government spending will increase demand”.

The least theoretically grounded, but the most influential view, at least in the context of the Euro area, is that fiscal austerity is necessary because it will instil “market confidence” that lies at the core of private sector spending decisions. As Jean-Claude Trichet, the former President of the European Central Bank, put it during a media interview: “It is an error to think that fiscal austerity is a

threat to growth and job creation. At present, a major problem is the lack of confidence on the part of households, firms, savers and investors who feel that fiscal policies are not sound and sustainable”.²⁴ The British Prime Minister also highlights the centrality of market confidence, noting: “If markets don’t believe you are serious about dealing with your debts, your interest rates rocket and your economy shrinks”.²⁵

These observations represent the reiteration of a salient idea that can be found in the Stability and Growth Pact of the European Union. Thus:

Upholding trust in the soundness of public finances enhances confidence among all economic agents and thereby contributes to sustainable growth in consumption and investment. Stability and growth are thus not conflicting objectives, but rather reinforce each other – a fact which is very well captured in the title of the fiscal framework called the “Stability and Growth Pact” (*ECB Bulletin*, November, 2003, p. 6).

The key link here is between the cost of debt servicing and bond market confidence. It is an additional argument that reinforces the Ricardian equivalence idea or the “crowding out” thesis. Fiscal consolidation could, in principle, be expansionary if cuts in government spending strengthen market confidence, lowers borrowing costs owing to reduced perceptions of country risk and spur private investment. It is, in principle possible for non-Keynesian effects (from greater credibility and investor confidence) to exceed contractionary Keynesian effects of reduced public spending, resulting in higher growth.

Ultimately, whether fiscal austerity is “expansionary” depends on the relevant empirical evidence. To start with, evidence in favour of either crowding out or full Ricardian equivalence is scarce. Indeed, a meta-analysis of the pertinent empirical literature makes the stronger claim that the evidence on Ricardian equivalence is non-existent (Stanley, 2001, p. 137).

Multiple studies show that formal assessments of sovereign creditworthiness by credit-rating agencies routinely include growth indicators as well as measures of debts and deficits (Alfonso et al., 2011).²⁶ What is perhaps less well known is that growth has a more significant impact on sovereign default risks than debts and deficits. A 1 percentage point increase in the GDP growth rate is associated with a statistically significant decrease in borrowing costs of 0.75 percentage points. A 1 percentage point increase in the annual debt-to-GDP ratio, on the other hand, has a comparatively smaller impact on long-run interest rates

²⁴ See European Central Bank, Interview with Jean-Claude Trichet, President of the ECB, 8 July 2010, available at: <http://www.ecb.europa.eu/press/key/date/2010/html/sp100713.en.html>.

²⁵ David Cameron, ‘A Speech on the Economy,’ Thursday, 17 May, 2012, available at: <http://www.number10.gov.uk/news/pm-economy-speech/>.

²⁶ See also European Parliament (2011).

(of the order of 0.26 percentage points). In addition, there is no statistically significant impact of changes in fiscal deficits on long-run interest rates.²⁷ The implication is that cutting deficits to reduce public debt might be self-defeating given that such actions typically reduce growth, raising doubts among “bond vigilantes” about the sustainability of fiscal austerity measures.

Several cross-country studies have sought to demonstrate using historical data that fiscal consolidation exercises are accompanied by growth and declines in unemployment. Two cases from this genre can be highlighted. First, an IMF study (McDermott and Wescott, 1996) focused on 74 cases of fiscal consolidation in 20 industrialized countries over 1970–1995. It concludes that 14 cases were “successful” in the sense that they were marked by sustainable reduction (by about 3 percentage points over three years) in the debt-to-GDP ratio as well as an increase in growth and employment creation. Second, a study by Alesina and Ardagna (2010) – also summarized in Alesina (2010) – assembled 107 episodes of fiscal consolidation in all OECD countries for 1970 to 2007. It concludes that 27 could be classified as cases that combined fiscal consolidation with growth. Such results are underwhelming. The historical experience thus suggests that the probability of a successful fiscal consolidation is between 19 per cent (14 out of 74 as in the IMF study) and 25 per cent (27 out of 107 as in the Alesina and Ardagna study).

Alesina and Ardagna’s study, as well as a similar earlier study by Alesina and Perotti (1995), have been criticized by the IMF (2010) in the *World Economic Outlook* on methodological grounds. Specifically, these studies often identify periods of fiscal consolidation using a statistical concept – the increase in the cyclically adjusted budget surplus – that is an imperfect measure of actual policy actions. “This way of selecting cases of consolidation biases the analysis toward downplaying contractionary effects and overstating expansionary ones” (IMF, 2010, p. 94). Thus IMF (2010) uses an alternative method for identifying periods of fiscal consolidation by focusing on policy actions intended to reduce the budget deficit. It finds that fiscal consolidation typically has a contractionary effect on output. A fiscal consolidation equal to 1 per cent of GDP typically reduces GDP by about 0.5 per cent within two years and raises the unemployment rate by about 0.3 percentage point. Domestic demand – consumption and investment – falls by about 1 per cent.²⁸

²⁷ These estimates are based on Islam and Hengge (2012). See also Cottarelli and Jaramillo (2012).

²⁸ Jonathan Portes, Director of the National Institute of Economic and Social Research – Britain’s oldest independent research institute – has pointed out that the Alesina-Ardagna study has been so discredited that the UK Treasury, which was briefly influenced by that study and used its findings to justify the Emergency Budget of 2010, has now retreated from that position. See Portes, J. 2012. “What does “Keynesian” mean?”, Not the Treasury View Blog, 27 January, available at: <http://notthetreasuryview.blogspot.com/>. John Quiggin, a leading

Updated estimates provided by Blanchard and Leigh (2013) suggest that the contractionary consequences of fiscal contraction are even higher. Based on values of estimated multipliers, the negative impact of fiscal austerity on GDP can be as much as three times higher than what was assumed at the start of the bailout plans in Europe. An IMF ex-post evaluation of the troika's programme on Greece (IMF, 2013a) also acknowledged that it significantly underestimated the deep recession that ensued in response to the implementation of the programme. This *mea culpa* – the latest in a string of them from the Fund – attracted global media and caused a public rift to emerge between the IMF and the European Commission. This contentious issue is revisited at a subsequent juncture.

Even if one accepts that fiscal consolidation exercises have a reasonable chance of being accompanied by growth and employment creation, one should not attribute such an outcome to budgetary austerity alone. Standard textbook models in the Keynesian tradition suggest that there are often complementary factors at work that might be more important than fiscal actions, and include the influence of the global business cycle; monetary policy; and exchange rate policy.²⁹ An IMF study (1996) found that "...strong global economic growth helps to achieve a successful consolidation, and weak global growth reduces the chances that consolidation will cut the debt-to-GDP ratio". It is also well known that fiscal retrenchments can be combined with loose monetary policy to offset recessionary consequences. One European Commission study (Posen, 2005) finds that, in more than 50 per cent of the cases examined, fiscal austerity programmes were accompanied by expansionary monetary policy that enabled growth to be sustained. Similarly, the idea of combining fiscal retrenchments with devaluation that boosts net exports to offset the decline in aggregate demand (so-called "expenditure-reducing policies" combined with "expenditure-switching policies") is well known.

The importance of these enabling factors needs particular attention in light of the harsh realities confronting the developed world. The Euro area remains mired in stagnation. Mass unemployment has emerged in parts of Europe, with unemployment rates reaching heights not seen since the Great Depression.³⁰

Note 28 continued

Australian economist, chastises the Alesian-Ardagna (AA) paper, for making elementary factual errors in the case study of Australia that is advanced by AA as a clear case of expansionary fiscal contraction. See Quiggin, J. 2011. "Expansionary austerity: Some shoddy scholarship", available at: <http://johnquiggin.com/2011/10/25/expansionary-austerity-some-shoddy-scholarship/>. Others who have been critical of the AA study include the *Economist*, which considers the study 'seriously flawed'. See The Economist. 2010. "Economics focus: Does fiscal austerity boost short-term growth?", 30 September.

²⁹ See, for example, Perotti (2011).

³⁰ See European Commission. 2014. "Key Indicators for the Euro Area", Directorate-General for Economic and Financial Affairs (DG ECFIN), available at: http://ec.europa.eu/economy_finance/db_indicators/key_indicators/documents/key_indicators_en.pdf.

The UK economy is experiencing its worst economic recovery in all its recoveries from recessions.³¹ Japan continues to experience deflation and sluggish growth and endured three recessions in five years.³² The United States has fared better, but unemployment is still 1.5 per cent above what the US authorities, most notably the Federal Reserve, would consider as “full employment”.³³ The Euro area economies also do not have scope for devaluations nor do they have much room to cut interest rates further through expansionary monetary policy as policy rates are still at historically low thresholds.

In sum, the results of historical studies of fiscal consolidation exercises suggest a relatively high failure rate (of at least 75 per cent). Even in the successful cases, there were enabling factors at play that might have offset the recessionary consequences of fiscal retrenchments. Furthermore, the usual arguments that are invoked to justify fiscal consolidation (Ricardian equivalence, crowding out and market confidence) lack robust empirical substantiation. One study (Broyer and Brunner, 2010) has offered some estimates of the net impact of fiscal consolidation on growth in eight European economies (Germany, France, United Kingdom, Italy, Spain, Netherlands, Portugal, Greece). It suggests that, even by 2016, all countries bar one will suffer an output contraction as a result of the transition from fiscal stimulus packages to consolidation. Estimates by Holland and Portes (2012) corroborate that view. Indeed, the results show that, for the Euro area countries, fiscal austerity will be self-defeating, entailing rising indebtedness and continuing recession.

Debt and growth: an unreliable relationship

The second variant of FAD is that there are well established “tipping points” with respect to public debt-to-GDP ratios beyond which growth decelerates markedly. This view became particularly influential as a result of the iconic work of Harvard economists Reinhart and Rogoff (2010) – henceforth R–R. They purported to show that, once the public debt-to-GDP ratio crosses the 90 per cent threshold in the case of advanced economies, growth decelerates markedly. In one version of their estimated results, growth in the post-Second World War period become negative for a sample of advanced economies that have such ratios above 90 per cent.

³¹ See the estimates at the National Institute of Economic and Social Research, available at: <http://www.niesr.ac.uk/>.

³² On Japan, see OECD. 2013. “Economic Survey of Japan 2013”, Economic surveys and country surveillance, available at: <http://www.oecd.org/economy/surveys/japan-2013.htm>.

³³ See the Board of Governors of the Federal Reserve System. 2014. “What are the Federal Reserve’s objectives in conducting monetary policy?”, Current FAQs, available at www.federalreserve.gov/faqs/money_12848.htm.

Of course, decades before the publication of the R–R study, the architects of the Maastricht Treaty formalized the idea of debt thresholds through the adoption of the 60 per cent debt-to-GDP ratio as the limit that should not be crossed by Member States of the Euro area. This well-known threshold was an expedient arrangement meant to harmonize fiscal policy among Member States of the Euro area in the absence of a fiscal union. The R–R results offered seemingly intellectual respectability to this threshold-driven approach.

The R–R results have been cited more than 500 times and have featured in more than 70 high-profile media reports (Herndon et al., 2013). It was endorsed by Olli Rehn representing the Office of the Vice President of the European Commission. He sent a widely noted letter to Ecofin Ministers in February 2013 with the following observation:

We have to recall that public debt in the EU has risen from around 60% of GDP before the crisis to around 90% of GDP. And it is widely acknowledged, based on serious academic research, that when public debt levels rise above 90% they tend to have a negative impact on economic dynamism, which translates into low growth for many years.³⁴

Unfortunately, this “serious academic research” was undermined by the work of a group of intrepid and enterprising researchers at a US university (Herndon et al., 2013). When they tried to replicate the R–R results, they found coding errors, exclusion of crucial data from the sample and contentious aggregation procedures. When these corrections are made, what emerges is a mild negative correlation between public debt and growth (growth declines modestly from 3 to 2 per cent) but no dramatic decline in growth after the so-called “tipping point” is crossed.³⁵

The work of “HAP” has attracted worldwide media attention. Eichengreen (2013) maintains that the critique triggered “...the most conspicuous and incendiary scholarly controversy since 1974, when two earlier economists, Robert Fogel and Stanley Engerman, published a notorious book, *Time on the cross*, defending the efficiency of the American plantation slavery” (Eichengreen, 2013). To this one can add the observation of Krugman (2013) that the HAP critique, more than any other, led to the crumbling of the pro-austerity case.

What also emerges from the review of the pertinent literature is that, while a mild negative correlation exists between public debt-to-GDP ratios and growth, there is no robust evidence of causality. It is possible that countries that acquire high public debt incur a price in terms of reduced growth; it is equally possible that countries with low growth end up with high public indebtedness (Panizza

³⁴ Olli Rehn, Letter to ECOFIN Ministers dated 13 February 2013, available at: http://ec.europa.eu/commission_2010-2014/rehn/documents/cab20130213_en.pdf.

³⁵ See also Eberhardt and Presbitero (2013).

and Presbitero, 2013). Mindful of this challenge of pinning down the nature of causality, the IMF (2012, p. 9) makes the following dignified concession:

(T)here is no simple relationship between debt and growth. In fact, our ... analysis emphasizes that there are many factors that matter for a country's growth and debt performance. Moreover, there is no single threshold for debt ratios that can delineate the "bad" from the "good".

In the specific case of the Euro area, it is, in retrospect clear that high public indebtedness on its own offers little guide to the extent to which countries become vulnerable to a sovereign debt crisis and subsequent low growth. Apart from Greece, which clearly had the highest public debt-to-GDP ratio in the Euro area well before the debt crisis began to emerge in southern Europe, some countries in the bloc appeared to be examples of fiscal probity. Thus, in 2007, the year before the Great Recession struck, Cyprus, Ireland, Portugal and Spain had debt-to-GDP ratios that ranged from 40.2 per cent to 68.4 per cent. Even in Greece, bond markets happily accepted its high public debt-to-GDP ratios that averaged around 100 per cent in 2005–2007. Indeed, bond yields on Greek debt were barely distinguishable from that of Germany in the mid-2000s when Greece was enjoying a robust period of growth. It is also worth bearing in mind that in some cases, such as Ireland, the problem of unsustainable public indebtedness cannot be linked to public sector fiscal profligacy. It emerged because governments decided to assume the unfunded liabilities of the private sector (banks in Ireland's case).³⁶

Following De Grauwe (2011), one can argue that it matters a great deal whether public debt is denominated in domestic or foreign currencies. This is evident in the contrasting experiences of Spain and the UK. The UK public debt as a share of GDP was 17 percentage points higher than Spanish government debt (86 per cent versus 69 per cent) in 2011. Yet since the beginning of 2010 the yield on Spanish government bonds increased strongly relative to the UK's, suggesting that international bond markets price in a significantly higher default risk on Spanish than on UK government bonds. This difference rose to 200 basis points in early 2011. One of the reasons why the financial markets have singled out Spain and not the UK for the possibility of getting entangled in a government debt crisis is that they know Spain as member of a monetary union does not have control over the currency in which its debts are issued, while the UK public debt is mostly in its own.

³⁶ All statistics cited here are from the April 2013 online issue of Eurostat, Government Finance Statistics, available at: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Government_finance_statistics.

The hybrid version of fiscal austerity: promises and pitfalls

The initial enthusiasm for “expansionary” fiscal consolidation by its advocates has waned. There is also the realization that compliance with fiscal targets alone will not be sufficient. The current orthodoxy seems to be a hybrid version. The various elements of this hybrid version are: (a) appropriately paced fiscal consolidation that is mindful of country-specific circumstances; (b) unconventional monetary policy or “quantitative easing”; (c) internal devaluation; and (d) ambitious structural and labour market reforms. The underlying logic is that fiscal consolidation is essential to rein in unsustainable public finances in the advanced economies, but it is also painful. Such painful consequences need to be alleviated via (b) that will support aggregate demand, while (c) and (d) will unleash the growth and job-creating potential of national economies. Taken together, efforts at both fiscal consolidation anchored in a medium-term framework and growth and employment promotion strategies will work in harmony.

The term “quantitative easing” is fairly new in the economics dictionary. It is used to describe an asset-buying programme of a central bank (where these assets are owned by the commercial banks and private institutions and are usually of long-term maturity) to boost economic activity by reducing long-term borrowing costs. This asset-buying programme can be combined with “forward guidance”. Under this scenario, a central bank announces a commitment that the private sector should not assume either a premature cessation of an asset-buying programme or that policy-makers will tolerate deflation. The logic is that this will set a floor to downward revisions of inflationary expectations and thus avoid the onset of self-fulfilling deflation. In some cases, as in the UK, quantitative easing has been combined with “funding for lending” schemes, where the central bank makes funding available to private financial institutions at ultra-low rates to encourage lending.³⁷

Has quantitative easing worked? One of its champions is Ben Bernanke, former chairman of the Federal Reserve, who developed these ideas when he was an academic. He was, at the time, an avid Japan-watcher, and like other academic peers, such as Paul Krugman, was particularly worried that Japan was caught in a “liquidity trap” and needed unconventional policies to get out of it. The standard idea in macroeconomics is that during a liquidity trap, when short-term interest rates are close to zero or zero and cannot go down any lower, conventional monetary policy is ineffective, while fiscal policy acquires considerable potency. Bernanke argued that monetary authorities had “unconventional policies” at their disposal. Hence, the twin notions of asset-buying programmes and forward guidance were born. Given that the advanced economies – including

³⁷ This scheme is described at Bank of England, “Funding for Lending Scheme – Usage and lending data for the first part of the Scheme”, available at: <http://www.bankofengland.co.uk/markets/Pages/FLS/data.aspx>.

the Euro area – are indeed in a liquidity trap entailing a “zero lower bound” on short-term policy rates, considerable faith is invested in quantitative easing.³⁸

Seen through the lens of quantitative easing, how has the Euro area fared? Unfortunately, the available evidence is not encouraging. An IMF report (IMF, 2013b) for the G20 meeting of Finance Ministers and Central Bankers held at Washington, DC in April 2013 points out that the expected transmission from low interest rates to increased lending has not taken place at an adequate pace. This transmission appears particularly impaired in the Euro area.

Appropriate monetary policy actions in the Euro area have not been consistently followed. In 2011, the ECB raised interest rates twice, unlike major central banks of the OECD that held interest rates constant. The ECB’s bond buying programme was also not as aggressive as its counterparts’. It is only much later – when the sovereign debt crisis and a deep recession took their toll on some of the single-currency countries – did the ECB president make the proclamation that the institution would do “whatever it takes” to defend the Euro and stave off a systemic debt crisis.³⁹

New research undertaken for the US and Sweden also have important implications for the appropriate setting of monetary policy by the ECB. Ball (2013) has suggested that the proclivity for central banks of the advanced economies to set inflation targets at 2 per cent or less has made these economies vulnerable to the zero lower bound and thus for substantially slowing down the rate of economic recovery following the Great Recession of 2008–2009. Had the targeted inflation rate in the US, for example, been set at 4 per cent, the monetary authorities would have had a lot more room for manoeuvre. Unemployment as a result would have been significantly lower.

Michael Woodford of Columbia University, one of the world’s foremost authorities on monetary policy, offers a careful evaluation of quantitative easing by drawing on the experience of the US. He concludes that it has not been effective enough, largely because central banks have not really been able to convince the private sector of the credibility of their actions. This is understandable when central banks are not prepared to revise up their inflation targets (usually 2 per cent as just seen) in a context of large-scale private sector deleveraging (Woodford, 2012).

In the case of Sweden, Svensson (2012), a former deputy governor, has argued that the central bank did not even manage to maintain its 2 per cent inflation target, often undershooting it for prolonged periods. The result is an unem-

³⁸ Bernanke’s ideas are discussed in Ball (2012).

³⁹ *Der Spiegel International*, 26 July 2012, available at: <http://www.spiegel.de/international/europe/markets-surge-after-ecb-president-mario-draghi-vows-to-protect-euro-a-846629.html>.

ployment rate that he claims is significantly higher (by about 0.8 percentage points) than is warranted.

Turning now to the specific case of the ECB, it is clear that its insistence on maintaining the target inflation rate close to 2 per cent is inappropriate given prevailing labour market conditions and is ineffective in providing the necessary support to fiscal policy. But there is little indication that the ECB will revisit its mandate on setting an appropriate inflation target.

What about internal devaluation and its efficacy in boosting jobs in the case of a currency union? The basic logic – drawn from standard macroeconomic principles – is that an exchange rate or “external” devaluation combined with expansionary monetary policy can offset the contractionary consequences of fiscal austerity. Adapted to the case of a currency union where the opportunity for an external devaluation by an individual Member State is not available, an “internal” devaluation should be undertaken. The aim is to target unit labour costs (or the ratio of total labour costs to productivity) as a means of engendering competitiveness. Translated into practice, this means a policy of wage moderation ranging from explicit wage cuts, to wage freezes and to restrained growth of nominal wages relative to productivity growth. Of course, an alternative is to implement measures to boost productivity, but proponents of internal devaluation see it as a long-term issue and amenable to change through structural reforms – on which more later (Blanchard, Florence and Loungani, 2013).

The evidence on internal devaluation is disappointing. The above IMF report on Greece (IMF, 2013b) provides some estimates. Such numbers suggest that it will take decades for Greece to reap the benefits of enhanced competitiveness through a policy of wage moderation.

What about “structural reforms” and the promises of growth and employment dividends?⁴⁰ The G20 Leaders’ Declaration at the Toronto Summit (June 2010) endorsed an ambitious agenda of “structural reforms” cutting across both labour and product markets on the grounds that it would lift global output significantly and create millions of jobs.⁴¹ The April 2013 Communiqué of Finance Ministers and Central Bank Governors of the G20 maintained this commitment to structural reform.⁴²

The promises of substantial employment and growth dividends of structural reform are influenced by the OECD’s *Going for Growth* template in which

⁴⁰ The rest of the discussion draws on Islam (2013).

⁴¹ The G20 Toronto Summit Declaration, June 26-27, 2010, available at: www.g20.utoronto.ca/2010/g20_declaration_en.pdf.

⁴² The G20 Communiqué of Finance Ministers and Central Bank Governors (18-19 April, 2013) notes that: ‘We will continue to implement ambitious structural reforms to increase our growth potential and create jobs’. See the communiqué at http://www.g20.org/events_financial_track/20130418/780961081.html.

wide-ranging policy initiatives that cut across product-market, labour-market and financial regulations, as well as taxation, human capital and other areas, unlock the growth potential of countries under review – although the OECD makes it clear that not all the proposed reforms apply to all countries with equal force at all times (OECD, 2010).

The proposed labour market regulations under the template that apply to a range of countries include (a) reform of (disability) benefit schemes; (b) reform of unemployment insurance schemes; (c) reforms to reduce labour restrictions on labour mobility; (d) reforms to reduce the minimum cost of labour; (e) reforms to the wage bargaining system; (f) a strengthening of policies to promote female labour force participation; and (g) improved incentives for formal labour force participation. Some of these initiatives, such as (c), (f) and (g), are clearly desirable, while others are more contentious and are likely to weaken labour market institutions.

The OECD maintains that “...fears that reforms may depress economic activity in the short run are overblown” (OECD, 2012). Yet this proclamation overlooks the caveats that are associated with the OECD’s internal research. An OECD Economics Department Working Paper includes the following qualifications in its summary of findings: “*This analysis indicates that the benefits from reforms typically take time to materialize... there is also tentative evidence that some labour market reforms (e.g. unemployment benefits and job protection) pay off in good times than in bad times, and can even entail short-term losses in severely depressed economies*” (Bouis et al., 2012; italics added). An IMF Staff Discussion Note on Europe (Barkbu et al., 2012, p. 17) also highlights these concerns:

(R)elaxing employment protection may not stimulate hiring in the short term, but increase unemployment. Similarly, reducing unemployment insurance or increasing the retirement age would lower disposable income if those induced to seek work do not find jobs... Furthermore, because persistent weak demand can negatively impact long-run prospects through hysteresis effects in unemployment, it is imperative to increase growth soon.⁴³

The above OECD study does not discuss the issue of quality of employment, since the impact of reforms is measured in terms of two aggregates: GDP growth and the employment rate. It is, of course, possible for the employment rate to increase, but for the quality of new jobs to decline.

There are also adverse distributional consequences associated with labour market and related reforms. In the case of the UK, one study commissioned by the *Financial Times* concluded that current welfare benefit reforms will hit the

⁴³ The author is grateful to Mark Weisbrot for identifying this important document.

poorer northern region five times harder than the richer south.⁴⁴ An Institute for Fiscal Studies study draws attention to "...a £20 billion cut to the social security budget by 2015–16 [that will affect] the vast majority of ... working-age households and this inevitably tends to hit lower income households hardest". The study then "...estimates the implications of these kinds of factors for the path of income poverty now and in future". The projections are quite stark. A sharp rise in child poverty (based on a relative income standard) of 6 percentage points is anticipated between now and 2020. This will apparently negate all the reductions in child poverty attained during the 2000s.⁴⁵

In sum, structural reforms might hold a good deal of promise in the long run, but their short-term and distributional consequences cannot be discounted. It is not, of course, possible to make the transition to the long run without negotiating the short run; neither does it make much sense to focus only on ex-ante aggregate benefits without considering their distribution. A balanced policy discourse on structural reforms should thus focus on both their promises and pitfalls.

CONCLUDING REMARKS

The period from 2010 to 2013 witnessed the rise and decline of FAD. The initial enthusiasm for "expansionary" fiscal austerity waned, while the notion that strict compliance with fiscal targets can engender growth dividends has been undermined by subsequent research. The hybrid version of FAD survives, but the available evidence that it can engender desirable outcomes within a reasonable time-frame remains very much in doubt.

Advocates of fiscal austerity admit that the "political limits" of further austerity have been reached.⁴⁶ Furthermore, the facade of unity among policy-makers that marked the transition to fiscal austerity in the advanced economies in general, and the Euro area in particular, appears to have been dented by disagreements among key members of the troika. As noted, the IMF report on Greece acknowledges that mistakes were made, but also attributes blame to its EU counterparts. The IMF argues that the EU officials were concerned about following EU norms and procedures rather than being sensitive to the harsh reality of the evolving Greek recession. Adjustments to the bail-out plan were

⁴⁴ *Financial Times*, 11 April 2013, available at: <http://ig.ft.com/austerity-audit/>. As the *Financial Times* concludes: 'Cuts to welfare payments will hit the local economies of northern towns and cities as much as five times as hard as the Conservative heartland southern counties, according to research commissioned by the Financial Times into the impact of austerity.'

⁴⁵ The focus of the study is on Northern Ireland, but results for the UK as a whole are also reported. See IFS. (2013).

⁴⁶ *The Guardian*, 22 April 2013, available at: <http://www.guardian.co.uk/business/2013/apr/22/eurozone-crisis-markets-rally-italian-president>.

made more than a year after the recession became rather deep. Olli Rehn's office has understandably reacted to this criticism by saying that the IMF is not entitled to "throw dirty water" in public.⁴⁷

What are the lessons from the rise and decline of FAD? While counterfactuals can never be proven, it is entirely plausible that growth and employment outcomes might have been more positive had alternative policies been followed. After all, the Euro area was growing at a reasonable rate in 2010.⁴⁸ Policy-makers seized on this as a moment to introduce "front-loaded" fiscal austerity programmes. They could have continued with the fiscal stimulus programme until the growth and employment recovery was fully secure. Of course, a sovereign debt crisis broke out in late 2009 in Greece, but that could have been contained with a programme of comprehensive debt forgiveness or allowing an orderly default buttressed by a comprehensive pro-growth reform agenda. The fact that this did not happen has little to do with the deficiencies of basic macroeconomic principles and a lot to do with the political economy of debt forgiveness and default. For every imprudent (sovereign) borrower, there is an imprudent (private) lender. The costs of debt forgiveness or default would have been largely borne by the private banks of the creditor countries of the Euro area. Hence, there was an understandable reluctance on the part of creditor countries to accept a large-scale programme of debt forgiveness or even orderly default. Instead, they ended up, through successive bail-out plans, transferring such costs to national governments and taxpayers.

What can one do now? Slowing the pace of fiscal consolidation is not enough to reverse the harm done to growth and employment; neither is the promise of internal devaluation or structural reforms likely to materialize quickly. Individual debt-strapped Member States of the Euro area can do very little to re-engage in fiscal stimulus measures simply because they lack the fiscal space to do so. This is where supra-national initiatives become relevant.

Elements of an alternative policy vision might include the following: revisiting the issue of debt forgiveness and following up with a comprehensive strategy of institutionalized fiscal transfers within the Euro area; recommitting to a strategy of public investment-driven fiscal expansion in creditor countries; reversing the emphasis on wage moderation policy, allowing instead for wages to grow in line with productivity and, more generally, putting a moratorium on contentious labour market reforms until growth returns; reviewing the ultra-low inflation target set by the ECB and the way it triggers monetary policy ac-

⁴⁷ Stevis, M. 2013. "Rehn Hits Back at IMF Over Greece", *Wall Street Journal*, 7 June, available at: <http://online.wsj.com/article/SB10001424127887323844804578530782011779680.html>.

⁴⁸ According to the April 2013 online edition of Eurostat, growth in the Eurozone was 2.0 per cent in 2010. It decelerated to 1.5 per cent in 2011. Both the Euro area and EU have been in recession since 2012.

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tions; enabling the ECB to act as a lender of last resort; and engaging in a Euro area-wide external devaluation to boost continental competitiveness.

There is no guarantee that these elements will create the expected benefits in terms of growth and employment. What one can say with some confidence is that the quest to contain public indebtedness has significantly worsened the situation of millions. Maintaining the status quo is unlikely to lead to a better future for the Euro area in particular and Europe in general.

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GREECE REVISITED

Apostolos Dedoussopoulos

INTRODUCTION

The aim of this brief study is to examine the impact of policies implemented in Greece under the Memoranda since May 2010 on the labour market and on industrial and employment relations.

After two general elections in May and June 2012, a coalition government was formed in which New Democracy – the major party in the coalition – PASOK and the Party of the Democratic Left participate. According to their common declaration, the formation of the coalition government was based on two premises: to ensure that Greece stayed within the Eurozone; and to renegotiate the Memorandum II agreement reached in February 2012, primarily to introduce measures for growth into policies.

The government succeeded in one of its objectives but failed in the other. Greece stayed in the Eurozone, though scepticism about the current state of the EU and the future of the Euro is increasing even among the most pro-European people. But it failed to renegotiate any significant aspect of the policies implemented under the memorandum. And so the Greek economy remains caught in a recessionary spiral with devastating results for social cohesion, productive potential and labour-market institutions.

Hence there has been growing discussion of both the effectiveness of the policies executed and the rationale of the policies themselves. With respect to the latter, there are a number of suggestions that the policy relates to a Schumpeterian “creative destruction” type of policy, though the creative part remains to be seen.

POLICY RATIONALE AND FORMATION

The policy rationale of all interventions after the Memoranda is based on two assumptions. First, that the Greek public sector has been very large, and, second, that the Greek labour market has been highly inflexible. Both these assumptions are highly contestable and are proven erroneous. The size of the public sector measured by the share of public expenditure and of public revenue in GDP and of the share of public employment in total employment had

been constantly below EU and Eurozone averages.⁴⁹ There is an increasing discrepancy between public expenditure and public revenue, as the ratio of revenues constantly fell in the 2000s, a result of the erosion of tax-collecting capabilities, extensive tax evasion, and tax exceptions introduced or maintained favouring specific business interests.

On the other hand, the Greek labour market is segmented, with one segment being relatively protected and the other (comprising more than 70 per cent of the wage earners) highly unprotected. This suggestion is well supported by a number of indices and econometric estimations some of which are also reported in the Working Paper and are not repeated here.

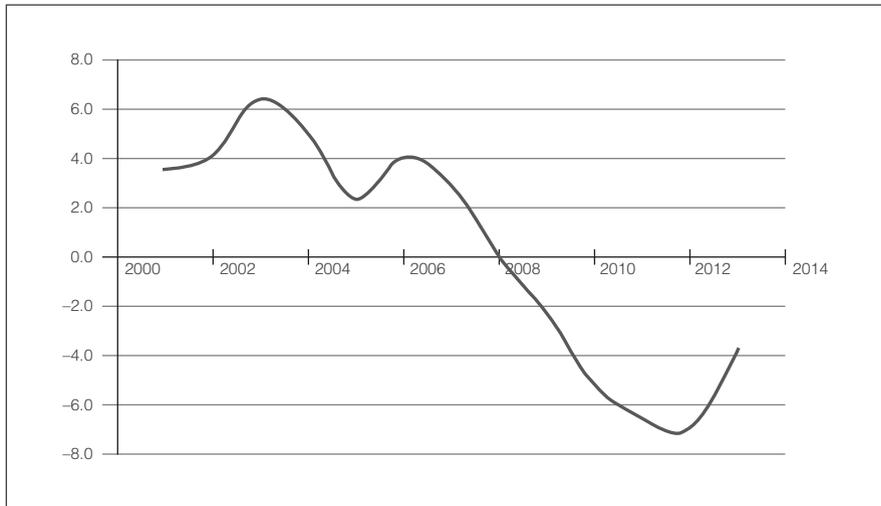
Public sector employment and labour relations have been the target of multiple flexibilization attempts since the late 1990s. Part-time jobs, fixed-time contracts and subcontracting to private firms and the use of low-paid “stage” labour as a substitute for public employee labour have been extensively deployed and rapidly increased over the 2000s. Such a trend has been well documented, in contrast to private sector employment where needed flexible employment contracts have been applicable, but not to a large extent. Sectoral differences stand out, with part-time jobs concentrated mostly in services (large retail firms and tourism) and fixed contract (seasonal) labour in food industries, construction and tourism.

Did these attempts to expand flexible work at the core of the public sector stem from political-ideological reasons, wage-bill reduction rationalizations or an easy way for government officials to evade the strict provisions of hiring public employees? Sadly, replying to that is beyond our remit. The result has been that the public sector did not provide a protective wage for all employees, and differences arose among state employees, eroding, among other things, the representation and ability of public sector trade unions to negotiate effectively. Further, this increase in flexi-jobs in the public sector may well account for the reported increase in the public sector wage bill over 2007–2009, though wages of public servants did not increase.

QUESTIONS OF POLICY EFFECTIVENESS

This section attempts to consider the effect of the Memoranda policies on the main macroeconomic variables of the Greek economy. The evolution of the macroeconomic environment is compared to the targets and forecasts of the Memoranda themselves, i.e. we adopt the targets and see how much they were achieved. This is a legitimate methodological approach, in the sense that it pinpoints the internal failure of the policies.

⁴⁹ For evidence see Dedoussopoulos, A. 2012. “The state of the Greek labour market under crisis”, part of an on-going research project on strategic human resources management (Hay Group, OMAS, EEDE).

FIGURE 5.1: RATE OF CHANGE IN GDP

Source: Hellenic Statistical Authority (EL.STAT).

The following figures illustrate the extent of the recession and the ineffectiveness of the policies. The effect of the policies is so strong that the figures are self-explanatory.

A slowing in the rate of decline in GDP (figure 5.1), from 7.1 per cent in 2011 to 3.7 per cent in 2013, is seen, but this is far from signalling an overall reversal. GDP size is noted as “provisional estimations” by the Hellenic Statistical Authority for the period after 2008, which sheds an element of doubt about actual levels. GDP also maintains its strong seasonal pattern, though the seasonally adjusted levels reveal a clear negative trend.

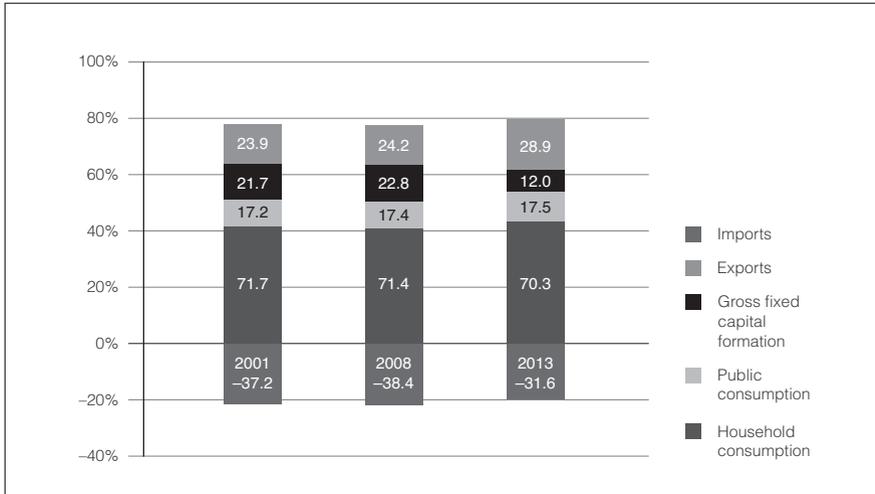
Figure 5.2 illustrates the structural changes (or continuities) by macroeconomic category. Only two are significantly affected as their share in GNP falls by almost 10 percentage points over 2008–2013: investment and imports, a serious outcome of the deep recession. The sharp reduction of investment’s level and share in GNP further supports the argument of “destruction without creation”.

Private consumption declined faster than GNP, but public consumption, though falling, did not. Public spending adjustment has been carried out mostly through reductions in salaries and pensions of public servants, leaving relatively intact other expenditure.

Finally, exports only marginally improved their share in GNP, rendering an export-led recovery an implausible scenario.

The following figures illustrate the rate of change in the GNP components.

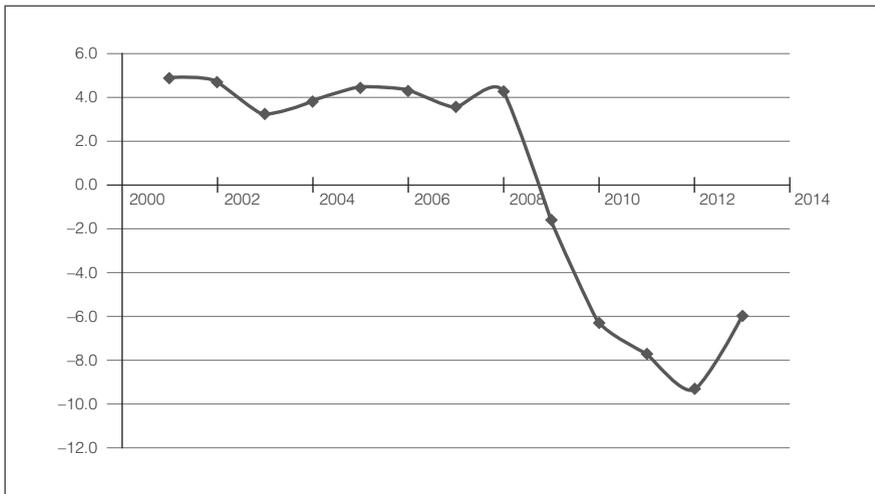
FIGURE 5.2: COMPOSITION OF GDP – DEMAND APPROACH



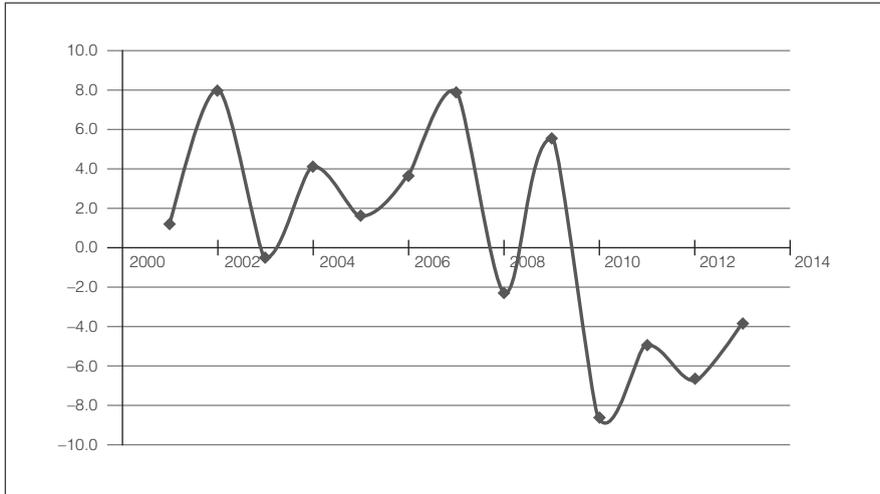
Source: EL.STAT.

Private consumption increased at 4–5 per cent a year before 2008 (figure 5.3), and was the main force of the high growth of the economy in the 2000s. But after 2008 private consumption fell sharply and increasingly fast, the result of sharp reductions in private disposable income, mainly due to cuts in salaries and pensions and higher taxes, and of course, rising unemployment.

FIGURE 5.3: RATE OF CHANGE IN PRIVATE CONSUMPTION



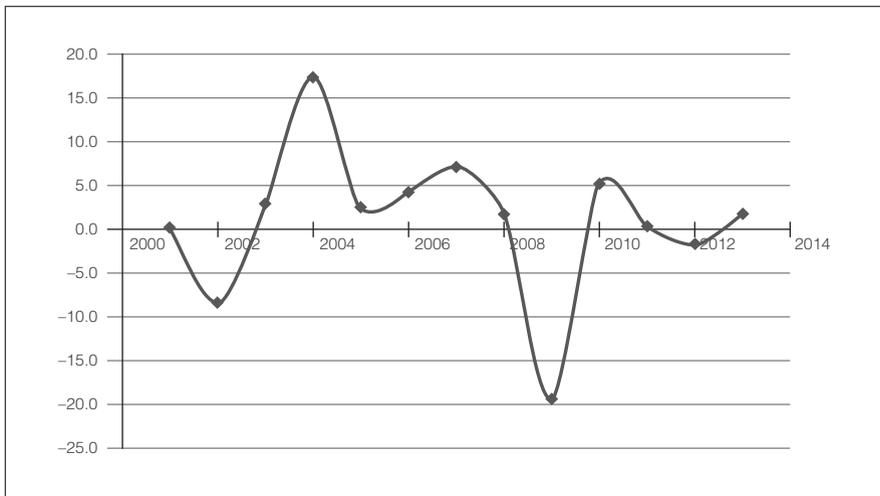
Source: EL.STAT.

FIGURE 5.4: RATE OF CHANGE IN PUBLIC CONSUMPTION

Source: EL.STAT.

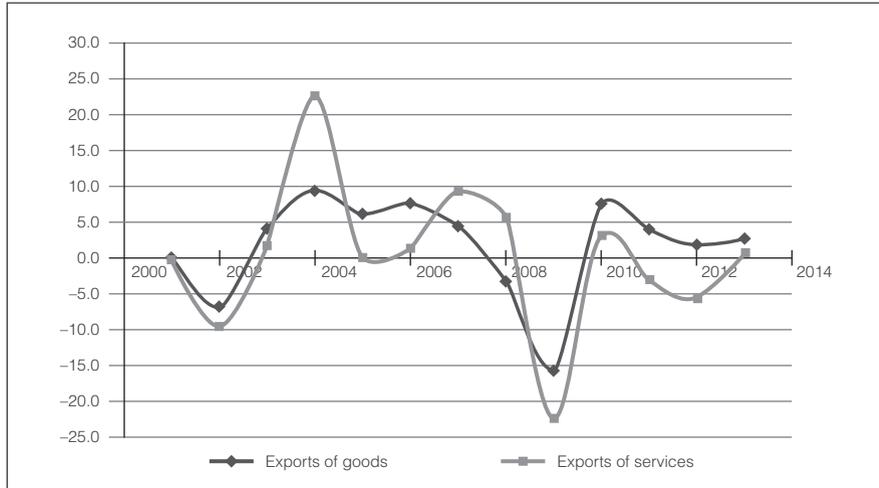
The change in public consumption is highly variable (figure 5.4), but it seems to follow a political pattern, i.e. increasing during election years (apart from the increase in 2002, the year before the Olympic Games).

After tumbling dramatically in 2009 (figure 5.5), exports seem to be the only macroeconomic category with positive growth after 2008. Yet this applies only

FIGURE 5.5: RATE OF CHANGE IN EXPORTS

Source: EL.STAT.

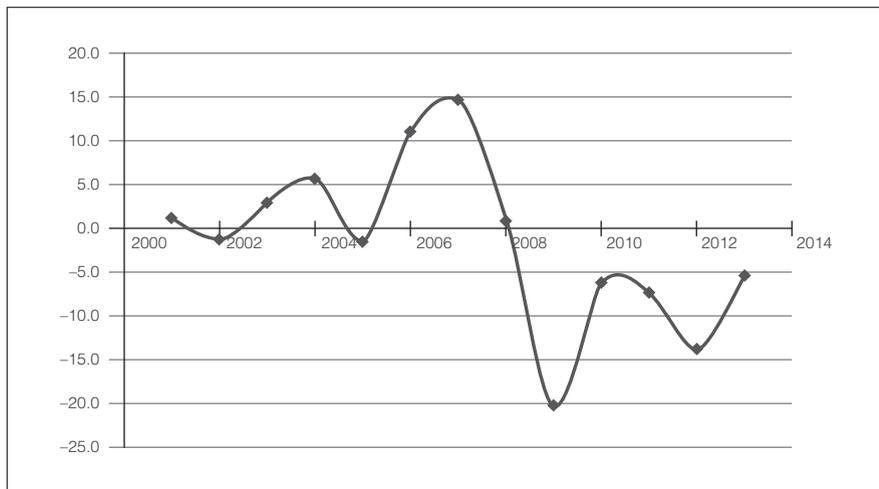
FIGURE 5.6: RATE OF CHANGE IN EXPORTS – GOODS AND SERVICES



Source: EL.STAT.

to goods exports, as growth in services exports were negative in 2012 (figure 5.6). The positive performance among goods exports depends heavily on petroleum products and minerals – a rather disappointing outlook for what is left of Greek manufacturing.

FIGURE 5.7: RATE OF CHANGE IN IMPORTS



Source: EL.STAT.

TABLE 5.1: GDP GROWTH FORECAST

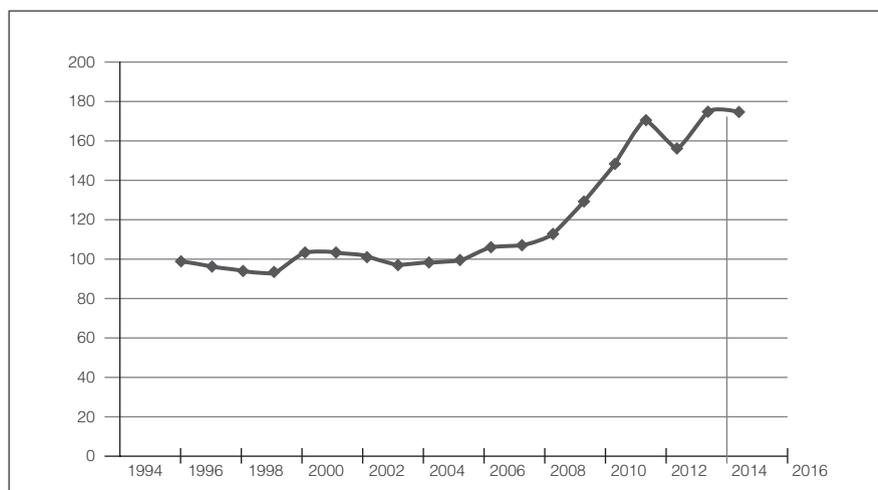
	Forecast			Actual
	Autumn 2010	Interim 2012	Spring 2013	
GDP growth (%)				
2010	-4.2	-	-	-4.9
2011	-3.0	-	-	-7.1
2012	1.2	-4.7	-	-6.4
2013	-	0.0	-4.2	-4.1
2014	-	-	0.6	-
Unemployment (%)				
2010	12.5	-	-	14.2
2011	15.0	-	-	20.7
2012	15.2	19.7	-	26.0
2013	-	19.6	27.0	-
2014	-	-	26.0	-
Budget deficit (% of GDP)				
2010	-9.6	-	-	-10.7
2011	-7.5	-	-	-9.5
2012	-7.6	-7.3	-	-10.0
2013	-	-8.4	-3.8	-12.7
2014	-	-	-2.6	-1.6

Source: EC DG Economic and Financial Affairs, *European Economic Forecasts*, various issues.

Finally, the behaviour of imports was to be expected due to the decrease in demand (consumption and investment) and the notable shift in intermediate demand sources to domestic suppliers because of the inability to pay in cash as required by foreign providers (figure 5.7). That is also a possible motive for an import substitution policy, at least in some manufacturing sectors.

To give a rather impressionistic picture of the macroeconomic performance of the Memoranda policies over 2008–2013, GDP has fallen by 23.5 per cent, almost a quarter of its original level, private consumption by 27.4 per cent, fixed capital formation by 58.5 per cent and exports by 14.9 per cent. One can hardly maintain that such developments constitute successful treatment of the economic problem. The losses in investment and exports indicate that the internal devaluation policy has had devastating effects on the productive potential of Greece.

FIGURE 5.8: DEBT-TO-GDP RATIO



Note: The vertical line marks the start of the forecast period.

Source: EUROSTAT. 2013-14 forecast by EC DG Economic and Affairs, *European Economic Forecasts*, 2013.

Spring 2013's GDP growth forecast published by the EC predicts a recession rate equal to -4.2 per cent for 2013, before a recovery of 0.6 per cent in 2014. But as most recent forecasts have turned out overoptimistic (table 5.1), one should stay cautious.

It seems that EC forecasts do not accurately capture the real pattern of change of the macroeconomic categories. To a large extent, this is due to the famous "multiplier underestimation" used by the IMF for assessing the impact of the budget reductions (IMF, 2012).⁵⁰

The impact of the "more-than-expected" recession of the Greek economy is reflected in the debt dynamics of the Greek state (figure 5.8).

Private sector involvement lowered the Greek public debt-to-GDP ratio by 33.8 percentage points by February 2012; however, by the end of the year almost two thirds of the reduction had been eliminated. All factors contributing to the increasing debt ratio remain intact and are re-enforcing one another; the only exception was the price level, though inflation remained positive.

⁵⁰ The latest, rather over-optimistic projections of the macroeconomic variables are reported in the Spring 2014 issue of *European Economic Forecasts*, EC DG Economic and Financial Affairs. One cannot expect any recovery in private consumption and fixed capital formation, as disposable income continues to fall. Furthermore, 2014 Q1 figures on exports point to a declining level, available at: http://www.statistics.gr/portal/page/portal/ESYE/BUCKET/A0902/PressReleases/A0902_SFC02_DT_MM_05_2014_01_E_GR.pdf.

THE LABOUR MARKET

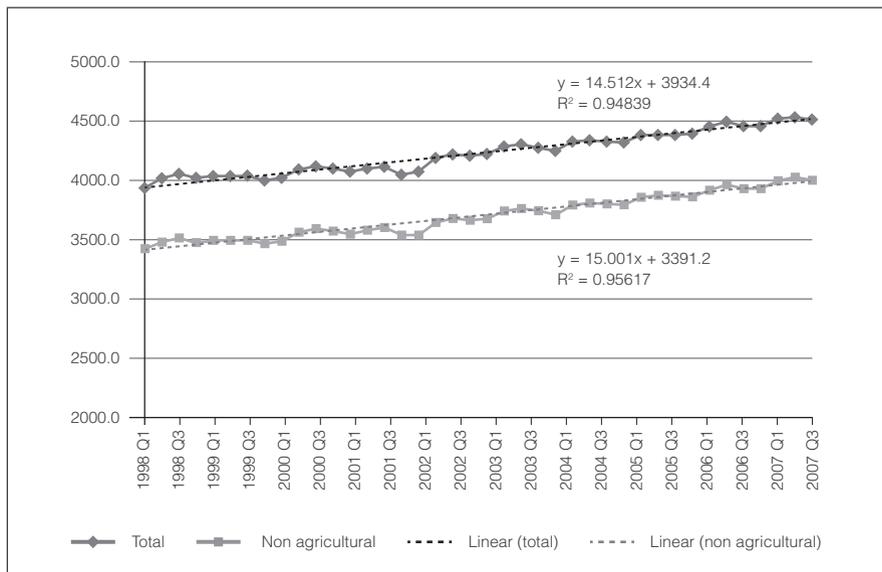
Aggregate impacts

Some effects of the 2008 crisis on the labour market can be seen when one compares the pattern of employment growth before and after the crisis.

The constancy of the strong upward trend in quarterly total and non-agricultural employment for the period from the first quarter of 1998 to the last quarter of 2007 is remarkable (figure 5.9).⁵¹ On average, employment increased each quarter by 15,000 persons, which was enough to absorb the employment reduction in agriculture and to reduce unemployment from 10.8 per cent to 8.1 per cent over the period.

Figure 5.10 stands in stark contrast: after the first quarter of 2008 – during the crisis – the trend is not linear but quadratic.⁵² The effect of the crisis on employment levels is depicted by the terms of time, indicating an accelerating rate of (negative) change.

FIGURE 5.9: EMPLOYMENT – THE “GOOD TIMES”, 1998–2007

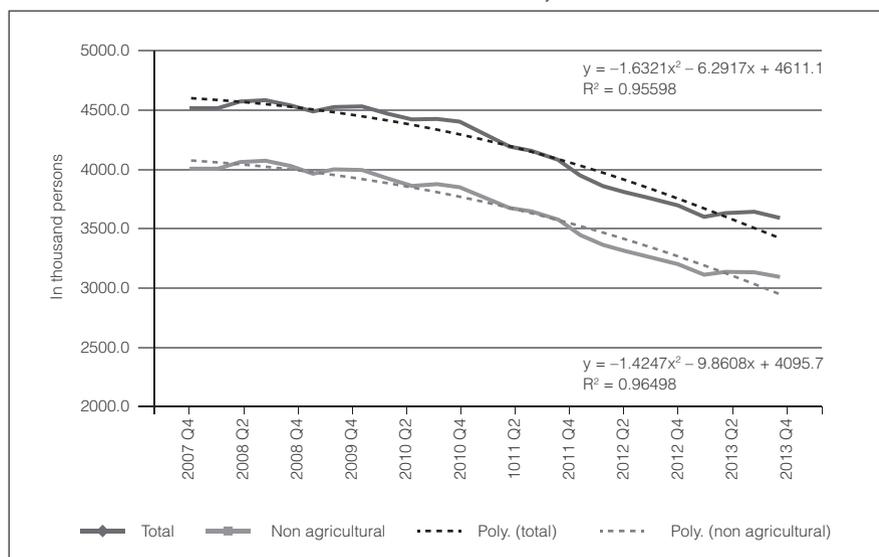


Source: Labour Force Surveys. Employment in thousand persons.

⁵¹ Falling agricultural employment – mainly due to the age structure – did not contribute significantly to a net movement of employment from agriculture to other sectors. Beyond the overall falling trend, agricultural employment exhibits a two-year cycle.

⁵² The time trend is changed from a linear to a quadratic form, i.e. $y = a + bt + ct^2$.

FIGURE 5.10: EMPLOYMENT – THE TIMES OF CRISIS, 2008–2013



Source: Labour Force Surveys. Employment in thousand persons.

A comparison of the trends before and after the crisis illustrates the above argument (table 5.2):

TABLE 5.2: COMPARISON OF EMPLOYMENT TRENDS

Period	t	t2
Before (1998 Q1–2007 Q4)	15.001	
During (2008 Q1–2013 Q4)	-9.8608	-1.4247

In 2013 the rate of employment reduction slowed, but remained negative (-3.15 per cent) at the end of the year (Labour Force Surveys).

The Greek economy lost 896,000 jobs from the first quarter of 2009 to the fourth quarter of 2013. Simple arithmetic suggests that if the economy regains the pre-crisis job creation pace of 60,000 a year, it will take 15 years to return to the employment level of the first quarter of 2009. This alone indicates the depth of the employment crisis and the problems that lie ahead.

Sectoral impacts

During 2009–2013 three main sectors of economic activity contributed almost 60 per cent of total job losses. The manufacturing and construction sectors

TABLE 5.3: CONTRIBUTION OF SECTORS TO EMPLOYMENT REDUCTION

Sector of economic activity	2010 Q4 – 2011 Q4	2011 Q4 – 2012 Q4	2012 Q4 – 2013Q4	Total 2009 Q4 – 2013 Q4
A. Agriculture, forestry and fishing	10.12	4.46	-9.1	6.5
B. Mining and quarrying	0.60	0.52	1.7	0.6
C. Manufacturing	16.56	15.26	19.4	18.3
D. Electricity, gas, steam and air conditioning supply	-0.41	-0.48	-3.2	-0.4
E. Water supply; sewerage, waste management and remediation activities	1.94	0.92	-1.2	0.8
F. Construction	19.53	15.74	29.3	23.0
G. Wholesale and retail trade; repair of motor vehicles and motorcycles	19.53	26.45	22.6	17.5
H. Transportation and storage	4.61	5.54	-4.4	3.5
I. Accommodation and food service activities	2.70	9.76	9.7	7.0
J. Information and communication	4.09	-3.90	-0.4	1.1
K. Financial and insurance activities	-0.79	5.30	-5.1	0.5
L. Real estate activities	-0.55	0.80	1.9	0.4
M. Professional, scientific and technical activities	-0.82	-1.75	19.9	2.8
N. Administrative and support ser- vice activities	1.31	3.63	-4.4	0.4
O. Public administration and de- fence; compulsory social security	7.67	-2.87	10.9	3.9
P. Education	2.76	9.32	-10.9	4.0
Q. Human health and social work activities	2.40	3.71	10.7	2.9
R. Arts, entertainment and recreation	0.25	2.67	-7.3	0.2
S. Other service activities	1.50	1.75	13.4	2.1
T. Activities of households as employers	7.12	3.03	6.6	4.9
U. Activities of extraterritorial organizations and bodies	-0.11	0.16	0.0	0.0
	100.0	100.0	100.0	100.0

Source: Labour Force Surveys.

were hit first, with wholesale and retail trade declining after 2010. The decline of employment in the trade sector has been quite severe. In 2012, 25 per cent of total job losses were in the commercial sector. In 2013 trade contributed 22.6 per cent with construction reaching 29.3 per cent of total losses.

In 2013 some sectors, notably agriculture and education,⁵³ showed a reversal of previous declining trends. However, important losses are noted in professional and scientific activities (a sector with constant or even increasing employment in previous years), in public administration and in health, as well as in the other services sector. All these sectors had encountered little damage in terms of employment over 2009–2012. Activities related to tourism also exhibited a rather strong negative impact in 2012 and 2013.

Deep and highly spread reductions in employment levels in all sectors of economic activity, with the exception of energy supply, indicate the extent of crisis; however, the quantitative aspects above are incomplete. Drastic changes have been seen in labour relations, social dialogue, remuneration of labour and living standards.

Part-time employment increased, as expected. In 2008, agriculture aside, part-time employment was concentrated primarily in trade, tourism, education and household services. Otherwise, it was unpopular among both employers and salaried personnel. Between Q3 2008 and Q3 2012, part-time employment increased by 17.6 per cent, while full-time jobs fell by 20.6 per cent. Part-time jobs in 2013 declined at 3 per cent.

Two factors stand out: as activity rates declined, part-time work rose among those previously employed full time; and some firms looked at increasing flexi-type jobs, since barriers to such jobs have been eliminated.

In seven sectors, total and part-time employment fell. In others, the fall in total employment was accompanied by an increase in part-time employment. Part-time work, as well as job rotation, have increased in construction marginally, and in manufacturing primarily, partly owing to labour hoarding as firms try to retain skilled personnel.⁵⁴

A press communication from the Labour Inspectorate Body (LIB)⁵⁵ in March 2013 indicates the scale of the problem (table 5.4), highlighting two aspects. First, a rapid decline of 27.7 per cent was observed in the total number of new employment contracts (hiring) during 2009–2012, demonstrating the breadth of the recession and reduced labour mobility.

⁵³ The increase in employment in education raises some doubts over accuracy.

⁵⁴ See Dedoussopoulos, A. “The state of the Greek labour market under crisis”, part of an on-going research project on Strategic Human Resources Management, Hay Group, OMAS, EEDE.

⁵⁵ LIB, press release 12 March 2013.

TABLE 5.4: NEW EMPLOYMENT CONTRACTS

	New contracts	Full-time jobs	Part-time jobs	Job rotation
2009	945,138	746,911	157,738	40,489
2010	875,952	586,281	228,994	60,677
2011	762,544	460,706	233,538	68,300
2012	683,443	375,843	241,985	65,615
Breakdown of new contracts				
2009	100	79.0	16.7	4.3
2010	100	66.9	26.1	6.9
2011	100	60.4	30.6	9.0
2012	100	55.0	35.4	9.6

Source: LIB, press release 12 March 2013, Tables I, IV and V.

Second, a sharp fall in the share of full-time jobs was seen, while the number of part-time and rotated jobs more than doubled. Job rotation increases the number of new contracts, although it decreased in 2012 from 2011. Overall, during 2009–2012, part-time jobs increased by 53.4 per cent, job rotation rose by 62.1 per cent and full-time employment contracts declined by 49.7 per cent.

The same period also saw a trend of changing the form of job contracts (table 5.5).

TABLE 5.5: CHANGES IN JOB CONTRACTS

	Total	Part time	Job rotation		
			Total	Rotation 1	Rotation 2
2009	16,977	12,219	4,758	4,146	612
2010	26,253	18,713	7,540	6,527	1,013
2011	58,962	32,420	26,542	19,128	7,414
2012	84,290	49,640	34,650	21,278	13,372
Breakdown of changes in form of job contracts					
2009	100.0	72.0	28.0	(87.1)	(12.9)
2010	100.0	71.3	28.7	(86.6)	(13.4)
2011	100.0	55.0	45.0	(72.1)	(27.9)
2012	100.0	58.9	41.1	(61.4)	(38.6)

Source: LIB, press release 12 March 2013, Table III. Rotation 1: After an agreement between the employer and the employee. Rotation 2: Rotation is imposed by employer unilaterally.

Although the LIB distinguishes between “consensual” and “non-consensual” changes in the form of contracts, most of the changes from full-time to part-time employment, and to job rotation, take place under the explicit or implicit threat of dismissal – 37 per cent of all employees in 2012 were either dismissed, changed to part-time contracts, or placed in job rotation.

Labour contract changes are closely related to wage changes. Part-time jobs and job-rotation schemes, though possibly preferable to unemployment, have been considered the main factors in poverty among the working population (for example, Dafermos and Papatheodorou, 2012). Flexible working patterns reduce total individual consumption (and social security revenue) and hinder the pace of recovery. This is the result of treating labour merely as a private cost and overlooking the macroeconomic, public effects, as well as the impact of low remuneration on employees’ morale and productivity.

INSTITUTIONAL DEVELOPMENTS

After the June 2012 elections and the formation of the three-party coalition government, a significant law on labour market issues was passed. Law 4093/2012, voted as a single article,⁵⁶ covers a variety of issues, from taxes on solar energy and urban planning to pension and salary reductions in the public sector and the liberalization of private labour offices.

The law activated the medium-term fiscal framework 2013–2016, after the agreement between the government and the troika, and specified labour market issues already undertaken with reference to Law 4046/12. The main elements include:

- A steep reduction in salaries of university professors and research personnel, members of the judicial system, and public servants excluded from the single public sector remuneration code;⁵⁷
- Abolition of 13th and 14th months’ salaries for all public servants;
- Reduction of pensions and extension of the age limit to qualify for a pension;
- Introduction of unqualified suspension of public sector personnel,⁵⁸ for one year leading to dismissal, unless the suspended person is re-employed in a different service;

⁵⁶ Voting on a law as a single article is a practice followed by the Greek government to avoid negative voting from majority members of Parliament in certain provisions of the law.

⁵⁷ All public servants in Greece receive a single salary, irrespective of the sector they are in. Some professions have been exempted, such as university professors.

⁵⁸ Unqualified suspension refers to suspension not related to person’s work effort, standards or misconduct. Recent examples include the closing of the National Broadcasting Service (ERT) and the disbanding of local authority police forces, school wardens and public sector janitors.

- Abolition of the five-day week without a reduction of the 40-hour work week;
- Facilitation of shift work by establishing an 11-hour period between two shifts; and Optional notification in advance of overtime work, which makes LIB inspections superfluous.

Though evidence is not yet available, it is expected that undeclared and unpaid overtime hours have risen sharply.

November 2012 saw two further interventions: the abolition of the marriage allowance (10 per cent of base salary); and further reductions of redundancy costs.

Three main reforms of labour law and industrial relations are demanded by the troika:

- A change in the procedures applicable to mass lay-offs.
- The introduction of absolute majority of all concerned employees for adopting strike decisions. In a nutshell, this implies the limitation of the right to strike for trade unions below federation level.
- The introduction of a lock-out policy on behalf of the employer.

COLLECTIVE BARGAINING AND WAGE SETTING

Law 4093/2012 provides a framework for private sector wage setting. The minimum wage has to be set by decree, after consultation with the social partners. However, the Minister of Labour is not obliged to set a minimum wage according to the social partners' proposals, nor can the social partners determine labour remuneration via national collective agreements.

The law abolished various allowances. Allowances in the private (and public) sector have traditionally been widely used as substitutes for direct wage increases, raising low salaries and leading to divisions among trade unions and employees. In the public sector, they led to a disregard for income policy guidelines. Four special allowances only have been kept: child-related benefits; those for hazardous work; seniority benefits; and benefits related to education (tertiary education only). Seniority benefits are frozen at current levels until unemployment falls to 10 per cent.

Collective bargaining structures and procedures have been greatly affected by Law 4093/2012. There has been a marked reduction in sectoral or occupational collective bargaining agreements with national coverage (table 5.6), and the number of terminated or terminating sectoral agreements has rapidly increased. According to a review of collective agreements conducted by the Bulletin of Labour Legislation (DEN) in May 2013, out of a total of 272 occupational or sectoral collective agreements, 233 had been terminated and only 33 (12 per cent) had been renewed. A few collective agreements related to the broad public sector had been replaced in 2011 (Law 4024/11).

TABLE 5.6: COLLECTIVE BARGAINING AGREEMENTS

Year	At enterprise level	Sectoral or occupational with national coverage
2010	238	67
2011	179	28
2012	976	2

Source: Ch. Ioannou and K. Papadimitriou, *Collective bargaining in Greece in 2011 and 2012: Tendencies, breaks and prospects – Synopsis*, 2013, OMED (in Greek).

According to a recent study (Ioannou and Papadimitriou, 2013), the dominant features of collective bargaining in Greece after 2011 have been “the rapid decentralization of collective bargaining at the enterprise level with the simultaneous reduction of collective bargaining coverage in the Greek labour market” (p. 3). The same study notes that the Organization for Mediation and Arbitration (OMED) had become marginalized in industrial disputes.

Most of the collective agreements in 2012 were concluded through the newly established “associations of persons” (Law 4024/2011), which can be formed with the participation of at least five employees. The number of agreements concluded by such associations came to 72.6 per cent of all enterprise agreements in 2012, while those concluded by trade unions at the firm level was 17.4 per cent of the total. A further 9.9 per cent of collective agreements were concluded by local sectoral and occupational trade unions.

The difference in bargaining procedures and results, between associations of persons and enterprise trade unions, is reflected in wage concessions. According to Ioannou and Papadimitriou (2013, p. 9), two thirds of total agreements concluded by associations of persons cut wages to the minimum wage set by the General National Collective Agreement of May 2013. Agreements concluded at the enterprise level by trade unions have managed to retain previous wage levels by 33 per cent.

Evidence from the LIB suggests that wage reductions in individual agreements between the employer and employee were far greater than wage reductions in enterprise level collective agreements (both by trade unions and associations of persons). Individual agreements have led to a 22.2 per cent cut (when unweighted; when weighted, by 22.9 per cent), while collective agreements have led to an 18.8 per cent unweighted wage reduction (17.4 per cent weighted).

The national minimum wage in collective agreements has played a central role in that the minimum wage was set and then upward increments were created by sectoral or occupational collective agreements. But it has also served as a basis for *downward* deviation: as it has been lowered by 22 per cent, the whole private sector wage structure has also been reduced by a similar proportion.

The rapid proliferation of associations of persons at firm level is hard to comprehend. Trade unions at that level have usually encountered difficulties in becoming established. Most individual employers have been reluctant to have a trade union in their business. Furthermore, the vast number of micro firms has had a negative impact on the establishment of firm-level trade unions. The trade union leadership in Greece has not advocated for the development of firm-level unions, and so, apart from the General National Collective Agreement, only sectoral or occupational bargaining procedures have been effective, especially as their provisions were extended to firms that were not necessarily members of the relevant employers' association. This created the conditions for largely impersonal negotiations, because the frequently strong and direct relationships between employers and employees in small and medium-sized enterprises were not taken into account in wage agreements.

These relationships (e.g. the exchange of atypical favours and concessions on issues related to work itself, from extending the working hours to reallocating tasks) had provided these enterprises with the internal flexibility necessary for their survival. These close employer-employee relationships in small and medium-sized enterprises had allowed for a paternalistic management of labour relations in Greek industrial relations. But as the issue of wages was addressed by a negotiating procedure *outside* the firm (in which neither the employer nor the employee took part), the more direct personal contact in the day-to-day organization of businesses was sidelined, with the new emphasis on wage negotiation at firm level marking a drastic shift in labour relations from *paternalistic management to an authoritarian regime* of labour relations – that is, management appears to have undisputed power limited only by external factors, such as demand for the firm's product, the competition and availability of finance.⁵⁹

Still, some paternalistic forms of management have been kept. Some employers have *unofficially* increased (to avoid the social security costs) employees' wages, taking into account living conditions and employees' needs. Wages have always had an ethical component, as well as a standard-of-living and productivity component. This, however, raises the thorny issues of undeclared income and work, and the perverse incentives introduced in the legal regimes.

It is still too early to say whether this transition to "authoritarianism" will become permanent. Some elements in society favour it, in a historical reprise to pre-1974 Greece and before democracy was restored to its place of birth. These elements are seen in business and politics. The current government is keen to interfere in resolving industrial conflicts in favour of specific business interests, although in reality labour management has been left to individual

⁵⁹ A reviewer of this chapter has pointed out that "paternalism has always had an authoritarian aspect". I quite agree with that. However, a detailed discussion on this issue is beyond the scope of the present study. There is a relatively large and vivid literature: see among others Dundon, T.; GrugulisI. and Wilkinson, A. (1999) and Ackers, P. (1998).

employers on the one hand and the machinery of the state on the other. A framework for social partners to negotiate collectively and to come to common wage agreements simply no longer exists.

One cannot rule out, however, the very remote possibility that associations of persons, mostly created by employers' bodies and trade unions, may become the kernel of a new grassroots trade unionism – if official trade unions contribute positively in that direction, regarding them as allies, rather than threats. Needless to say, such an option requires the associations of persons to prove their ability at real negotiating, which they still have to do.

THE ROLE OF THE SOCIAL PARTNERS

When discussing the economic prospects of the country and the state of labour relations with social partners one sees frustration, disappointment and a practical inability to contribute to a necessary strategy of economic reconstruction. Employers' associations are consumed by a dilemma: all have publicly adopted positions for autonomous negotiations and against general wage cuts. They all agree that consumer demand and competitiveness has been and will be the main driving force of economic recovery and employment growth.⁶⁰ However, as their members can legally opt out of associations if they disagree with the terms of the collective bargaining agreement, they are very reluctant to seriously push for a change in policies.

In fact, some employers' associations at the national (third) level seem relaxed by the fact that they no longer have to, for example, help set the national minimum wage, a view made explicit by the representative of the Hellenic Federation of Enterprises (SEV). His view is that the social partners have to negotiate on a new basis, signing a "new form of contract", in which issues other than the wage rate will be determined. However, other employers' associations – mainly the National Confederation of Hellenic Commerce (ESEE) and the Hellenic Confederation of Professionals, Craftsmen & Merchants (GSEVEE) – have expressed concern about the present state and the future of labour relations.

One can draw a line dividing the two attitudes by size of the firms they represent. Relatively large firms, represented by SEV, the Hellenic Retail Business Association (SELPE)⁶¹ and the SETE (Association of Greek Touristic Business)⁶² have favoured wage cuts and labour market deregulation, while ESEE and GSEVEE have been traditionally reluctant to opt for wage cuts.

⁶⁰ See National Confederation of Hellenic Commerce, *Annual Review 2012*, p. 194.

⁶¹ The Hellenic Retail Business Association represents the organized retail trade, chain stores, malls and Greek multinational companies.

⁶² SETE has been given the status of the national social partner in 2013. SELPE participates in sectoral negotiations only.

There are two examples of different strategies developed by employers' associations in 2012-2013. The first is the conclusion of a national collective agreement for the trade sector, signed by ESEE and GSEVEE. They attempted to revive social dialogue after the June elections, but they failed, as other social partners reacted negatively. And so the two bodies concluded a national sectoral collective agreement with the Greek Federation of Private Employees (OIYE)⁶³ reaffirming most institutional provisions and with a moderate average wage reduction of 6.7 per cent, or a return to the 2009 wage level. SELPE had been invited to take part in the negotiations, but preferred to first sign a separate sectoral collective agreement and then to terminate it unilaterally, leading wage fixing to enterprise-level agreements.

The second example, the new National General Collective Agreement of May 2013, is indicative of the state of social dialogue and collective bargaining in Greece. The agreement does not refer to labour remuneration (as minimum wage setting is left to the government) and its only target was to restore the marriage allowance, abolished in November 2012 as seen. The General Confederation of Labour took the initiative, followed by the other social partners. Finally, an agreement was reached, but SEV refused to sign it, though it has instructed its members to continue paying the marriage allowance.

SEV seem to have questioned the value of the signed agreement on the grounds that it lacked legal substance and substantial content. SEV did not want to be part of one more "lost opportunity", as its wage setting mechanism is a given and wants to push forward for a new form of collective agreement with a broader scope focusing on issues of competitiveness. According to SEV, the General Confederation of Labour was pressing only on the issue of wages set by the General National Agreement which to him should not be viewed as an "existential question" for trade unionism.

Understandingly, GSEE suffered a blow after the implementation of the Laws concerning collective bargaining. And so far does not seem to have a clear strategy to overcome the current situation.

The question of competitiveness has been the main theme of SEV's agenda. SEV argues that wage reductions did not improve competitiveness. SEV appears sceptical about the possible sources of growth and even the recovery of the Greek economy, given the state of consumption demand, investment, government consumption and the very modest pace of export recovery. According to SEV the Greek economy needed a radical treatment, i.e. "all measures had to be taken simultaneously" and not gradually as it has been done so far, believing that policy targets should have been clear and all different interventions, applied simultaneously, would have made a difference. But gradual implementation of policies has been confusing and ineffective.

⁶³ Signed on 27 July 2012.

IMPLICATIONS FOR NOW AND THE FUTURE

Greece's current travails are not insurmountable, but they are extremely worrying, and unless resolved soon will affect future funding of the social security system, individuals' pension eligibility, long-run economic productivity, as well as, possibly, social cohesion.

- The number of persons in employment but not receiving wage payment after an interval of 3–6 months is steadily increasing. Largely this practice stems out the inability of enterprises to find short-term credit, but there are cases of deliberate postponing. The 55.8 per cent of labour disputes recorded by the LIB relates to refusal on behalf of the employer to pay work performed in the past. On the whole, remuneration issues amount to 75 per cent of all labour disputes, disputes over the legality of the termination of the labour contract count another 15.4 per cent, and disputes over the time dimension of work (overtime work, setting time schedules, etc.) account only for a small percentage (3 per cent).
- One of the main traditional arguments against minimum wages is that they encourage a black market in labour.⁶⁴ The evidence collected through recent years' inspections by the LIB suggests that unrecorded labour has increased, although the minimum wage has been cut by 22 per cent to well below the poverty line. The proportion of undeclared labour has risen from 25 per cent in 2010 to 36.2 per cent in 2012 in the inspected enterprises.⁶⁵ Undeclared labour among Greek natives increased from 22.6 per cent (2010) to 31 per cent in 2012. Undeclared labour among immigrant workers is even higher (46.9 per cent in 2012 compared with 31.5 per cent in 2010).
- Undeclared labour poses one of the many threats faced by the social security system. High unemployment, reduced wages and the growing share of the elderly are also setting the terms of a total breakdown in the near future. The 2012 private sector involvement contributed to the inherent instability of the Greek social security system, as a haircut has been imposed on social security funds held at the Bank of Greece.
- A reduction by 3.9 per cent of the social contributions rates (2.9 per cent for the employers contribution and 1 per cent for employees) will further decrease social security revenue. The reduction has been favoured by

⁶⁴ The other main argument is that the minimum wage reduces employment and increases unemployment. We will not be concerned with this argument here, as the empirical evidence does not seem to support it. See, among others, Card and Krueger (1995).

⁶⁵ There is a dark spot in the inspections performed by the LIB in the recent years. The average size of inspected enterprises in 2012 amounts to 2.2 employees per enterprise (4.1 in 2010), which raises questions on the methods of inspection in use. See LIB, press release 12 March 2013, Table 4.1.

TABLE 5.7: UNEMPLOYMENT RATES BY AGE GROUP

Age	2007 Q3	2012 Q3	2013 Q3
15-24	20.4	14.5	12.9
25-34	35.8	34.9	34.4
35-49	31.7	35.9	36.7
50-64	13.5	14.7	16.0
	100.0	100.0	100.0

Source: Labour Force Survey.

employers' organizations but opposed by the General Confederation of Labour, though mildly. According to government officials, such a reduction is expected to increase declared workers and/or increase competitiveness. However, a reduction in the numbers of undeclared workers is not to be expected if the LIB remains understaffed. Further, the effect of the non-wage labour cost is not expected to bring about any economically significant fall in prices.

- The structure of unemployment reveals an additional future threat: though youth unemployment is at record rates (almost 60 per cent in the 15–24 years age cohort), the age composition of unemployment “favours” middle-aged people (table 5.7).

In fact, though the rate of unemployment is much higher among youth, their share in total unemployment is a little lower than the oldest cohort in the age ladder, while the share in unemployment of people aged 35–49 has increased by 5 percentage points. This shift poses two crucial questions, for now and the future. First, less than 20 per cent of the unemployed currently receive unemployment benefits, which in any case are too low to cover subsistence needs. Furthermore, official estimates raise the number of families with no member in work in Q3 2012 to 400,000. Increasing segments of urban population face serious problems of subsistence. In addition, welfare state institutions, such as education, health and welfare services are underfunded, posing additional threats. Increasing activities of humanitarian bodies and proliferation of some forms of social solidarity attempt to bridge the gap, but the issues are far from resolved.

The second question touches on the next decade. The structure of unemployment indicates that the probability of re-employment for a large section of the labour force (those older than 40) is very low. This means that in the near future Greece either has to cope with a large permanently impoverished segment (more than a 20 per cent of the total population) which will never fulfil the conditions for pension eligibility, or a further demand on social security will arise, taking pensions very low, unless substantial new resources are directed to social pensions.

Youth unemployment attracts the interest of public opinion and policy makers. Such a position is not a mere erroneous conception of the reality of unemployment structure. It may provide a rationale for a further degree of deregulation of the labour market, by extending in-firm training programs as a substitute for paid employment and by further reducing the wage rate below minimum standards.

Yet the implications of youth unemployment are very important. It is negative for both future employment and career prospects, as well as personal and social aspects, including postponement of independence from the family, drug abuse, violence, and increasing racism, leading to political support for the neo-Nazi party of Golden Dawn. The brain drain is one response, though accurate data are unavailable. There are reports that many young people with a graduate or post-graduate degree, especially in medicine, civil engineering or the sciences, have migrated to Germany, the Netherlands and elsewhere in northern Europe. This loss of talent could become a serious impediment to any attempt for a re-orientation of the Greek economy towards its shrinking productive base.

All past and scheduled changes in labour law and in industrial relations form a very bleak picture for the future. One wonders whether the “Greek experiment” has gone too far.

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FROM NEGOTIATION TO IMPOSITION: SOCIAL DIALOGUE IN TIMES OF AUSTERITY IN SPAIN

Oscar Molina and Fausto Miguélez

Social dialogue exhibited a momentum in the two decades before the 2008 economic (or financial) crisis that contrasts with the challenges and tensions it now faces in the context of austerity and an unprecedented process of institutional reforms. These challenges are caused by several interrelated factors. The 2010 sovereign debt crisis, too, has certainly become a major obstacle for developing social dialogue. However, compared to previous episodes, the current crisis of social dialogue has a strong structural component related to its political legitimacy dimension and effectiveness. The negative implications of the 2010 crisis for democratic governance, with the imposition of austerity packages and reforms by various governments, are harming citizens' perceptions of political institutions and processes, including social dialogue, and weakening the social partners' political and institutional role. That role was also questioned by difficulties in reaching agreements in the early stages of the 2008 crisis.

INTRODUCTION

Among European Union (EU) countries, the 2008 financial and particularly the 2010 sovereign debt crises are having a particularly strong impact on the Spanish economy and labour market, owing to structural weaknesses and imbalances in that economy and to a construction-based growth pattern before the crises (Muñoz de Bustillo Llorente and Antón Pérez, 2011; Godino and Molina, 2011; Recio, 2011; Carballo-Cruz, 2011). The impact on the economy and the labour market has prompted an unprecedented series of reforms, particularly from early 2010. Not only have labour market regulation, employment policy and industrial relations seen substantial changes (six in two years), these transformations have often also entailed an overhaul of the existing institutional edifice.

The 2010 crisis has been a real turning point in the reform process as it has put the government and social partners under strong pressure to introduce reforms quickly against a rapidly worsening socio-economic backdrop. Although these reforms have introduced major changes in existing labour market institutions, the economy showed barely noticeable growth in 2013, though recent International Monetary Fund projections for 2014 expect growth of 1.2 per cent. The weakness of the recovery explains the fact that employment and

unemployment rates in Spain have experienced no significant improvement so far. This chapter argues that the internal devaluation strategy imposed because of membership in the eurozone and associated austerity policies are undermining social dialogue and the social partners' political role, and will have a long-lasting impact on the institutional pillars and dominant forms of coordination in the political economy.

The 2010 crisis has also led to austerity packages with the objective of reducing public deficits and the debt burden. Constitutional reform has set a ceiling on fiscal deficits and has made fiscal austerity and debt repayment a priority of government fiscal policy. However, little attention has been paid to correcting the structural imbalances of the economy. Fiscal adjustment has been based on spending cuts, though more recently direct and indirect taxes have risen. Such fiscal consolidation has led, for some public services such as health and education, a sharp drop in budget resources, an increase of private management and delivery, and a decrease in their universal character – as their limited coverage for undocumented immigrants exemplifies.

But austerity policies reverberate far beyond the economic sphere. They also affect democratic governance, social dialogue and political economy. Tripartite social dialogue has been stressed and has de facto been abandoned since February 2012 as the government ruled unilaterally on industrial relations and the labour market, while bipartite social dialogue continued delivering important agreements until January 2012. February 2013 saw a new tripartite meeting aimed at discussing a plan to fight youth unemployment. The perceived reasons for abandoning tripartite social dialogue are multiple as interviews with the social partners and members of government have made clear.⁶⁶ On the one hand, the position of the social partners as political actors has been called into question by part of the population and social movements like the 15-M or *Indignados* (outraged), whose criticism stems largely from their inability to reach agreement in 2008–2010 on reforming collective bargaining or the labour market. There is a widespread belief that social dialogue has failed to deliver timely results at a crucial period for the country, as were the initial years of the crisis. At the same time, the imposition of reforms by supranational authorities has reduced the legitimizing role of social dialogue for governments.

Beyond economics, the interviews raised other potential explanations. First, the fiscal constraints cut the chances of engaging in mutually profitable bargaining, hence limiting the possibilities for tripartite agreements where the institutionalization of social dialogue has shallow roots. Second, trade unions point to the political affinity of the party in government in explaining trends in

⁶⁶ The interviews were carried out in April-May 2012 in Madrid and Barcelona. The main goal of the interviews was to obtain detailed information about the perceptions of relevant policy-makers and social dialogue actors regarding the characteristics and evolution of social dialogue in the period 2007–2012. See Annex for the detailed interview list.

tripartite social dialogue, especially its abandonment in February 2012. Third, the characteristics and leadership of the peak trade union and employer organizations determined the evolution and outcomes of social dialogue, particularly for the difficult period of 2009–2010. Finally, a recurrent argument is the weak organizational articulation of trade unions and employer bodies that, according to Crouch (1993), is incompatible with stable tripartism as it hinders the effectiveness of pacts.

Still, some important agreements were signed during the crises, such as two Agreements on Employment and Collective Bargaining – in 2009 (AENC-I, 2010–2012) and 2012 (AENC-II, 2012–2014)⁶⁷ – as well as the January 2011 Tripartite Social and Economic Agreement. Yet social dialogue has failed to deliver far-reaching consensus on labour market reform and collective bargaining. Since February 2012, it has been definitively sidelined, even if February 2013 saw a tripartite meeting on a strategy against youth unemployment (*Estrategia de Emprendimiento y Empleo Joven 2013–2016*).

In sum, developments since the economic crisis seem to point towards a qualitative change, as labour-market and industrial-relations reforms had historically been preceded by negotiations – and only when these failed did the government choose to regulate. By contrast, social dialogue was absent for the drafting of February 2012's labour market reform.

Collective bargaining's rules and structures have also been modified in the crisis period. Beyond guaranteeing wage moderation, these changes aimed to achieve a better fit between real wages and productivity, both over time or across sectors and regions. This has led to changes to the structure of collective bargaining towards a de-centralization based on extending opting-out clauses for companies, such that de-centralization is managed from below (companies), not from above (sector-level agreements). In this vein, the 2012 labour market reform entails another qualitative change as it enhances the unilateral regulatory capacity of the employer.

Further, procedural changes have been introduced in regulating collective bargaining so as to facilitate and speed up renewal of agreements. These include changes in collective dispute resolution mechanisms. Thus, even though the social partners have defended their autonomy in reforming collective bargaining, some of these reforms have been passed by the government without being preceded by an agreement among trade unions and employers, in some cases decreasing collective rights and undermining collective autonomy.

Several sources have been used in this chapter. First, were the semi-structured interviews with policy-makers, social partners as well as experts. This qualitative

⁶⁷ They provided some general guidelines for collective bargaining and contained general indications for the development of negotiations around the reform of collective bargaining and wage-setting.

information was complemented with an analysis of literature in the field as well as other documents, including parliamentary debates and newspaper articles. Finally, quantitative sources for the labour market and collective bargaining were used.

ECONOMIC AND POLITICAL CONTEXT

Among the large Eurozone countries, Spain is, alongside Greece, the country where the crises are having a deeper and longer-lasting impact, given the confluence of several causes. First, Spain shares with other southern European economies low and stagnant productivity related to the production structure and the pattern of economic specialization of the economy (Mas et al., 2012). Second, it also (with Ireland) had a housing bubble leading to an unprecedented expansion of the construction sector and a steep rise in private indebtedness (López and Rodríguez, 2011). Finally, the quasi-federal state structure based on *Comunidades Autónomas* (Autonomous Communities) has led to the growth of overlapping institutions and competences and increasing public expenditure managed at regional level. Evidence of a generalized waste of public resources, corruption as well as failure of large investments such as airports or hospitals during the growth years has been revealed. This unique combination of problems distinguishes Spain from the other countries most affected by the sovereign debt crisis, and has to be borne in mind when one considers economic and labour market developments.

Before the financial and debt crises, some commentators pointed out Spain as a success story owing to its employment creation record, increase in per capita GDP and low unemployment.⁶⁸ But after four years of unprecedented job destruction Spain has now become the “sick man of Europe”⁶⁹ with a sluggish economy and unemployment that is still increasing, hitting almost 6 million or 26 per cent of the active population by the third quarter of 2013. Per capita GDP has decreased to 2002 levels, whilst inequalities have grown remarkably and are challenging social cohesion against a background of declining coverage of unemployment benefits and social spending cuts (Muñoz de Bustillo Llorente and Antón Pérez, 2011). Spain lost an opportunity in the pre-crisis years to overcome some of the historical problems that made the country lag behind in Europe and will thus now face enormous difficulties in recovering its growth path and catching up with, especially, northern European countries.

⁶⁸ See for example Lynn, M. 2006. “Spain’s Economic Miracle Is Running Out of Steam”, *Bloomberg*, 22 January, available at: <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a99i9z4lMUNs>.

⁶⁹ At least among the larger economies.

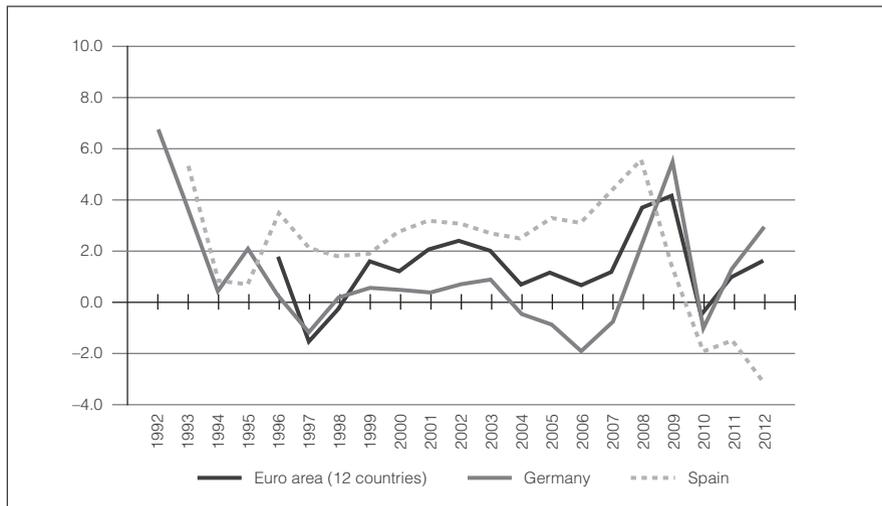
THE STRUCTURAL DETERMINANTS OF THE ECONOMIC CRISIS

In the early months of 2008 it was hard to imagine that the crisis would be so deep and enduring. Even though the first symptoms of economic deceleration were already noticeable, the general feeling was that the Spanish economy was in a strong position to face any deterioration in the international economic context, whatever its origin and intensity.⁷⁰

An overemphasis on the exogenous and financial character of the crisis contributed to shift attention from the structural domestic problems facing the economy (Fishman, 2012). Even though some voices had flagged the weaknesses of a bricks-and-mortar growth model (OECD, 2010), continuity in economic policy since the mid-1990s did not help to correct the economy's path. The Socialist government (2008–2011) argued first that there was no crisis and then blamed external factors, both for its inception and intensity. The economic policy paralysis that characterized the government's early months was rooted in a belief that the economy was well prepared for a temporary shock and that therefore little action was needed.

A persistently high rate of temporary employment with high instability and lower pay compared with employees with similar qualification and indefinite contracts (Jimeno and Toharia, 1993; Amuedo and Serrano, 2007), with moderate wage increases since the mid-1990s (figure 6.1), thanks to the role of bipartite

FIGURE 6.1: NOMINAL UNIT LABOUR COSTS, ANNUAL % CHANGE, 1996–2012



Source: Eurostat.

⁷⁰ This is confirmed by the Labour Minister at that time, Mr. Corbacho.

agreements, made it necessary for individuals to seek additional financial resources in a context of moderate inflation but skyrocketing housing prices.

Another argument that has attempted to explain the structural problems affecting the Spanish (and other southern European) economies – excessive wage increases – is not supported by the evidence (Carballo-Cruz, 2011; Wölfl and Mora, 2011). According to this view, the lack of bargaining coordination capacities of southern European countries triggered an increase in unit labour costs that explains the deterioration in the Spanish current account. The social partners and the government have thus been asked to further tamp down wage increases. However, when one looks at those increases negotiated, the picture is one of wage moderation, abetted by two interconfederal agreements signed by trade unions and employers establishing a policy of wage moderation (Molina and Rhodes, 2011). Particularly important was AENC-II, signed in January 2012. This evidence is reinforced when one examines changes in the adjusted labour share or real unit labour costs, which have shown a decline since the early 1980s (Arpaia et al., 2009).

Only when we consider productivity do we start getting a clear picture of the real structural limitations of the economy and clues to understanding the reasons for the depth and duration of the crisis, particularly when we compare Spain with other EU economies.

The real structural obstacle for Spain's economy is therefore low and stagnant productivity (Mas et al., 2012), as highlighted in three elements since the late 1990s. The first is the sectoral composition of GDP and the unbalanced growth that shows an extremely high contribution from non-tradable and strongly labour-intensive construction and tourism. Second is the high rate of temporary employment that diminishes incentives among employers and employees to invest in skills and so reduces future productivity (Dolado and Stucchi, 2008; Ortega and Marchante, 2010). Finally is the huge inflow of immigrant workers over the last 12 years and the incorporation of mainly medium- to low-skilled workers in services and construction, which helped to keep wages low at a moment when labour market shortages were pushing wages up. Moreover, the availability of immigrant labour has led some companies to adopt or maintain labour-intensive techniques.

The political and institutional context

Adjustment policies may share a diagnosis of the problems affecting Spain but not of how to deal with them. After an initial period of inaction under the Socialist government led by Rodríguez Zapatero, the first phase in the response comprised fiscal stimulus followed by a shift towards austerity. This switch, combining spending cuts and tax increases, only happened once the risks of contagion from the Greek sovereign debt crisis became apparent in early to mid-2010. Hence there is continuity in economic policy over the late Socialist (2008–2011) and People's Party (PP) (November 2011–) governments

– the major shift was induced externally and did not stem from the change in governing party, although spending cuts have been more concentrated on education and health since the PP came to power.

Moreover, the country is in a deep and multifaceted democratic crisis. Citizens are increasingly aware of the need to reform aspects of the political system that they regard as undemocratic, including reform of the Senate, a shift towards a federal state (as a response to the rise of independence movements in Catalonia and the Basque Country), reform of the electoral system and of parties' internal government. Moreover, the recent abdication of King Juan Carlos I and the demonstrations for a referendum on the monarchy show how the crisis has shaken the political and institutional pillars of the democratic system. The social partners, and more specifically trade unions, have also been criticized by a large sector of society (including the 15-M movement or *Indignados*) that accused them of lacking an alternative policy and accommodating both PP and Socialist policies owing to their high degree of institutionalization and dependence on state resources. A March 2013 survey showed how, for the first time since the return to democracy, trust in social movements was far higher than in political parties.⁷¹ Thus the *Indignados* have to be interpreted as an expression of political and economic discontent (Armingeon and Baccaro, 2011). In the 2014 elections to the European Parliament where the Podemos party, which represents the values and demands of the Indignados, has been the fourth most voted-for party, with 8 per cent of votes. The two major labour confederations have recently acknowledged the failure of trade unions to channel citizens' demands.⁷² These demands have been aggravated by a common view among citizens that fiscal adjustment has been imposed by a technocratic EU. More, this adjustment's impact threatens social cohesion and even the pillars of the democratic system built in the late 1970s and early 1980s.

THE POLICY PROCESS: SOCIAL DIALOGUE AND NEGOTIATED ADJUSTMENT IN AUSTERITY

The role and impact of social dialogue in the adjustment vary over time and among policy fields. They show discontinuity from before the 2010 sovereign

⁷¹ See Garea, F. 2013. "Los españoles confían mucho más en los movimientos sociales que en los políticos", *El País*, 16 March, available at: http://politica.elpais.com/politica/2013/03/16/actualidad/1363470095_882443.html.

⁷² See Cuiñas, A.B. 2012. "Los sindicatos rechazan el diálogo social para no ser 'cómplices' del Gobierno", *El Mundo*, 19 September, available at: <http://www.elmundo.es/elmundo/2012/09/19/economia/1348047099.html>. See also an interview with I. Fernández Toxo where he acknowledged that 'citizens have seen trade unions in their institutional role channelled through social dialogue, but not in the day-to-day problems affecting workers', available at: http://economia.elpais.com/economia/2013/02/20/actualidad/1361388640_016307.html.

debt crisis and after it, the latter aggravated by the November 2011 change in government. The Socialist government held talks and throughout its tenure kept in contact with the social partners on many issues including the labour market and industrial relations, as well as employment, industrial, energy and environmental policy.⁷³ However, all actors involved judged the interactions disappointing as no major agreement was signed. The 2010 sovereign debt crisis put further pressure on the Socialist government to act, leading to a more unilateral approach in regulating some policy fields, though in labour market and industrial relations matters the government still respected the tripartite dialogue preceding the reforms. The PP government after November 2011 heightened the unilateral approach, offering no space for tripartite social dialogue.

Among policy fields, tripartite social dialogue has played virtually no role in economic policy and fiscal adjustment, although it has had some role in industrial policy and has been key in labour market and collective bargaining policy.

A historical overview of social dialogue

Social dialogue in Spain has played a fundamental role as a socio-economic governance mechanism since the return to democracy three years after Franco's death in 1975. The series of social pacts in the early 1980s that contributed to economic adjustment at a time of deep industrial restructuring and economic crisis were followed by mounting conflict between the Socialist government and trade unions, leading to a general strike in 1987. The economic crisis of the early 1990s, too, was characterized by conflict and a lack of consensus between the government and social partners, leading to unilateral regulation of the labour market and collective bargaining and two general strikes in 1992 and 1994.

Bipartite and tripartite social dialogue was resumed from 1995 and gained momentum under the PP government elected in 1996. Several agreements were signed in a period of economic growth. Crucially, consolidation of permanent bipartite social dialogue between unions and employers provided an anchor for the instability of tripartite social dialogue. The second PP government (2000–2004) term coincided with increasing conflict and attempts at unilateral regulation of the labour market and social protection that met with resistance from trade unions. Tripartite social dialogue was revitalized after 2004 with the Zapatero government (bipartite social dialogue has remained a central feature of industrial relations in Spain since the mid-1990s).

One reason for the historical discontinuities in tripartite social dialogue stems from its late and weak institutionalization. Only in 1991 was a tripartite Social and Economic Council created, which provided a stable forum for relations

⁷³ See interviews with Mr. Corbacho and Mr. Riesco.

among trade unions, employers' organizations and the government. However its role is restricted to consultations (a reason why Spain has always scored low in neo-corporatist rankings). Meaningful tripartite social dialogue has always developed in a different, non-formal sphere, rendering it subject to socio-economic conditions and the political winds.

Still, there is no clear correlation between the party of government and tripartite social dialogue (Molina and Rhodes, 2011). Other explanations for the ups and downs in tripartite social dialogue point to electoral politics (Hamann and Kelly, 2011) and the weakness of actors involved, especially on the government side (Baccaro and Lim, 2006; Avdagic et al., 2011). Explanations based on bargaining have also figured prominently in the analysis of policy concertation and social dialogue in Spain (Molina, 2005; Oliet, 2005). The idea behind the bargaining perspective is that in a context of weak institutionalization, the resources (either financial, institutional or strictly political) available to actors determine their willingness to engage in tripartite social dialogue and its success. In a context of crisis and little room to manoeuvre, tripartite social dialogue will accordingly be under stress, as was the case in the early 1990s and the current crises.

Social dialogue in the crisis and the governance of austerity

Before entering into the detailed analysis of social dialogue during the crisis, the document that provided the general orientations in content and form since 2004 should be mentioned, namely the Declaration for Social Dialogue 2004: Competitiveness, Stable Employment and Social Cohesion,⁷⁴ agreed soon after Zapatero's first election as prime minister in 2004. That document oriented the development of negotiations among the social partners and government around very different issues that would be discussed in separate processes.⁷⁵ It also enabled broad and ambitious social dialogue, and more than 20 agreements were signed among the social partners between 2004 and 2008 (Molina and Rhodes, 2011).

The agenda for negotiations agreed in 2004 was widened in July 2008 (just before the onset of the economic crisis) with a memorandum of understanding (Declaration for the Recovery of the Economy, Employment, Competitiveness and Social Progress) signed by the social partners and government (table 6.1). Its aim was to boost employment and to broaden the social dialogue agenda to other issues such as industrial and energy policy.⁷⁶ Subsequently in January

⁷⁴ See full text at: <http://www.ugt.es/dialogosocial/declaraciondsocial.pdf>.

⁷⁵ Parliamentary Debates, no.128, Comisión Trabajo e Inmigración, Sesión 30 October 2008, p. 6.

⁷⁶ See <http://www.lamoncloa.gob.es/NR/rdonlyres/1A22106D-D247-4274-AF8B-9A7390000230/90303/DeclaraciondialogoSocial.pdf>.

2009 the social partners and government decided to intensify talks to speed up the signing of an agreement on collective bargaining in a rapidly worsening economic environment.

In May 2009, a new meeting among the social partners and government concluded with a commitment to reach an agreement by July that year. Two types of measures would be negotiated as laid down in a joint UGT – CCOO document (*Propuestas sindicales para un acuerdo por el empleo y la protección social*).⁷⁷ First would be short-time policies aimed at alleviating the effects of the economic crisis by reducing working time without destroying more jobs and enhancing unemployment protection. Second would be longer-term policies aimed at developing a more sustainable and inclusive growth model. However, an agreement could not ultimately be reached owing to employers' demands to reduce their social security contributions by 5 per cent as well as to include other measures on collective redundancies. Yet despite this failure, social dialogue delivered an agreement in September 2009 on civil service and public sector employment (*Acuerdo Gobierno-Sindicatos para la Función Pública en el Contexto del Diálogo Social 2010–2012*).⁷⁸

The sovereign debt crisis greatly changed the role of social dialogue as a mechanism for governing the response to the worsening economy and to austerity policies. In a meeting in March 2009, the Socialist government led an initiative to “re-launch and give momentum to social dialogue and concertation as a mechanism to generate economic growth, trust and overcome the crisis”. This initiative was supported by the PP.⁷⁹ However, the debt crisis and external pressures on the government to take action, especially on fiscal adjustment, and without awaiting the results of social dialogue led to the breakdown of negotiations on labour market reform in June 2010 when the government chose to regulate unilaterally.

Social dialogue was nonetheless resumed later that year and a Tripartite Social Pact was signed in January 2011. Several reasons underlie this change. The change in the presidency of the employers' organization in December 2011 was one. (During 2009–2010, its former president had seen his legitimacy eroded owing to allegations involving some of his companies.) The appointment of a new labour minister, with a strong commitment towards social dialogue, was another. Finally, a broader bargaining agenda including more issues favoured

⁷⁷ See full text at CCOO; UGT. 2009. “Propuestas sindicales para un acuerdo por el empleo y la protección social”, 20 de mayo, available at: http://www.ccoo.es/comunes/recursos/1/doc14633_Propuestas_sindicales_para_un_acuerdo_por_el_empleo_y_la_proteccion_social.pdf.

⁷⁸ See full text at Agencia Estatal Boletín Oficial del Estado, Núm. 258, Lunes 26 de octubre de 2009, available at: <http://www.boe.es/boe/dias/2009/10/26/pdfs/BOE-A-2009-16986.pdf>.

⁷⁹ See Parliamentary Debates, n. 225, Comisión de Trabajo e Inmigración, 10 March 2009, pp 22-26.

new trade-offs and compensations that made it easier to reach compromises with the social partners.

By contrast, no agreement could be finalized on the reform of collective bargaining in 2011. Bipartite negotiations had evolved on the basis of some aspects of the January 2011 Tripartite Social Pact, but no agreement was possible. The government intervened again unilaterally. However, bipartite social dialogue remained alive and delivered a new and important interconfederal agreement in January 2012 (AENC-II). By signing this agreement in a difficult social and economic context, employers and trade unions made clear their commitment towards social dialogue and sent a signal to the incoming PP government of its importance and of the capacity of the social partners to autonomously negotiate reforms.⁸⁰

In spite of the bipartite January 2012 agreement, tripartite and bipartite social dialogue has been fighting strong headwinds since early that year. The announcement of February 2012's labour market reform without having engaged with the social partners on a process of social dialogue, with the general strikes organized in May and November 2012, alongside an acceleration of fiscal adjustment in the face of the deterioration of Spain's macro-economic prospects, have harmed social dialogue. In demonstrations, trade unions at the end of 2012 made clear that it was the year of social dialogue's demise and that under those circumstances they rejected engaging in social dialogue with the government unless a referendum around austerity policies was called.⁸¹

Bipartite social dialogue resumed only one year after AENC-II was signed, when trade unions and employers met to discuss a document to re-launch social dialogue and collective bargaining. In February 2013 a tripartite meeting was held among the social partners and the government to discuss the strategy to fight youth unemployment. Trade unions judged favourably the government's proposals both for their content and because the meeting marked the restoration of tripartite social dialogue. However, only three weeks later, in March 2013, the government unilaterally announced a partial reform of old-age pensions, leading to a hardening of eligibility conditions for those taking early retirement. Trade unions criticized it as it not only calls the restoration into question but also runs against the agreements reached under the 1996 Toledo Pact, which established a commitment to engage in social dialogue before reforming the pension system.

⁸⁰ The strong commitment of employers to social dialogue becomes very clear in the words of Mrs. Herraiz, who stresses it as part of the CEOE's "DNA".

⁸¹ See Cuiñas, A.B. 2012. "Los sindicatos rechazan el diálogo social para no ser 'cómplices' del Gobierno", *El Mundo*, 19 September, available at <http://www.elmundo.es/elmundo/2012/09/19/economia/1348047099.html>.

TABLE 6.1: SOCIAL DIALOGUE AND REFORMS, 2008–2013

Date	Title	Content and Participants
July 2008	Memorandum of Understanding for the Recovery of the Economy, Employment, Competitiveness and Social Progress	Memorandum of Understanding signed between CCOO (Comisiones Obreras), UGT (Unión General de Trabajadores), CEOE (Confederación Española de Organizaciones Empresariales) and the government
September 2009	Agreement for the public sector between trade unions and the government 2010–2012	Agreement signed between CCOO, UGT, CSIF (Central Sindical Independiente y de Funcionarios), and the government
January 2010	Interconfederal Agreement on Employment and Collective Bargaining 2010, 2011 and 2012 (AENC-I)	Bipartite agreement signed between CCOO, UGT and CEOE containing guidelines for collective agreements
January 2010	Plan for Immediate Action 2010	Neither consultation nor negotiations between social partners and government
May 2010	Austerity Plan for the Public Sector 2011–2013	Neither consultation nor negotiations between social partners and government
June–September 2010	Labour Market Reform	Tripartite negotiations failed. The government ruled unilaterally
December 2010	Industrial Policy Programme – PIN 2020	The government consulted social partners about some of the contents, but the involvement was limited
January 2011	Tripartite Social and Economic Agreement on pensions, labour market and collective bargaining	Tripartite Social Pact signed by CCOO, UGT, CEOE and the government
March 2011	Law for Sustainable Economy	The government consulted social partners about some of the contents, but involvement was limited
June 2011	Reform of Collective Bargaining	Tripartite negotiations failed. The government ruled unilaterally
January 2012	Interconfederal Agreement on Employment and Collective Bargaining in 2012, 2013 and 2014 (AENC-II)	Bipartite agreement: guidelines for collective agreements

6 From negotiation to imposition: Social dialogue in times of austerity in Spain

Date	Title	Content and Participants
February 2012	Labour Market Reform	Neither consultation nor negotiations with social partners. Unilateral approval by the government.
March 2013	Reform of early-retirement conditions for old-age pensions	Neither consultation nor negotiations with social partners. Unilateral approval by the government.

Source: Authors' elaboration.

Explanations for the changes to social dialogue, 2008–2013

Two distinct periods for tripartite social dialogue can be distinguished since the beginning of the crises, as seen. The period of stimulus response in 2008–2009 saw close involvement of the social partners, though with little in the way of agreements. The 2010 debt crisis led to a more unilateral approach with less room for social partnership (the only exception was the January 2011 Tripartite Social and Economic Agreement).

These tripartite discontinuities contrast with the vitality and resilience of bipartite social dialogue. As seen, two important bipartite interconfederal agreements for collective bargaining were signed in 2009 and 2012 (AENC-I and AENC-II). In addition, the prominent role of bipartite social dialogue has been reinforced by the emphasis placed by labour market reforms in 2010 and 2011 on enhancing negotiated forms of adjustment and restructuring through functional flexibility. Thus the social partners' strategies to mitigate the effects of the crisis on employment have focused on strengthening collective bargaining capacities at company level by opening greater spaces for negotiation.

The reasons for letting tripartite social dialogue go are very different according to the actors involved. Employers, as well as the Socialist Party⁸² and PP⁸³ executives, argue that social dialogue has little capacity to keep pace with economic developments or to provide quick and effective responses.⁸⁴ This was also highlighted by other parties in the early months of the crisis, including

⁸² Mr. Corbacho highlighted in this regard the resistance of trade unions to changes, especially in austerity times. Mr. Riesco and Mr. Gómez also pointed to this.

⁸³ Mr. Alberto Soler also acknowledged the slow reform path imposed by social dialogue that would accordingly require state action in order to guarantee effective and timely responses.

⁸⁴ See interview with Mr. Riesco. See also Parliamentary Debates, no. 225, Comisión de Trabajo e Inmigración, Session n. 10, 10 March 2009, p. 15.

the Catalan *Convergència i Unió*.⁸⁵ However, the government's late reaction to labour market problems and inaction in 2008 and 2009 clearly had a paralysing effect on tripartite social dialogue.

Another recurrent argument is that measures negotiated under social dialogue have little efficacy,⁸⁶ a point picked up by one interviewee, who said that, even though unions and employers had signed several agreements between the mid-1990s and 2008 on the labour market and collective bargaining, some of them had limited implications for the functioning of the labour market and industrial relations.⁸⁷ The underlying argument here is that by their very nature, negotiated reforms reflect an equilibrium between the actors involved and are accordingly less incisive, but enjoy greater social and political legitimacy.

The government's room for manoeuvre has been restricted by fiscal policy constraints, which have also hindered the chances of signing tripartite agreements, because the political trade-offs required to reach agreement are less likely when resources are scarce for compensating other actors. Even though the Economic and Monetary Union (EMU) framework had already set some rules for fiscal stability, the debt crisis led the Spanish governments of Zapatero (2010-2011) and Rajoy (2011-) to endorse the policy of fiscal austerity recommended by some international organizations like the International Monetary Fund and the European Central Bank. Something similar happened in the early 1990s' economic crisis and adjustment to the Maastricht criteria on inflation and budget deficits, when tripartite social dialogue failed to deliver an agreement. A related argument is that there is a misfit between macroeconomic governance at EU and national level. Thus in the case of wage-setting, some degree of coordination across the EU could alleviate some of the tensions facing national actors.⁸⁸

On their side, trade unions blamed the CEOE president during 2009–2010 as a major obstacle for tripartite social dialogue, both because he adopted a position less inclined to social dialogue and negotiation with trade unions, and because of his undermined authority.⁸⁹ That the Tripartite Social Pact was signed only four weeks after the new president succeeded him would support this argument.

The legitimacy of tripartite social dialogue has to be considered. The criticism from some sectors of trade unions and employers has reduced incentives for the government to rely on it. Thus in the case of March 2012's labour mar-

⁸⁵ Parliamentary Debates, n.59, Comisión Trabajo e Inmigración, Sesión Extraordinaria 22 July 2008, p. 35.

⁸⁶ Parliamentary Debates, n.128, Comisión Trabajo e Inmigración, Sesión 30 October 2008, p. 14.

⁸⁷ See interview with Mr. Riesco.

⁸⁸ See interview with Mr. Fernández.

⁸⁹ See interview with Mr. Ferrer (UGT) and Mrs. Moreno (CCOO).

ket reform, the government stated that real legitimacy comes from Parliament, and thus there is no obligation or need to validate agreements through social dialogue.⁹⁰ If we add to this the supranational dimension, i.e. the mandate by the EU to implement fiscal adjustments, we find also the population's belief that governments are more accountable for economic policies to supranational bodies than to citizens or collective entities representing them. At the same time, the political and institutional crisis has led to an increasingly negative perception among the population of trade unions as part of the institutional edifice. This contrasts with their positive views on social movements as important actors in the financial and sovereign debt crises.

Finally, the failure of tripartite social dialogue to deliver agreements in the early stages of the economic crisis has also had a negative effect on how it is perceived among the population, as it contributed to propagate the view that the social partners themselves had some responsibility for poorly managing the crisis response.

IMPACT OF AUSTERITY ON COLLECTIVE BARGAINING AND SOCIAL DIALOGUE

The austerity measures generated a crisis in tripartite social dialogue and greater political and industrial conflict, as seen in four general strikes and one strike of public sector employees (table 6.2).

Trade unions and employers' organizations have made clear their concerns about the negative effects of the February 2012 reform for the development of collective bargaining. The reform unilaterally passed by the government did not take account of the bipartite interconfederal agreement signed in January 2012 that contained guidelines for negotiations. Some interviewees believe that the basis for negotiating collective agreements has been modified radically by the February 2012 labour market reform.⁹¹ Trade unions showed their intention to hinder the implementation of some of the contents of the reform through collective agreements, as already happened after the 1994 labour market reform. Moreover, a recent ILO Committee of Experts opinion addressing the complaint introduced by CCOO and UGT on the 2012 labour market reform confirmed that this unilateral reform breaches the principle of freedom of association and declared the right of social partners to decide autonomously on issues of collective bargaining.⁹²

⁹⁰ See Parliamentary Debates, no. 24, Plenary Session, 11 April 2012, p. 5.

⁹¹ See interviews with Mr. Ferrer (UGT) and Mrs. Moreno (CCOO).

⁹² See International Labour Office (ILO) 2014. "Reports of the Committee on Freedom of Association, 371st Report of the Committee on Freedom of Association", Governing Body 320th Session, Geneva, 13–27 March 2014, available at: http://www.ilo.org/wcmsp5/groups/public/--ed_norm/--relconf/documents/meetingdocument/wcms_239692.pdf.

TABLE 6.2: GENERAL STRIKES IN SPAIN, 2008–2012

Date	Scope	Motivation	Participants
June 2010	Public sector	Against the May 2010 austerity package	CCOO + UGT + CSIF
September 2010	Whole economy	Against the June 2010 labour market reform and austerity package	All trade unions
January 2011	Whole economy	Against the January 2011 Tripartite Social and Economic Agreement and pension reform	All trade unions except for the two largest confederations CCOO and UGT that signed the agreement
March 2012	Whole	Against the labour market reform passed in February 2012	All trade unions
November 2012	Whole economy	Against austerity policies and the February 2012 labour market reform	All trade unions

The autonomy of the social partners has also been threatened by austerity policies. First, the 2011 reform of collective bargaining entailed unilateral state regulation in collective bargaining, which had traditionally come under the direct competence of trade unions and employers' organizations.

Second, the series of reforms in collective bargaining since the start of the economic crisis have widened the scope for opting out of company-level agreements, by increasing the number of issues that can be subject to opting out and by expanding the circumstances under which opting out can occur.

Third, collective bargaining rights have been severely curtailed by the February 2012 labour market reform through the opening of greater spaces for employer unilateral change in working conditions as well as limiting the role of the social partners in collective conflict resolution.

CONCLUDING REMARKS: TOWARDS REVITALIZED SOCIAL DIALOGUE?

Given the sidelining of tripartite social dialogue in the last few years, how can it be revitalized?

A first necessary step is for governments to acknowledge the contribution it has made to political stability, economic adjustment and social cohesion in Spain in the past, including the transition to democracy as well as the run-up to the EMU. As seen in these episodes, social dialogue can play a key role in providing the basis for a sustainable economic recovery and democratic revitalization. Negotiated solutions to the economic and labour market challenges that Spain faces will contribute to this twofold objective. By contrast, the weakening of tripartite social dialogue will deprive Spanish society of a valuable tool for democratic socio-economic governance. However, it is also necessary to enhance the effective reform capacity of social dialogue to enhance its output legitimacy, which has been called into question in recent years.

Second, the social partners must regenerate trust after a period of open conflict and lack of agreement. They can do this by rebuilding social dialogue around those issues where the “a priori” positions of the social partners are closer and thus agreement is more likely. One pointer in this direction is the negotiation of the plan to fight youth unemployment. Particularly important in the Spanish case is the role of bipartite (unions and employers) social dialogue. Following the abandonment of tripartite social dialogue in the early 1990s crisis, bipartite agreements allowed trust to recover on the one hand and their contribution to economic development to become visible on the other, facilitating restoration of tripartite social dialogue.

A greater focus on the policies and reforms necessary to allow the Spanish economy and labour market to be more sustainable may help to achieve these two goals. As mentioned, one of the reasons for social dialogue’s weakening has been the existence of very different views about the policies needed to exit the crisis. However, the actors shared a similar view on the structural problems of the economy and the labour market. As we leave the crises behind, the foundations for a quicker and more sustainable recovery must be laid, to quickly limit the social and economic costs of persistently high unemployment while providing a more solid growth path. Tripartite social dialogue is particularly well suited to achieve this goal.

Two other approaches that have traditionally appeared in the debate around the vitality of social dialogue in Spain are related to the organizational characteristics of the social partners and to the institutionalization of social dialogue. The first stresses the need for trade unions and employers to enhance their implementation capacity through better organizational articulation of trade unions and employer bodies capable of being more aware of lower-level demands and of more effectively implementing agreements reached (Crouch, 1993). The second stresses the need to further institutionalize tripartite relations. The demand of trade unions is to re-enforce existing instances of participation in order to limit the at times highly “contingent” character of tripartite social dialogue, subject as it is to the political winds.

These two approaches are not mutually exclusive and a strategy combining them would probably be optimal – as they are complementary, not in competition. Reliance on institutional power resources and the political role of the social partners will only deliver positive outcomes in the medium and long term when accompanied by mechanisms strengthening lower units and linkage between the different levels in the organizations. This would not only enhance the bodies' strength but would also help to alleviate some of the legitimacy problems affecting the social partners. Yet stronger and more articulated organizations will only realize their full potential when accompanied by peak trade union and employer organizations' capacity to influence policy and institutional design.

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ANNEX

List of Interviews

1. Mr. Jorge Aragón Medina (Director of Research, Fundación Primero de Mayo and Social and Economic Council – CES), Madrid 5 March 2012
2. Mrs. Inmaculada Cebrián (Professor, University of Alcalá de Henares), Madrid 24 April 2012
3. Mr. Celestino Corbacho (Labour Minister, 2008-2010), Barcelona 11 April 2012
4. Mr. Antonio Ferrer (Secretary of Union Action, UGT), Madrid 16 April 2012
5. Mr. Rafael Luis García Matos (Vice-director of Regulatory Order, Ministry of Employment and Social Security), Madrid 17 April 2012
6. Mr. Javier Gómez Hortigüela Amillo (Vice-director of Industrial Relations, Ministry of Employment and Social Security), Madrid 17 April 2012
7. Mr. Valeriano Gómez (Labour Minister, 2010-2011), Madrid 16 April 2012
8. Mrs. Ana Isabel Herraiz (Industrial Relations Department, CEOE), Madrid 25 April 2012
9. Mr. Francisco González de Lena (Director of President's Office, Social and Economic Council), Madrid 16 April 2012
10. Mrs. Rita Moreno (Director of Social Dialogue, CCOO), Madrid 18 April 2012
11. Mr. Ignacio Pérez Infante (National Advisory Council for Collective Agreements), Madrid 5 March 2012
12. Mr. Alfonso Prieto Prieto (Vice-Director for Labour Market Analysis, Ministry of Labour and Immigration 2008-2012), Madrid 6 March 2012
13. Mr. Carlos Prieto (Professor, Universidad Complutense), Madrid 5 March 2012
14. Mr. Raúl Riesco (General Director of Labour Market, Ministry of Labour and Immigration, 2010-2011), Madrid 18 April 2012
15. Mr. Alberto Soler (General Director of Macroeconomic Analysis and International Economy, Ministry of Economy and Competitiveness), Madrid 16 May 2012



COPING WITH THE CRISIS IN ITALY: EMPLOYMENT RELATIONS AND SOCIAL DIALOGUE AMID RECESSION

Roberto Pedersini and Marino Regini

INTRODUCTION

This chapter presents an overview of the impact of the recent economic crisis on industrial relations and social dialogue in Italy. It focuses on labour market developments since 2009, and on the responses to the economic downturn. These responses will be analysed from the point of view of collective bargaining (both the structure and content of collective agreements), social dialogue (bi- and tripartite) and government policies.

The economic crisis became apparent in a period when the debate on the reform of the Italian industrial relations system was already advanced, making it difficult to disentangle the immediate effects of the economic situation from longer-term trends (Cella and Treu, 2009). For instance, in January 2009, an important agreement on experimental reform of the collective bargaining structure was signed by the social partners, with the exception of Cgil (Confederazione generale italiana del lavoro – the General Confederation of Italian Workers), but it was not driven by the economic cycle. However, its subsequent implementation has both been heavily influenced by the crisis and itself has shaped the framework for sectoral and company bargaining.

Similarly, collective bargaining in the public sector has been affected by major reforms to certain aspects of the employment relationship in public administrations, by the reorganization of collective bargaining and, later, by measures aimed at cutting public expenses (Bordogna and Pedersini, 2013). These actions included a three-year halt to collective bargaining in 2010–2012 and a wage freeze until 2013, both imposed by the Berlusconi government (in office from May 2008 until November 2011) and were later extended to end-2014.

More generally, the industrial relations climate has been influenced in recent years by the divergences among the major trade union confederations on important aspects, such as the respective roles of sectoral and decentralized bargaining and the acceptability of derogations at company level, as well as by the tougher stance taken by the employers' associations and by unilateral action of major companies such as Fiat. In the metalworking industry, a separate

sectoral agreement was signed in October 2009, without Fiom-Cgil.⁹³ The shift in 2010–2011 by Fiat towards company industrial relations outside the traditional framework provided by the industry-wide agreement also highlighted the conflicts among trade unions in the metalworking sector. Since this move required the exit of the Fiat Group from the multi-employer representation system provided by the main employers' association, Confindustria, a deep fissure in the Italian representation system seemed to open.

Finally, social dialogue has been affected by the approach and the stance of governments. Particularly under the Berlusconi government, tripartite consultations were marked by a refusal to accept vetoes,⁹⁴ which meant in practice that the government adopted a rather unilateral approach and that it was extremely difficult to reach agreement. There were, of course, consultations with the social partners, but those were mainly carried out through bilateral social dialogue with the individual organizations, often informally, and government tensions with Cgil were an almost constant obstacle to implementing fully fledged social concertation, in the traditional meaning adopted in Italy of reaching economy-wide tripartite social pacts.

The Monti government, in office from mid-November 2011 until early 2013, somehow restored the tradition of formal consultations with all social partners, with a view to reaching inclusive agreements. However, because of its “technocratic” nature, it also believed that vetoes were unacceptable, especially in the face of an international crisis that required quick action. In fact, the two main reforms with an impact on employment, the pension reform of December 2011 and the labour market reform of June 2012, were enacted without the agreement of the social partners – the former even without prior consultation.

A new government, led by Enrico Letta, took office at the end of April 2013, after the general elections held in February 2013. Lack of a clear political majority between the centre-left and the centre-right led to the establishment, with the support of President Giorgio Napolitano, of a sort of “big coalition” cabinet. The government was backed by the two main opponents at the February 2013 elections, the Democratic Party (Partito democratico, Pd) and the People of Freedom (Il Popolo della libertà, Pdl), and by Civic Choice (Scelta civica), the party led by former Prime Minister Mario Monti. However, its short time in office⁹⁵ as well as the constant tensions between the two main parties supporting

⁹³ Fiom is the Federazione impiegati e operai metallurgici (Federation of White and Blue-Collar Metalworkers).

⁹⁴ Decision by collective agreement requires the unanimous acceptance by all the parties; if one party disagrees, it has a practical veto power on the decision. Therefore, the government may decide to proceed unilaterally if it feels that no satisfactory agreement can be reached with all parties. Or it may decide to go ahead with a partial (separate) agreement, with only the parties that agree.

⁹⁵ The chapter was finalized at the end of 2013.

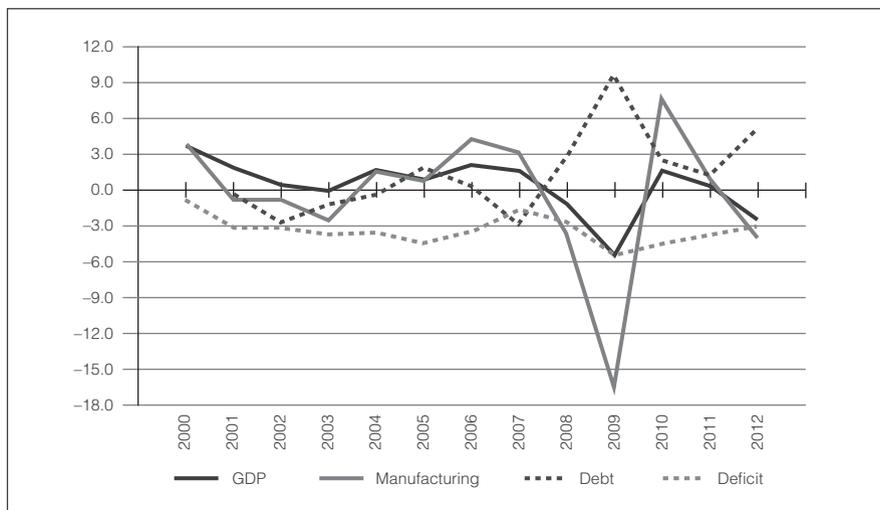
the government (Pd and Pdl) forestalled any significant change in approach to industrial relations and social dialogue, although some adjustments to labour law, including to the recent labour market reform, were implemented, with a view to help address negative employment trends linked to the economic crisis.

THE ECONOMIC CRISIS AND THE LABOUR MARKET

In Italy, as in most other European Union (EU) countries, the economic downturn started in 2008 and was particularly severe in 2009, with a 5.5 per cent drop in gross domestic product (GDP) and a fall in manufacturing output of 16.6 per cent (figure 7.1). In 2009, the public deficit reached 5.5 per cent of GDP (table 7.1) and the government's consolidated gross debt rose to 116.4 per cent of GDP, a jump of almost 10 per cent from the previous year.

The year 2010 saw a recovery of both GDP and manufacturing output, a reduction in the public deficit and a slower increase in the gross debt, which topped

**FIGURE 7.1: THE ECONOMIC CRISIS:
GDP, MANUFACTURING OUTPUT, GOVERNMENT DEBT AND PUBLIC DEFICIT
(2000–2012, PERCENTAGE CHANGE OVER PREVIOUS YEAR, PERCENTAGE OF GDP)**



Notes: GDP and Manufacturing = percentage change over previous year of gross domestic product at market prices (GDP) and basic prices (Manufacturing); Debt = percentage change over previous year of government consolidated gross debt as percentage of GDP, authors' calculations; Deficit = surplus/deficit as percentage of GDP - net lending (+)/net borrowing (-) under the Excessive Deficit Procedure (EDP)

Source: Eurostat, <http://epp.eurostat.ec.europa.eu> GDP (GDP and main components – volumes [nama_gdp_k]), Manufacturing (National Accounts by 10 branches – volumes [nama_nace10_k]), Debt and Deficit (Government deficit/surplus, debt and associated data [gov_dd_edpt1]), data extracted 24 September 2013.

TABLE 7.1: GDP, MANUFACTURING AND PUBLIC DEFICIT, SELECTED EU COUNTRIES, 2008-2012

	GDP (annual % change)					Manufacturing (annual % change)					Deficit (% of GDP)				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
EU27	0.4	-4.5	2.0	1.7	-0.4	-2.4	-14.1	10.5	4.6	-1.2	-2.4	-6.9	-6.5	-4.4	-4.0
France	-0.2	-3.1	-4.9	-7.1	-6.4	-11.8	7.6	2.3	-13.1	-1.0	-9.8	-15.6	-10.7	-9.5	-10.0
Germany	1.1	-5.1	4.0	3.3	0.7	-2.6	-20.7	20.1	9.1	-0.7	-0.1	-3.1	-4.1	-0.8	0.2
Greece	0.9	-3.8	-0.2	0.1	-1.6	-3.4	-12.3	4.6	1.3	-1.1	-4.5	-11.2	-9.7	-9.4	-10.6
Ireland	-0.1	-3.1	1.7	2.0	0.0	-4.2	-7.4	4.1	2.1	-2.1	-3.3	-7.5	-7.1	-5.3	-4.8
Italy	-1.2	-5.5	1.7	0.4	-2.4	-3.6	-16.6	7.7	1.0	-3.9	-2.7	-5.5	-4.5	-3.8	-3.0
Portugal	0.0	-2.9	1.9	-1.3	-3.2	-1.3	-9.7	7.3	2.5	-2.3	-3.6	-10.2	-9.8	-4.4	-6.4
Spain	-2.1	-5.5	-0.8	1.4	0.9	-	-	-	-	-	-7.4	-13.9	-30.8	-13.4	-7.6
United Kingdom	-0.8	-5.2	1.7	1.1	0.2	-2.8	-10.1	4.2	1.8	-1.5	-5.1	-11.5	-10.2	-7.8	-6.3

Source: Eurostat, <http://epp.eurostat.ec.europa.eu>, GDP (GDP and main components – volumes [nama_gdp_k]), Manufacturing (National Accounts by 10 branches – volumes [nama_nace10_k]), Deficit (Government deficit/surplus, debt and associated data [gov_dd_edpt1]), data extracted 24 September 2013.

119.3 per cent of GDP in 2010. However, this was only a short-lived recovery, as in the second half of 2011 GDP started to fall again. By the end of the year, annual GDP growth was a mere 0.4 per cent. In 2012, the drop continued, and the fall in GDP compared with 2011 was 2.4 per cent. Manufacturing contracted by 3.9 per cent. Public debt climbed to 127 per cent of GDP and the deficit was 3.0 per cent. The feared double-dip recession had become reality.

The labour market – mirroring regional differences in economic systems – shows high participation and employment rates in the North for men and women alike, while the South presents a much worse picture, especially for women (table 7.2).

In recent years, when Italian unemployment was particularly low (with monthly rates around 6.0 per cent in 2007), unemployment rates in the South and among younger cohorts remained significantly higher. According to the labour force monthly data time series (Istat, 2013), the recent economic downturn pushed up monthly unemployment to 8.7 per cent in the first half of 2010 (figure 7.2). After a decline to around 8.0 per cent in the first half of 2011, it shot up to over 11 per cent in the last part of 2012. Youth unemployment was particularly high, reaching nearly 37 per cent at the end of 2012. From December 2007 to December 2012, the main labour market trends included a steep fall in

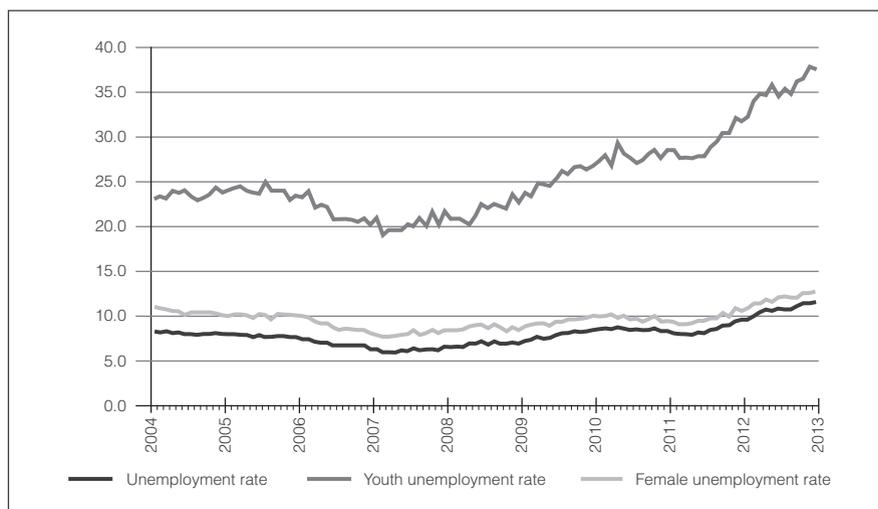
TABLE 7.2: LABOUR MARKET INDICATORS, ITALY AND EU27, 2012 (%)

	NW*	NE*	Centre	South	Italy	EU27
Activity rate (total, 15–64 age group)	69.9	70.9	67.5	53.0	63.7	71.8
Female activity rate (women aged 15–64 years)	62.0	62.9	58.8	39.3	53.5	65.6
Elder activity rate (total, 55–64 age group)	42.3	45.4	46.2	39.2	42.6	52.8
Unemployment rate (total, 15–64 age group)	8.1	6.8	9.7	17.4	10.8	10.6
Female unemployment rate (women aged 15–64 years)	9.3	7.7	11.1	19.4	12.0	10.6
Youth unemployment rate (total, 15–24 age group)	28.4	24.1	34.7	46.9	35.3	22.0

Notes: * NW: Northwest, NE: Northeast.

Source: Istat, <http://dati.istat.it>, Forze lavoro. Media 2012, and Eurostat, <http://epp.eurostat.ec.europa.eu/>, LFS series – Detailed annual survey results [lfsa].

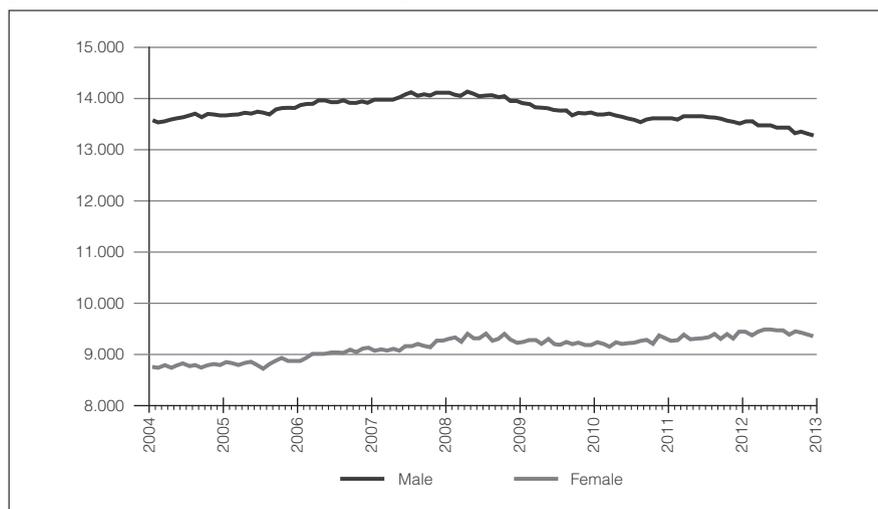
FIGURE 7.2. MONTHLY UNEMPLOYMENT RATES, 2004–2013



Source: Istat (2013), <http://www.istat.it/>.

employment (down 3 per cent or 707,000 workers). The fall affected only male workers (down 5.8 per cent or 816,000), in contrast to female workers, who increased (up 1.2 per cent or 109,000).

**FIGURE 7.3: MALE AND FEMALE EMPLOYMENT, 2004–2013
(THOUSANDS, MONTHLY DATA SERIES)**



Source: Istat (2013), <http://www.istat.it/>.

This divergence between female and male employment is the result of a sharp rise in the number of female workers entering the labour market in 2010 and 2011 (278,000), after two years of contractions (of 107,000 over the two years) and again a reduction in 2012 (of 63,000). Male employment has by contrast dropped consistently since January 2008, with a slight slowdown in the trend in 2010 and 2011 (figure 7.3). Probably the most striking aspect is the increase in unemployment to almost 2.9 million workers (up 77 per cent), as male unemployment has doubled and female unemployment has moved up by half since the end of 2007. This common trend reflects two different underlying tendencies: while the male labour force has remained substantially unchanged, so that the decrease in employment results in more unemployed men, the female labour force has substantially increased (by 5.6 per cent or 566,000) and this more than outweighs the rise in the number of employed women.

POLICY MEASURES AND SOCIAL CONCERNATION

Italy's responses to the economic crisis included the following:

- use and strengthening of traditional tools, of which the Cassa Integrazione Guadagni (Wage Guarantee Fund) is the prime example;
- efforts to introduce support measures for firms as well as the financial sector (notably in the first phase of the financial crisis, i.e. 2008–2010), with a view to reducing the impact of the credit crunch, especially on small and

medium-sized enterprises (SMEs), and to cushion the effects of bad loans on the banks' financial structure;

- significant cost-cutting measures affecting public sector employment; and
- the broad ranging reforms of the pension system (December 2011) and the labour market (June 2012).

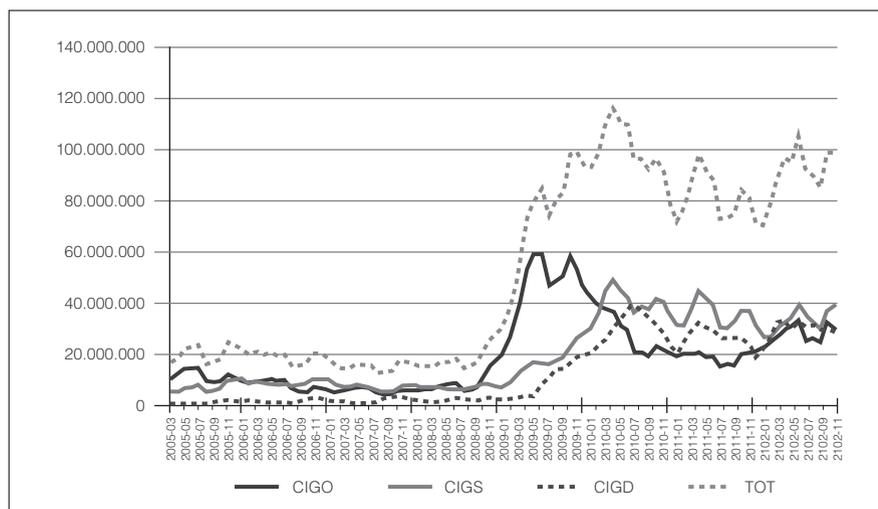
The social partners participated widely in the debate on the economic and social measures to be introduced and they were crucial players in some of the most important tools (such as the Wage Guarantee Fund and restructuring at company level). However, social concertation failed to produce any clear-cut contribution to solving the problem, mainly because of the political climate and the divisions between the major trade unions, particularly in metalworking, and their disagreements with succeeding governments, especially during Berlusconi's term.

Wage Guarantee Fund

When the economic downturn started in 2008, the Wage Guarantee Fund confirmed its central role in cushioning the social impacts of the recession. Of particular importance was the addition to the standard schemes of the Exceptional Wage Guarantee Fund (Cassa integrazione guadagni in deroga) for firms (SMEs) and types of employees (atypical workers) not covered by the ordinary and special Wage Guarantee Funds (Cassa integrazione guadagni ordinaria – CIGO; and Cassa integrazione guadagni straordinaria – CIGS). This system was designed in late 2008 and pushed through at the regional level following a pact between the government and regional administrations. Signed in February 2009, the pact made it possible to use the EU funds to jointly support the incomes of workers at companies hit by the recession and to enrol them in training and requalification programmes. The social partners' involvement at regional level was central to this system, because its implementation had to be defined through tripartite regional agreements, while the activation of the Exceptional Wage Guarantee Fund required company-level agreements.

In 2009, almost 1 billion hours of Wage Guarantee Fund were authorized (576 million CIGO hours and 337 million CIGS hours, the latter including the Exceptional Fund), or 301 per cent higher than in 2008 (figure 7.4). In 2010, there was a further overall rise of 31 per cent to 1.2 billion hours authorized, with a shift from CIGO (which in 2010 accounted for less than 30 per cent of the total) towards CIGS, which encompasses the schemes activated during restructuring processes rather than temporary and transitory difficulties, as CIGO. In 2011, total authorized hours fell by 19 per cent but remained above the 2009 level, with a further drop in the share of CIGO to less than 25 per cent. In 2012, the total rose again to above 1 billion hours and the use of CIGO slightly increased to almost one third of the authorized hours (Inps, 2013).

FIGURE 7.4: WAGE GUARANTEE FUND, NUMBER OF AUTHORIZED HOURS, 2005-2012, THREE-MONTH MOVING AVERAGE



Notes: CIGO = Ordinary Wage Guarantee Fund; CIGS = Special Wage Guarantee Fund; CIGD = Exceptional Wage Guarantee Fund

Source: Inps (2013), <http://www.inps.it/>, authors' calculations.

It must be underlined that not all authorized hours are eventually used by firms and turn into the effective suspension of the employment relationship. In fact, the actual utilization rate of the hours of the Wage Guarantee Fund authorized in 2009 reached around 65 per cent in August 2011 (Inps, 2011). Up to October 2012, some 52 per cent of the hours authorized in 2010 and 54 per cent of those authorized in 2011 were actually used by firms (Inps, 2012).

Other measures, wage freeze and suspension of collective bargaining in public administrations, and broad-range reforms

In the early phase of the crisis in 2009–2010, measures to support companies were introduced. These included new provisions to ensure that public administrations paid their suppliers faster (although these measures largely failed and were reinforced in May 2012 by special decrees to establish new rules and procedures); exclusion from the tax base of investments; and fiscal incentives for banks and financial firms.

Severely hit by the economic crunch, SMEs also have benefited from special schemes. An agreement was reached in February 2012 between the government, Abi (Associazione bancaria italiana – the banking sector employers' association), Confindustria, Rete Imprese Italia – a coordination system of five crafts and commerce organizations, i.e. Casartigiani, Cna, Confartigianato, Confcommercio and

Confesercenti – and other employers’ organizations, with a view to establishing favourable credit conditions for SMEs with a good credit record.

An important element in the interventions aimed at limiting public expenses was a set of measures to control the personnel costs of public administrations (Aran, 2011). Decree No. 78 of 31 May 2010 on “urgent measures for financial stabilization and economic competitiveness” included measures on, for example, pensions and public sector employment. Notably, in consideration of the “extraordinary necessity and urgency to enact provisions for the limitation of public expenditure”, it introduced several measures on public employment and on collective bargaining in the public sector.

First, it introduced a wage freeze to hold individual wages at 2010’s level from 2011 until the end of 2013 (with a possibility of extension to the end of 2014 under Decree No. 98/2011). Second, it attempted to impose a wage cut of 5 per cent for salaries above €90,000 and 10 per cent for those above €150,000 for 2011–2013 (but in late 2012 the Constitutional Court later ruled this intervention “constitutionally illegitimate”, under ruling 223/2012). Third, it suspended collective bargaining for 2010–2012. Finally, it allowed public administrations to recruit only one person for every five workers leaving during 2011–2013 (again, extendible to the end of 2014).

Legislation in 2011 was marked by a two-fold objective: to reduce the public deficit, through cuts in public expenses and through higher taxes; and to promote economic growth. The Berlusconi government passed various laws, whereas the Monti government from December 2011 introduced further economic measures, including a major reform to retirement benefits and rules.

In July 2011, Decree No. 98/2011 on “urgent measures for financial stabilization” was enacted and approved by Parliament (becoming Law No. 111 of 15 July 2011). The law envisaged cutting to zero the public deficit over four years and achieving a balanced budget in 2014. Its measures included a cut to the automatic adjustment of pensions to inflation; bringing forward from 2015 to 2013 the increase in the retirement age, introduced in May 2010, to take into account growth in life expectancy; a further postponement of retirement for seniority pensioners than had been established for all in May 2010;⁹⁶ and a temporary tax on obligatory pensions above €90,000 (5 per cent) and €150,000 (10 per cent) (as with the measure on wages, the Constitutional Court ruled this provision illegitimate in 2013, ruling 116/2013).

In August 2011, a third Decree was issued with “further urgent measures for financial stabilization and economic growth” (Decree No. 138 of 13 August 2011) and then approved by Parliament in September (Law No. 148 of 14 September 2011). The main measure with an impact on industrial relations was introduced

⁹⁶ Seniority pensions are payable after a certain number of years in employment (for instance, 40) irrespective of the retirement age, which grants entitlement to old-age pensions.

by Article 8, which made it possible to derogate from industry-wide agreements and legislation through decentralized bargaining at company and local level (described in the new legislation as “proximity bargaining”).

Law No. 148 also established that decentralized agreements are generally binding if they are signed by the most representative trade unions at national or territorial (local) level in the case of territorial agreements, and by representative structures at company level for company deals, and provided that the signatories represent the majority of workers in the relevant bargaining unit. This provision is important because it defined the rules to ensure that second-level agreements are generally binding whenever there are dissensions among trade unions and in the case of so-called “separate” agreements, that is those not signed by all the three major confederations or their affiliates.

Finally, the Stability Law for 2012 (Law No. 183 of 12 November 2011) – the last legislative act of the Berlusconi government – introduced new measures for the promotion of youth employment in micro firms. These included a three-year full exemption from social contributions for apprentices who started working in 2012–2013 and a public subsidy for the required training; support of female employment through labour-entry contracts (*contratti di inserimento*) in areas where women have a particularly difficult position on the labour market; and promotion of part-time and tele-work, especially for women workers involved in collective dismissals (*mobilità*) and for disabled workers.

The Monti government and the pension reform

The Monti government issued its “Save Italy Decree” in early December 2011. Passing into law the same month (Law No. 214 of 22 December 2011), it covered “urgent provisions for economic growth, equality and the consolidation of public finance”. It looked to achieve a balanced budget by 2013 through the early introduction and strengthening of a range of measures, including a new municipal tax on real estate (Imposta Municipale Propria, IMU), a hike in the value-added tax (VAT) by 2 percentage points over two years, and a cut in public spending. Quite prominently, the law introduced a substantial revision to the rules on retirement and to the calculation of pension benefits, with the raising of the retirement age and a shift to defined-contribution schemes for all workers, starting from 1 January 2012.

The government, under economic and financial pressure, drew up the Decree, and particularly the major reform of the pension system, unilaterally. Actually, it disclosed its content to the social partners at a general meeting only a day before enactment.

The trade unions were particularly critical of both the method of promulgation and the content of the Decree. They opposed the interventions on pensions, which amounted to a steep increase in the actual retirement age and the abolition of “seniority” pensions. Seniority pensions were replaced by “antici-

pated” retirement, with a penalization of the pension check. The three major trade union confederations called for a three-hour strike against the Decree. However, it was quite clear to all observers including the social partners that the economic and financial situation did not allow substantial changes to be made and that negotiations were possible only on specific issues. Still, slight adjustments were made to correct some aspects of the reform during the parliamentary debate, at the government’s initiative, to take into consideration some of the social partners’ remarks.

After the debate on pensions, the reform of the labour market became the main concern of the policy agenda. Public debate honed in on the most controversial issue, namely the reform of the rules on individual dismissals, particularly those covering the reinstatement of workers as provided for in Article 18 of the Workers’ Statute. This issue had already triggered social conflict 10 years earlier. The reform programme that finally came out under the Monti government in 2012 slightly eased the firing restrictions imposed on medium-sized and large firms, and made temporary hiring (i.e. via non-standard or atypical employment contracts) more costly. It also partially redesigned the system of income-support measures for the unemployed. In general, the reform has been presented by the government as a means to provide a more balanced regulatory framework in a highly fragmented labour market where use of non-standard employment contracts has risen sharply in recent years.

The new rules support a shift – with some exceptions – from the reinstatement of unlawfully dismissed workers to the payment of compensation, and try to limit the abuse of atypical employment contracts in order to reduce differences in protection levels within the labour market. The resulting numerical flexibility in the market and the reduction of the costs of firing were also expected to support job creation and boost Italy’s chronically low employment rate. Finally, the introduction of a less fragmented and more universally applicable system of unemployment benefits would lessen the divide between protected older workers and the millions of young people in temporary jobs with lower labour rights.

During the first phase of the discussions on the labour reform, the government staged broad consultations with the social partners. However, because it was difficult to arrive at a consensus, it declared itself ready to proceed unilaterally and eventually presented a bill without the social partners’ agreement.

Unions and employers alike were dissatisfied with the bill, for different reasons. The unions thought that the changes in the rules on individual dismissals excessively reduced workers’ protection, but they agreed with the objectives of the measures on non-standard contracts and unemployment benefits. The employers’ associations regarded the increased constraints on, and the costs of, atypical work as detrimental to economic activity and the intervention on individual dismissals as too limited and complex.

Again, the search for consensus moved to Parliament and notably to the Senate’s Labour Commission. Here two rapporteurs – a bipartisan pair – worked to find

solutions that could be acceptable to both the widest possible coalition of political parties and the social partners. Eventually, the reform passed with a vote of confidence (which requires the government to resign if Parliament fails to pass the bill) at the end of June 2012, just before the EU Council meeting of 28–29 June 2012, but it was agreed that some aspects of the new rules would be modified in the following weeks. Indeed, a number of adjustments were introduced soon after the law was passed, especially with a view to reducing constraints on the use of flexible work. A more substantial set of corrections was introduced by the Letta government in the summer of 2013. While the political agreement over these modifications took into account the remarks and criticisms put forward by the social partners, the adjustments were not discussed within a social dialogue framework.

BIPARTITE SOCIAL DIALOGUE AND COLLECTIVE BARGAINING

Fiat establishes a separate industrial relations system

The decentralization of the bargaining structure has been at the centre of debate since the conclusion of the 1993 tripartite agreement, which provided a general income policy framework for collective bargaining and reinforced coordination between sectoral and decentralized agreements. In terms of wage developments, the 1993 agreement assigned to sectoral bargaining the preservation of purchasing power while decentralized bargaining would distribute productivity gains through variable pay and according to production, quality and economic and financial indicators. The issue of further decentralization of the bargaining structure became prominent in the early 2000s, when it started to represent a crucial goal – for employers to increase flexibility and competitiveness and for unions to achieve wage growth through gain sharing, at a moment when wage restraint was the distinctive feature of sectoral bargaining. On decentralization, some significant differences emerged among the trade unions, with Cisl (Confederazione italiana sindacati lavoratori – Italian Confederation of Workers’ Trade Unions) more in favour, and Cgil more cautious (Baccaro and Pulignano, 2011).

The debate over the possible transformation of the Italian collective bargaining system became heated in 2010, primarily over the Fiat case. The conflict occurred among the trade unions on the position to be taken over the implementation of Fiat’s five-year industrial plan presented in April 2010. In particular, part of the Fiat Group Automobiles’ (FGA) plan for 2010–2014 called for a thorough reorganization and relaunch of Italian production sites to recover productivity and confirm Italian plants as the core of FGA. Substantial investments were announced to support a considerable increase of production, accompanied by requests for work flexibility from the company’s management, notably full plant utilization (18 shifts per week) and the containment of over-

head and labour costs. Unless the unions agreed, Fiat threatened to shift production abroad, including to its plants in Serbia and Turkey.

Negotiations over the implementation of the industrial plan started at the Pomigliano plant near Naples. Fiom-Cgil openly criticized the measures proposed by the management, especially those aiming to introduce a no-strike clause and reduce absenteeism, on the grounds that the company was restricting individual rights. Fiom-Cgil did not sign the agreement and campaigned against it in an employee referendum on the draft deal. The agreement eventually passed with the support of some 65 per cent of the votes cast.

However, the effectiveness of the agreement was uncertain, because of the split among the unions and the fact that Fiom-Cgil had not signed the 2009 metalworking industry-wide agreement. Fiat decided in the autumn of 2010 to develop a different strategy: establish new companies for each of its Italian plants, which would not join employer associations and would sign new first-level collective agreements to regulate employment outside the traditional framework of the metalworking sectoral agreement. If Fiom-Cgil failed to sign the agreement with Fiat, following Italian laws on union representation, it would not have the right to set up workplace representation structures in the new companies.

The new strategy was first applied in negotiations on revitalizing the Turin Mirafiori plant, and was immediately extended to Pomigliano. The first-level agreements were both signed at the end of December 2010. Fiom maintained its strong criticism of the content and nature of these new agreements, so that conflict continued both among trade unions and with Fiat.

In late September 2011, Fiat publicly announced its decision to leave Confindustria. This was an expected decision given that it had signed the 2010 Mirafiori and Pomigliano agreements, effectively abandoning the metalworking industry-wide agreement in favour of first-level company bargaining. Fiat's objective was to attain full control of its plants to increase productivity and production quality and to match the standards set by its international competitors, which eventually led to a separate regulatory framework confining workplace trade union representation to the employee organizations signing the relevant agreements.⁹⁷

Decentralization of collective bargaining: new rules and balances

Against the backdrop of the economic crisis and the long-term pressures towards decentralized bargaining, exacerbated by Fiat's breakaway from sectoral bargaining, the main social partners have tried to establish a new regulatory

⁹⁷ In July 2013, the Constitutional Court declared illegitimate the provision which limited the establishment of a plant-level union structure to the unions signatories to agreements applied in the workplace (ruling 231/2013). As a consequence, Fiom-Cgil was again granted the possibility to establish trade union structures within the Fiat Group in September 2013.

framework for collective negotiations. On one hand, the rules on representativeness and the effectiveness of second-level collective agreements have been specified in two agreements signed by Confindustria and the three main union confederations, Cgil, Cisl and Uil (Unione italiana del lavoro – Union of Italian Workers). On the other, a new balance between the sectoral agreement and decentralized bargaining has been put forward in a cross-sectoral agreement signed by a number of employer associations and Cisl and Uil, but without Cgil. The two agreements were signed on 28 June 2011 and 31 May 2013 respectively. The intersectoral agreement reached on 28 June 2011 by Confindustria, Cgil, Cisl and Uil introduced for the first time rules on the assessment of representativeness for the participation to national industry-wide bargaining and for the effectiveness of company agreements. The agreement established that trade unions with a representativeness of at least 5 per cent, calculated as the average of the percentages of certified members and votes cast in the periodic elections of trade union plant-level structures, have access to sectoral collective bargaining. As for decentralized bargaining, company-level agreements on economic and normative elements, including derogations from industry-wide agreements, are valid for all relevant employees if they are signed by unions which represent the majority of members within the company.

To implement the provisions of the 28 June 2011 agreement, Confindustria, Cgil, Cisl and Uil signed a protocol on 31 May 2013. The protocol better specified the concrete procedures to collect and validate the information on representativeness. It also established that sectoral collective agreements by trade union organizations with representativeness of at least 50 per cent plus one are binding for all the signatory parties and would be applied to all workers. The deals will be fully effective after they have been approved by a simple majority in a worker consultation. The protocol includes a commitment by the three confederations to promote the presentation of joint platforms of demands by all their sectoral affiliate unions when industry-wide renewals have to be negotiated.

If the agreements on representativeness clearly signal the effort to promote the unity of action of the three main trade unions, the intersectoral agreement on productivity pay (“Guidelines to increase productivity and competitiveness in Italy”) signed in late 2012 once more saw Cgil’s absence. The social partners signed this intersectoral agreement on 21 November 2012, during a meeting with the government. The signatories on the employers’ side were Confindustria, Rete Imprese Italia, Alleanza delle Cooperative Italiane (a coordination system between the main cooperatives associations, Agci (Associazione generale cooperative italiane – the General Association of Italian Cooperatives), Confcooperative and Legacoop), Abi and Ania (Associazione nazionale fra le imprese assicuratrici – National Association of Insurance Companies); Cisl, Uil and Ugl (Unione generale del lavoro – General Labour Union) signed for the trade unions.

The agreement underlined the importance of collective bargaining to sustain the growth of productivity and competitiveness and to balance the interests

of firms and workers. It urged the government and Parliament to introduce structural measures to support “productivity wages” through such incentives as reductions in fiscal and social contribution.

As for the structure of collective bargaining, the agreement of 21 November 2012 assigned to industry-wide collective bargaining the guarantee of homogeneous economic and normative conditions for all workers throughout the country. According to the agreement, second-level bargaining should operate to increase productivity through better utilization of the factors of production and the improvement of work organization, and by linking wage increases to such developments. The parties also recognized the need to support decentralized bargaining to introduce rules and conditions which better suit specific production contexts, including by derogating from sectoral agreements. The agreement envisaged the possibility of shifting part of the basic wage to local level, so as to provide substantial resources to feed into productivity bargaining and bonuses.

CONCLUSIONS

The international economic crisis has put both the political and the industrial relations systems in Italy under severe strain, especially following the subsequent sovereign debt crisis. Industrial relations and social dialogue have been affected by policies aimed to attain financial stability and restore economic growth, and by the industrial relations strategies adopted by prominent companies such as Fiat. As for the latter, there are no signs of the emergence of a widespread strategy of sidestepping national agreements in favour of enterprise agreements (although such an option turned into a “credible threat”). Rather, the economic crisis generally strengthened the position of companies in negotiations, so that concession bargaining became more likely, especially at times of restructuring, and viable, thanks to a regulatory framework more open to derogations.

Early responses followed rather traditional paths, such as relying on the Exceptional Wage Guarantee Fund. The approaches in the first phase of the crisis until 2010 basically aimed to maintain employment, and they also indicated an ability to address problems through social concertation and industrial relations at territorial level. These can be interpreted as a confirmation not only of the traditional strength of the social partners at local level, but also of the success of experiments with new processes and instruments calling for a closer involvement of SMEs and passive and active labour policies working in tandem. These experiments may offer fertile ground for further developments. Indeed, the role of joint bilateral bodies and funds – at territorial and sectoral levels – in supplementing the protections granted by public schemes is moving up the social partners’ agenda.

However, the exceptional scheme of the Wage Guarantee Fund could only serve as a short-term response, as seen in worsening employment trends in the second phase of the crisis. Given persistent economic difficulties in Europe and a global growth slowdown, the government's measures and the new agreements between the social partners were not enough to foster domestic recovery.

In the past, economic recessions and macroeconomic difficulties tended to increase the importance of central bargaining, whereas growth generally fostered company-level bargaining (Regalia and Regini, 2004; Regini and Colombo, 2011). This was because collective bargaining during slumps concerned income policies and macroeconomic management at the central level, while in more prosperous times company agreements were essentially ameliorative and enabled workers to share in productivity gains when the economy prospered.

Today, decentralized bargaining is valuable for employers in that it allows restructuring and derogations from industry-wide agreements, both of which aim to ensure more flexibility and adaptability and which may occasionally entail higher compensation for workers (as in the Fiat case). The economic recession has probably reinforced this trend, which had already begun to emerge in the last decade. Both collective bargaining and legislation provide much broader scope for derogations than before the crisis. The June 2011 and November 2012 agreements have gone in this direction. The latter was meant to provide a framework for the whole economy, but Cgil's failure to sign the final deal is likely to make implementation of the agreement problematic. Article 8 of Decree No. 138/2011 certainly provides substantial leeway for derogations, and there are indications that decentralized collective bargaining is making cautious use of its provisions, at least so far. This caution is mainly linked to the fear of legal and social disputes centred on the application of this rather controversial piece of legislation, while other possibilities for derogations remain available and are less contentious (Imberti, 2013).

It remains to be seen how this shift in the level and nature of collective bargaining will change the relationship between company and sectoral agreements, and whether it will open up some scope for institutionalizing participatory practices at decentralized level. The introduction in the 2012 labour market reform under the Monti government of a provision envisaging promotion of participation and involvement at company level may facilitate cooperative solutions, although no steps have been taken towards this so far.

Social concertation has not played a major role in the recent responses to the recession in Italy. This was partly due to the attitude of successive governments, which did not attach great importance to inclusive negotiations and broad agreements. Enacting urgent measures aimed at reassuring international financial markets was a priority for governments over the pursuit of consensus among social partners. Moreover, for a long time, the major trade union confederations did not seem to be able to unite during collective negotiations. Separate identities and objectives prevailed over the benefits of presenting a

united front at the bargaining table. The November 2012 intersectoral agreement on productivity confirmed these trends, as the government did not want to get directly involved in the negotiations and divisions between the major trade unions emerged again, after the joint intersectoral agreement of June 2011 on representativeness.

Approaching social concertation through bilateral and even informal contacts and by proxy (through parliamentary contacts) amounts to micro-negotiations on individual aspects of theoretically wide-ranging reforms, such as those on pensions and the labour market. Paradoxically, at a time when their legitimacy has reached the lowest point ever in Italy, political parties appear to have regained a key role in social dialogue. By contrast, trade unions and employers' associations, involved in negotiations with multiple actors, are forced to enter the pure political arena. This model does not seem to be sustainable for the social partners because it is not institutionalized, thus greatly increasing uncertainty over processes and outcomes. In practice, social partners are forced to become lobbying groups, raising the question of whether organizations engaged in collective bargaining and social dialogue can be equally effective as lobbyists, and of whether the ensuing regulations can be coherent. Certainly, the social partners would lose the advantages in terms of clarity and strength of a unitary and comprehensive text on which their support could converge. The fate of the Italian tradition of tripartite social concertation will depend on the attitudes of future governments (the key actor in such experiences) and on the capacity of the social partners to act collectively and mobilize support to contrast unilateral governments' initiatives. At present, both the government stance and the social partners' opposition potential do not allow one to envisage a revitalization of social dialogue in the near future.

The erosion of the role of industry-wide bargaining and of social concertation may significantly alter Italy's industrial relations landscape in the years to come, following a trajectory which is common to a number of economically advanced countries (Visser, 2013). Even the long-awaited end of the economic and public debt crises may fail to change the underlying trends. Rather, any new momentum for decentralized bargaining that might be fostered by economic recovery may in fact exploit the new room for differences and derogations allowed by the new regulatory framework and thereby increase the fragmentation of collective protections in such a way to mark a break from the traditional key regulatory role of sectoral agreements.

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THE IMPACT OF THE EUROZONE ADJUSTMENT ON IRELAND

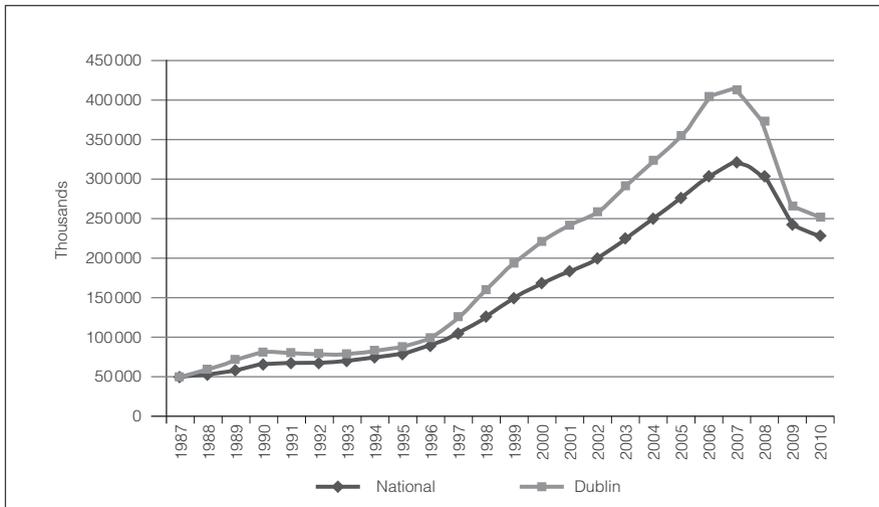
Aidan Regan

THE ORIGINS OF THE IRISH CRISIS

The euro?

The origins of the Irish *economic* crisis can be found in the reckless behaviour of private market actors in global financial markets. Post 2000, the aggressive deregulation of global finance markets and domestic credit-mortgage markets led to unprecedented levels of interbank lending within Member States of the Eurozone. In 2003 Irish banks borrowed the equivalent of 60 per cent of the country's gross national product (GNP) on European money markets. By 2007 this had risen to almost 280 per cent when securitized mortgages are included. This cheap credit was primarily channelled into real estate and property speculation. The outcome was a colossal increase in house prices in the Irish domestic market (figure 8.1). Direct and indirect employment associated with residential construction grew from 7.2 per cent in 1998 to almost 17 per cent in 2007. When this construction bubble burst, GNP collapsed and unemployment soared. It is a classic balance sheet recession.

FIGURE 8.1: HOUSE PRICES IN IRELAND, 1987–2010



Source: Department of Finance: Budgetary and Economic Statistics (2011).

The subsequent *fiscal cum sovereign debt* crisis in Ireland is the direct outcome of the Irish government's decision to guarantee all of the private liabilities of its three main domestic banks: Anglo-Irish, Allied Irish Banks and the Bank of Ireland. The bad debt owed by property developers to these banks, in addition to the collapsed tax revenue associated with the construction boom, resulted in the insolvency of the State.⁹⁸ The Irish general government deficit went from 1.2 per cent in 2007 to 32 per cent in 2010 when the full cost of bank recapitalization is included. In the same period the debt-to-GDP ratio went from less than 40 per cent to 110 per cent and unemployment soared from 4 per cent to 14.7 per cent. Between 2008 and 2010, in an attempt to bring down the fiscal deficit, the government introduced three austerity packages that amounted to 14 per cent of GDP, one of the largest adjustments recorded by any developed economy in the western world (IMF, 2010). But these austerity packages did not have the desired impact. In 2010 the Irish State was priced out of international bond markets and had to resort to a European Commission–ECB–IMF loan. The condition of this troika-led “bailout” is the introduction of an additional €15 billion austerity package, and a series of recommended structural reforms, to be implemented over four years.

Ireland was the fastest-growing economy to enter the Economic and Monetary Union (EMU) and has a model of capitalism closer to the United States than to Germany. In the pre-EMU period Ireland constructed an export economy premised on internationally traded goods and services in the information and communications technology and pharmaceutical sectors. When the economy began to slow after the bursting of the dotcom bubble, a new growth model premised on credit-driven finance emerged. Irish banks took advantage of the absence of exchange rate controls and low European Central Bank (ECB) interest rates by borrowing excessively on the interbank money markets. Successive centre-right governments deregulated financial and mortgage markets, and introduced a whole series of tax breaks for property construction. The outcome, as stated, was a colossal house price bubble.

The ECB maintained historically low interest rates in the Eurozone as a response to stagnant domestic demand in the German economy, a result of a decade of wage restraint (ILO, 2010). Wage growth in the highly productive export sectors, particularly in chemicals, engineering, steel and metal fabrication is lower than in almost every other country in the Organization for Economic Co-operation and Development (OECD). But industrial output from these sectors has been growing steadily from the mid-1990s. Hence, since the creation of the euro corporate profits have increased while wages have declined. The

⁹⁸ The Irish crisis is primarily a banking crisis. This paper does not go into the fine details of this problem. But it is fair to assume that until the bank debt issue is resolved at a European level, the Irish economy will struggle to recover. The government hopes that a pick-up in exports will do the heavy lifting in resolving the debt-to-GDP ratio. This is highly unlikely.

impact of negative ECB real interest rates in Ireland was an influx of cheap credit into the economy. Domestic policy-makers could not use monetary tools to contain inflationary pressures associated with rapidly rising house prices (which fuelled residential construction). In the context of annual average 6 per cent economic growth from 2000 to 2007, it would have been inconceivable for the Irish Central Bank to adopt negative interest rates as it would have been targeting domestic consumer price inflation, as this is the measure used by trade unions to determine nominal wage demand. But the ECB was targeting the EU-wide harmonized index of consumer prices and this index does not include house prices or mortgage repayments.

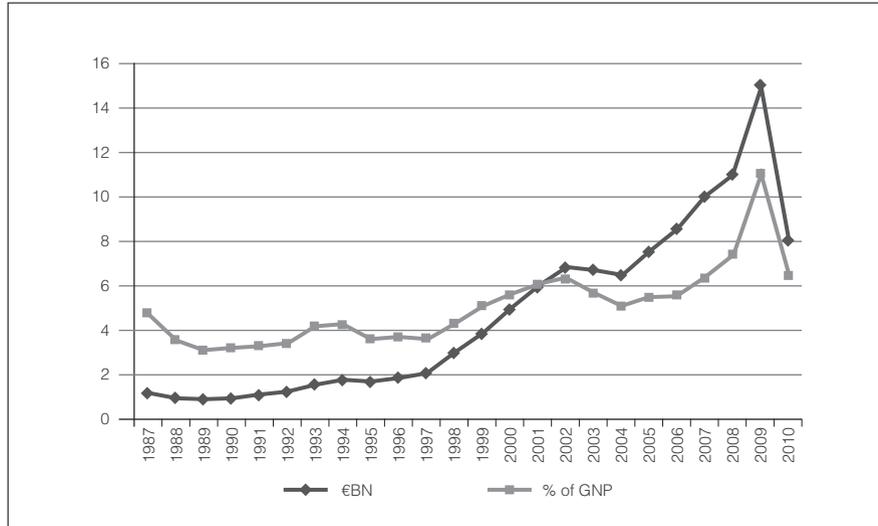
The liberalization of financial markets associated with an integrated currency union was an exogenous factor that facilitated an unsustainable boom in Ireland's property market, and a central factor that must be considered when examining the origins and impact of the crisis on Ireland's adjustment strategy.

Domestic policies?

In an ideal world, Ireland would have mirrored the German political economy after its entry into the EMU, but this was unlikely to happen. The 17 (then) economies of the Eurozone have distinct welfare, wage and industrial relations regimes. Irish policy-makers entered the Eurozone with a political economy that was gradually converging on European standards of living. But its expenditure on social protection and education as a percentage of GNP was significantly below the EU-15 average. In addition, Ireland's physical infrastructure, a core factor in long-term economic competitiveness, lagged significantly behind European standards. The largesse that was made available from the pre-EMU Celtic Tiger and European Structural Adjustment funds facilitated a massive capital expenditure programme from 2000 (figure 8.2). Capital expenditure in 2004 was double the EU-15 average. The National Development Plan was the strategic mechanism through which productive investment in roads, buildings, electricity and waste sewerage took place. This investment contributed to inflationary pressures in the Irish economy but it also generated significant employment in construction.

The unproductive investment in Ireland's economy occurred in the private real estate market. According to White (2010), real estate accounted for two-thirds of the €477 billion available for capital investment from 2000 to 2008. During this period bank lending tripled, rising from 60 per cent of GNP in 1998 to 270 per cent at the peak of the construction boom in 2007. Real estate increased from 37 per cent to 72 per cent of total bank lending. It was this increase in bank lending on wholesale money markets that was a central factor in driving the house price bubble in the Irish economy. Between 1991 and 2007 house prices in Dublin increased by 490 per cent. By 2006, land prices in Ireland were the highest in Europe. By 2007 almost 20 per cent of GNP was accounted for by construction (Kelly, 2010).

FIGURE 8.2: TOTAL GOVERNMENT CAPITAL EXPENDITURE, 1987–2010

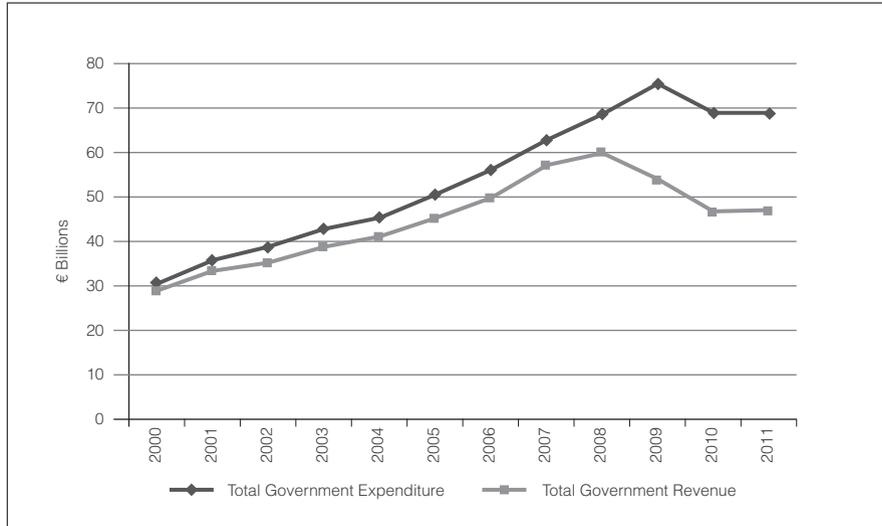


Source: Department of Finance: Budgetary and Economic Statistics (2011).

The upsurge in credit-fuelled house prices shifted the Irish economic growth model from one premised on exports (pre-EMU) to one on domestic demand and construction (post-EMU). As detailed by Norris and Coates (2010), the commercial mortgage sector was deregulated as part of a wider process of domestic financial liberalization. Policy-makers were aware that house price inflation would lead to increased wage demands and a loss of competitiveness. But to tackle house price inflation the government adopted policies to increase the supply of housing (i.e. build more) rather than “interfere” in the property market by managing lending criteria or controlling prices.

The National Institute for Regional and Spatial Analysis (NIRSA) has described the Irish government’s approach to economic policy as a “patchwork system of neoliberal governance”. At a macro level it involved abolishing quantitative restrictions on credit growth, lowering bank reserve requirements, dismantling capital controls and removing restrictions on interest rates. At the domestic level Irish policy-makers adopted pro-cyclical fiscal policies, developer- rather than government-led planning, and light touch regulation. The patchwork, however, was complicated by the existence of national social partnership, centralized wage bargaining and a relatively generous welfare safety net. Trade unions were not excluded from the national governance framework but central to it. Nominal wage growth, unlike in the United Kingdom and the United States, averaged 3 per cent a year after Ireland’s entry to the euro. Real disposable income increased at a faster rate because of cuts in income tax.

FIGURE 8.3: TOTAL TAX REVENUE AND EXPENDITURE IN IRELAND, 2000–2011

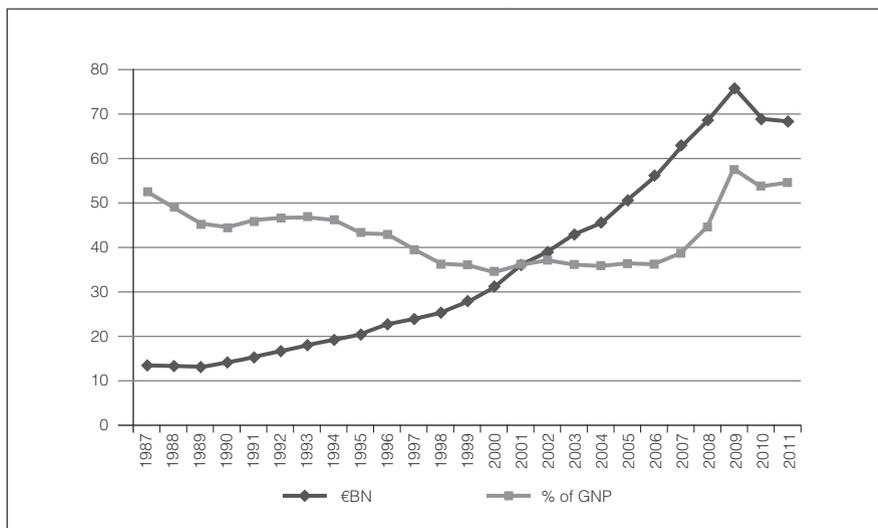


Source: Department of Finance: Budgetary and Economic Statistics (2011).

Economic growth rates of 5–6 per cent per annum from 2000 to 2007 increased government revenue and employment growth. The 2002 budget, in particular, was designed by the governing Fianna Fáil coalition to win electoral support, after the economy had begun to slow down. The government introduced a series of tax reliefs on the purchase of rented residential and commercial property. The 2003 and 2004 budgets extended and widened these property-related schemes with the result that Irish fiscal policy became aggressively pro-cyclical and directly linked to construction-related capital investment (Gurdgiev et al., 2011). The increased revenue enabled government expenditure to increase by some 11 per cent during this period (figures 8.3 and 8.4). Most of this expenditure went towards increasing social welfare payments and public sector pay. This satisfied and kept intact the underlying distributional coalition of Irish social partnership: Fianna Fáil and public sector unions. The Irish variant of social partnership was premised on centralized wage restraint in return for decreasing income taxes. The net effect was a path-dependent route of sharing growth through rising personal incomes rather than an improvement and collective investment in public services.

Ireland's fiscal policy regime was inappropriate to the conditions of monetary union. The tax-to-GNP ratio remained steady throughout the construction boom, but masked a significant change in the underlying composition of the tax base. Income tax as a share of the total tax take declined from 37 per cent in 1994 to 27 per cent in 2006. In addition, the tax base was increasingly narrowed with the net effect that 50 per cent of employees were taken out of the income

FIGURE 8.4: TOTAL GOVERNMENT EXPENDITURE, 1987–2011



Source: Department of Finance: Budgetary and Economic Statistics (2011).

tax net altogether. By 2007 Irish revenue was hugely dependent on domestic consumer spending (VAT and indirect taxes) and property-related taxes (stamp duty, VAT on new homes and capital-acquisition taxes). Property-related taxes went from 8 per cent of total tax revenue in 2002 to over 15 per cent in 2006. Hence, when the property market collapsed, tax revenues plummeted. From 2008 to 2009 government revenues fell by €18 billion or almost 20 per cent of GNP. Given the rapid rise in unemployment and the associated social protection payments, government expenditure climbed from 37 per cent to 47 per cent of GNP (Department of Finance, 2011).

Ireland’s low tax regime was the consequence of domestic political choices, and legitimated by the centralized process of social partnership. The irreconcilable tension between instituting a low tax regime, whilst permanently increasing public spending, was a central factor in explaining the collapse of social partnership in the Irish case.

THE COLLAPSE OF SOCIAL PARTNERSHIP, 2008–2010

Monetary and fiscal policy

In September 2008, the Irish housing bubble burst and the Irish State guaranteed all private liabilities of the banking sector. Ireland subsequently experienced a 14 per cent contraction in national income between September 2008 and June 2011. In 2008–2010 Ireland’s budget deficit deteriorated, and by 2012

it was the largest in the EMU at 14.7 per cent of GDP (32 per cent when the final cost of the bank bailout is included). By 2013 its public debt remained above 110 per cent of GDP and unemployment at 14.5 per cent. The worsening of all of these indicators occurred after the introduction of three fiscal austerity packages in 2008, 2009 and 2010. By 2012, the government had imposed an austerity package that amounted to €25 billion (or 16 per cent of GDP) (Department of Finance, 2013).

The strategy adopted by the Irish government was to internalize the policy constraints of the EMU and target public spending and unit labour costs as a means of adjustment. In terms of wage policy, the government introduced emergency legislation to override the Non-Payment of Wages Act for the public sector in the 2009 budget. This enabled it to implement a pay cut that averaged 5–15 per cent. It also sent a signal to the entire economy that the Non-Payment of Wages Act was not an obstacle to downward wage flexibility in labour costs. This was an attempt to kick-start a competitive devaluation of wages throughout the economy (although the evidence for pay cuts in the private sector is negligible). In labour market policy, the government introduced some measures to offset unemployment but there was no statutory support for wage subsidies or short-time working.

In fiscal policy, most of the adjustment (two-thirds) was via spending cuts rather than increased revenue. In 2009, €4.6 billion was taken out of expenditure but net government spending rose owing to the surge in unemployment and spending on automatic stabilizers. Between 2010 and 2011 an additional €10 billion adjustment was pursued, primarily through cuts in public sector pay, social welfare, capital investment and flat-rate tax increases. Despite fiscal “consolidation”, the premium on government bonds increased: in 2008 the yield was 4.3 per cent; in May 2010 it had increased to 5.9 per cent. In November 2010, the government announced another €15 billion austerity package to be introduced over four years – bond yields subsequently rose to over 7 per cent.⁹⁹ Fiscal austerity did not appease international investors and Ireland had to resort to an EU–IMF rescue package in December 2010, losing economic sovereignty. But the conditions of this “bailout” are no different from the four-year programme adopted by the government prior to the troika adjustment programme. The troika has become a political tool to ensure its implementation.

The Irish government adopted and internalized the preference of the troika in how it has responded to asymmetric shocks. It has pursued an internal devaluation that shifts the entire burden of adjustment on to the labour market without a corresponding investment strategy to boost the growth side of the debt–GNP equation. There has been no recovery in employment nor a tripar-

⁹⁹ The bond yield by November 2012 dropped to 5 per cent, primarily because of a European commitment to consider the separation of bank and sovereign debt in Ireland. It is too early to assess whether Ireland will require a second financial package.

tite agreement aimed at creating or maintaining jobs. The social partners attempted a negotiated solution to the crisis in 2009 but failed – the reasons for which are now explained, as well as the political and policy consequences in 2010–2013.

National wage and fiscal policies

One month before the economic collapse in November 2008 the social partners negotiated a National Wage Agreement entitled *Towards 2016: Review and Transitional Agreement 2008/2009*. This agreed on a pay pause for 11 months in the public sector and three months in the private sector, followed by a 6 per cent increase over 18 months. It also included a commitment by the government to improve collective bargaining rights, legislate for employment rights, continue public sector reform and conclude an EU directive on temporary agency workers. The Transitional Social Partnership Agreement negotiated in 2006 was for 10 years but the pay aspect of the agreement was to be renegotiated every 24–36 months. The new transitional pay agreement was barely signed when the full extent of the crisis facing Ireland's economy emerged. Immediately the government signalled its intention to seek a coordinated response and discussions began in the National Economic and Social Council, an agency central to the social partnership process. This was the beginning of a 12-month process aimed at negotiating a social partnership agreement, which ultimately failed.

Negotiations on a national pact took place throughout December 2009. The trade union movement agreed to a reduction of €4 billion in current expenditure, which fundamentally shifted the balance from a public investment strategy. The Irish Congress of Trade Unions (ICTU) now had to find a strategy to take €4 billion out of current expenditure without a reduction in the rates of public sector pay. In return, the Public Service Committee of the ICTU provided a complex package of public sector reform and productivity increases, particularly in the education and health sectors. The government appeared to have accepted a reduction of €4 billion via short-term working schemes and a “transformation agenda” aimed at productivity increases. The general secretary of IMPACT, one of the largest public sector unions, exited the talks on 3 December 2009 and publicly announced to the media that a social pact had been completed on “unpaid leave”.

The government subsequently issued a statement saying the ICTU proposals did not provide an acceptable alternative to pay cuts and legislated a second public sector pay cut amounting to some €1.3 billion. Emergency legislation was introduced to override the Non-Payment of Wages Act (which makes it illegal to unilaterally cut pay without agreement). The main cuts in public sector pay were as follows: 5 per cent on the first €30,000 salary, 7.5 per cent on the next €40,000 salary and 10 per cent on the next €55,000 salary. The

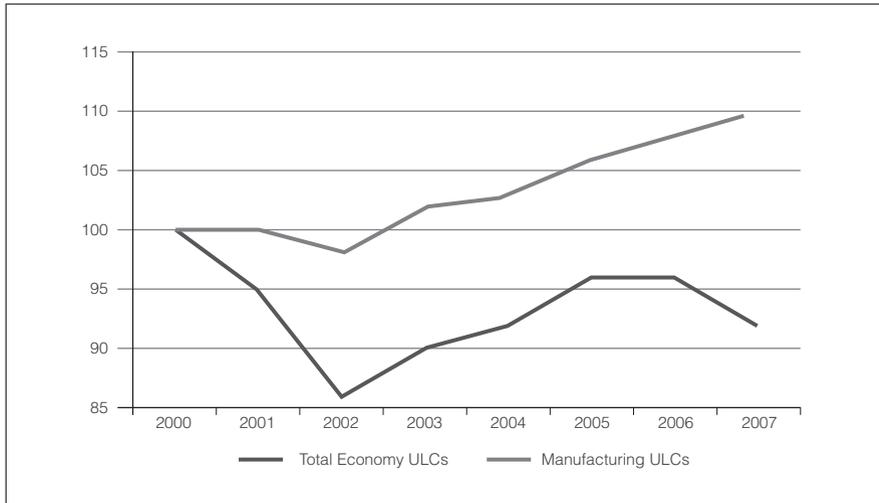
Irish Business and Employers' Confederation (IBEC) subsequently made the unprecedented decision to withdraw from the private sector transitional pay agreement of the 2006 social pact "Towards 2016". For the first time in 23 years, trade unions, employers and the government were operating without a national wage agreement.

The publication of a report in September 2009 by the Economic and Social Research Institute (ESRI) (Kelly, McGuinness and O'Connell 2009a) played a key role in shifting the politics of adjustment to reducing unit labour costs in the public sector. The report found that public sector workers earned, on average, 22 per cent more than their counterparts in the private sector, after taking into account age, experience and education. The report was central to a coordinating policy discourse that resulted in increased politicization of labour relations in the Irish public sphere. Many economists supported the report's conclusions, but it was not without its critics. Industrial relations scholars argued that it was too simplistic to statistically compare a homogenous public sector to a homogenous private sector when there was such significant sectoral and occupational differentiation both within and across these sectors (Geary and Murphy, 2009). This challenged not the politics of wage coordination in the sheltered sectors of the economy but the methodological complexity of measuring unit labour costs in a heterogeneous economy. But few would disagree that public sector pay increased substantially after entry to EMU.

Many trade unionists, however, argued that if the government was cutting wages, it had to indicate whether it was for cost saving, competitiveness or sustaining employment. That is, many questioned the logic of cutting wages in the public sector to improve national competitiveness. Furthermore, the same authors, in a separate ESRI publication found that centralized wage bargaining in Ireland generated wage restraint and that many sectors in the private sector used the national wage agreements as a floor – not a ceiling – in their company wage negotiations (Kelly, McGuinness and O'Connell, 2009b). Social partnership improved economy-wide cost competitiveness when measured in unit labour costs. The econometric analysis concluded that export firms can increase their competitiveness by locating in countries with centralized wage agreements. This conclusion seems to be supported by data that analyses trends in sectoral labour costs as indicated in figure 8.5. This shows unit labour costs in the traded "competitive oriented" manufacturing sectors of Ireland showing a decreasing trend relative to the OECD average from 2000 to 2007.

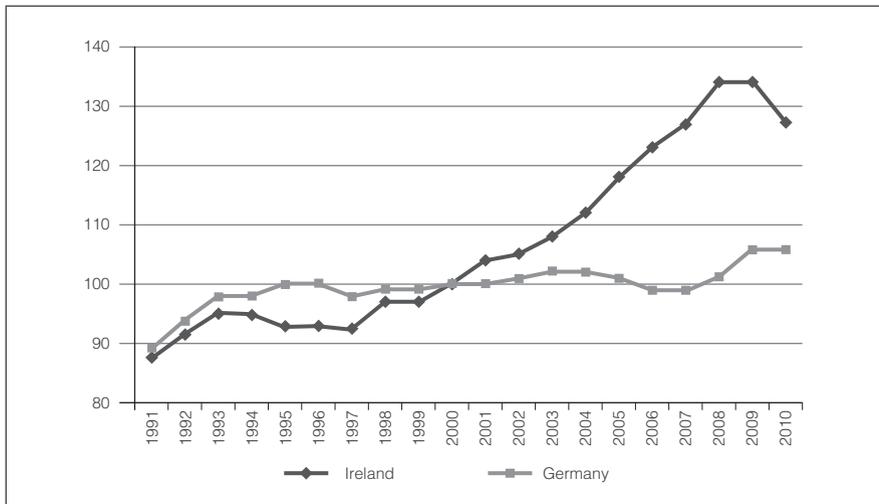
Figure 8.6, however, indicates that nominal unit labour costs in the economy (labour costs divided by entire working population) far exceeded those of Germany. This, in turn, would support the thesis by Traxler et al. (2010) that the type of wage-setting that emerged in Ireland was associated with sheltered pay bargains that do not internalize non-inflationary wage growth. The collective increase in negotiated wages supports the argument that public sector wage costs have driven up overall unit labour costs in the economy. But saving

FIGURE 8.5: TRENDS IN IRELAND'S MANUFACTURING UNIT LABOUR COSTS RELATIVE TO OECD AVERAGE



Source: European Commission, Statistical Annex (2010).

FIGURE 8.6: NOMINAL UNIT LABOUR COSTS IN IRELAND AND GERMANY, 1991–2010



Source: European Commission, Statistical Annex (2010).

costs in the government sector is not the same as improving competitiveness across the economy. It was the latter argument that was used in the Irish case for a collective devaluation of wages. Labour costs chased monetary-induced inflation in the Irish economy post-EMU. The causal factor behind this was a

house-price boom associated with an oversupply of cheap credit and facilitated by pro-cyclical fiscal policies, not centralised wage-setting per se.

Hence, the absence of a shared analysis on the competitiveness problem and a unilateral pay cut by the government altered the political context within which a negotiated solution could be reached. This is categorically different from the public finance crisis that gave birth to the coordinating role of the Prime Minister's Department in the social partnership process in 1987.

THE IMPACT OF FISCAL ADJUSTMENT ON WAGE, LABOUR AND SOCIAL POLICY, 2010–2013

The strategy of the centre-right Fianna Fáil/Green coalition from 2009 to 2010 has been continued by a centre-right Fine Gael/Labour coalition elected in February 2011, supporting the troika adjustment programme: increased labour market flexibility and supply-side reforms, wage competitiveness and the weakening of wage-setting institutions, limited employment protection and minimal State support for collective bargaining aimed at short-term working in preference to collective redundancy. All public policies since 2008 have been designed to restore sustainability to the public finances, repair the banking system, encourage foreign investment, maintain the low tax regime, and increase national competitiveness. Central to this is reform of wage-setting institutions.

Wage-setting

The public sector pay cut that averaged 15 per cent was designed to encourage a collective reduction in wages across the economy. In 2010 the Fianna Fáil government cut the minimum wage by 11.2 per cent but this was subsequently restored by the Fine Gael/Labour coalition in 2011. Recent research by the ESRI (2012) on pay trends in the private sector from 2007 to 2012 indicate limited evidence to suggest that employers cut wages as a means of adjustment – the strategy has been to cut jobs and working hours.¹⁰⁰ Hence, there has not been internal wage devaluation. Whether this is considered a case of wage and price rigidity (requiring structural reform) or an example that an internal devaluation cannot work, ultimately depends on one's political preference. What matters is the empirical observation that there has not been a systematic reduction in wages. Labour costs have been reduced through employment losses. Whether this could have been avoided via a centralized social partnership agreement is

¹⁰⁰ A separate survey, published on 24 May 2012, by the retail-based MANDATE Union, has shown that on average their members have suffered income cuts of €107 per week, primarily because of working-hour reductions. See: http://issuu.com/mandate/docs/mandate_decent_work_report_2012.

a moot point, but it does suggest that institutional wage coordination by the social partners, rather than market forces, is a better mechanism for negotiating a series of trade-offs in favour of job protection and flexibility. In Ireland, the preference has been for market clearing.

The troika programme required the government to establish an independent review of two distinct wage-setting mechanisms for the low paid in the Irish economy: Employment Regulation Orders and Registered Employment Agreements. The former primarily cover the pay of employees in hotels, restaurants and retail outlets. They are negotiated by joint labour committees composed of employer and trade union representatives who generally set wage floors 8 per cent above the national minimum wage (currently €8.65). The latter legally extend collective agreements across particular sectors. These are primarily used in the construction and electrical contracting sectors. An independent review by University College Dublin (UCD) economist Dr. Frank Walsh and the chair of the Labour Court, Frank Duffy, recommended that these wage-setting mechanisms be retained but reformed, arguing that few competitiveness gains were to be achieved through deregulating collective bargaining.¹⁰¹ This recommendation did not fit the preference of IBEC or of the main voice calling for flexibilizing these institutions, the Small Firms Association (SFA).

In July 2011 the High Court declared sections of the legislation governing the system of Employment Regulation Orders unconstitutional, a ruling upheld by the Supreme Court in 2013. Subsequent to this, the pay and conditions of 200,000 workers remained in a precarious position, with some employers seeking unilateral pay cuts (contravening the 1991 Non-Payment of Wages Act). Importantly, one of the main defenders of the wage-setting system after the High Court judgement were employers in the contract cleaning and security sectors. This exposed sectoral divisions and a lack of coordination among employers' associations, calling into question the representativeness of important business lobby groups such as the SFA.¹⁰² In 2012 the government coalition, under pressure from the Labour party, reinstated the system, albeit with significant reform (i.e. increased flexibility and inability-to-pay clauses). It is reform of this collective bargaining framework that has caused the most political turbulence among the social partners, as its reinstatement is generally considered a victory for trade unions.

¹⁰¹ See "Report of Independent Review of Employment Regulation Orders and Registered Employment Agreement Wage Setting Mechanisms", April 2011, available at: http://www.djei.ie/publications/employment/2011/Report_ERO_REA.pdf.

¹⁰² Minimal data are available from employers' associations in Ireland on who they represent and how they take decisions, making them more like 'lobby groups' and quite unlike European employers' associations.

Labour market and industrial relations

Using the OECD index of “strictness of employment protection”, only one country (the United Kingdom) in the EU has a more flexible labour market than Ireland. Such flexibility in Ireland has made it easier for employers to let staff go during the crisis. Minimal support has been provided by the state for policies aimed at short-term working or alternative labour market policies to minimize employment losses through additional income supports – reflecting the liberal nature of the Irish labour market. The focus is on supply-side reforms, which include restructuring the main training agency (FÁS). Whilst the public finance crisis has removed the resources required for a job stimulus, an ambitious “action plan for jobs”, to be achieved over four years, was adopted in 2012.¹⁰³ In the same year, the government prioritized tax breaks for the financial sector, introduced a flat rate of tax for all households/employees, developed a national internship scheme, reduced payments of statutory redundancy to employers, and developed a comprehensive sector-based employment plan for the export sectors of the economy. None of this has been done working with the social partners.

The social partners have noted an absence of policy coherence in the Fine Gael/Labour government on labour-market issues, including a “pathways to work” scheme (aimed at retraining and upskilling), job-bridge and spring-board programmes, which are all spread out over three administrative departments. The Labour Market Policy Unit, previously based in the Department of Enterprise and Jobs (where the vocational training agency FÁS used to be), has been transferred between the Department of Education and the Department of Social Protection. This reflects a long-standing shift in what is now called the Department of Jobs, Enterprise and Innovation away from industrial relations and labour market issues toward competition, supply-side reforms in training and skills, trade and innovation. This structure is quite unlike that in most European countries in which departments dedicated to labour market and social policy support the administrative management of social insurance-based security regimes. Given the skillset of unemployed construction workers and those in the retail sector, these are faced with the prospect of long-term unemployment, reskilling for future jobs or emigration.

As part of an efficiency-saving effort the Department of Jobs, Enterprise and Innovation has announced the reform of the dispute resolution agencies of the State. This involves merging the Labour Relations Commission, the Labour Court, the Rights Commissioner and the Employment Appeals Tribunal under a new Workplace Relations Service, which is broadly supported by the social partners, even though they were not directly involved in designing it. The objective

¹⁰³ See “Report of Independent Review of Employment Regulation Orders and Registered Employment Agreement Wage Setting Mechanisms”, April 2011, available at: http://www.djei.ie/publications/employment/2011/Report_ERO_REA.pdf.

is to reform and make more efficient 40 pieces of employment rights legislation. The two governments since 2008 have scrapped the employment rights programme contained in the Transitional Social Partnership Agreement of 2006. The employment strategy aims to facilitate labour market deregulation, competitiveness and structural reforms. None of this, however, takes into consideration the fact that the employment crisis is related to a collapse of aggregate demand in the domestic sector, not the absence of supply side competitiveness.

Social security and employment protection

Headline social welfare payment rates have not been directly cut in Ireland, despite an austerity package that after six years will amount to more than 16 per cent of GDP. However, this masks significant reductions in the payment of child and single parent support supplements (amounting to €475 million). In other government departments, the burden of adjustment has primarily occurred in education, community welfare schemes and health care. New active labour market policies are being developed, requiring the unemployed to take up all offers of employment. But again, none of this has been done in conjunction with the social partners.

The overall objective is increasing flexibility and ensuring a business friendly regime. Few question this focus on labour market “supply” and its impact on an increasingly precarious workforce, in a context of an aggregate “demand” crisis. Structural reforms of wage setting, labour market and social security are all premised on saving costs to improve business competitiveness.¹⁰⁴

Previously, all of the above reforms would have occurred through a centralized social partnership agreement, coordinated by the Prime Minister’s Office. At present they are being pursued unilaterally by government departments, via cabinet subcommittees, or bilateral relationships with government ministers. This represents a sharp shift from inclusive corporatist concertation to pluralist lobbying in formulating public policy in the Irish State.

THE IMPACT OF THE CRISIS ON COLLECTIVE BARGAINING IN THE PUBLIC AND PRIVATE SECTORS

Yet despite all the above reforms, the Irish social partners continue to support the “rules of the game” in resolving industrial conflict in the public and private sectors. Whilst national-level partnership is not being pursued by the State, and wage determination has shifted back to firm level, there are significant

¹⁰⁴ See the Economic and Social Research Institute (ESRI) analysis by Callan, T. et al. 2013. “The Great Recession, Austerity and Inequality: Evidence from Ireland *Intereconomics*”, Vol. 48, Issue 6, November/December 2013, pp.335-338, available at: http://www.esri.ie/publications/latest_publications/view/index.xml?id=3879.

changes taking place through bipartite collective bargaining at company and sectoral levels.

There have been two separate systems of collective bargaining governing industrial relations during the crisis: the Croke Park and Haddington Road agreements for the public services, and the IBEC-ICTU Protocol for the orderly conduct of industrial relations and local bargaining in the private, unionized sector.

Public services

The Croke Park Agreement is the most important and high-profile public sector collective bargaining response to the crisis. It was negotiated through the chief executive of the Labour Relations Commission in 2010, after the social partnership negotiations failed in 2009. Through this Agreement, public sector unions and professional associations, rather than the ICTU, are heavily involved in managing the public finance crisis. For the government it provides a political framework for delivering the necessary industrial stability to implement cost-saving measures.

The core features of the agreement include no more pay cuts for public servants in return for industrial peace, reform of bonus payments, a recruitment freeze in health and education, and new pay and conditions for new entrants to the public service. Importantly, the majority of cost reductions in the public sector, to reduce the pay bill by an additional €3 billion by 2014, are via voluntary redundancies. Where these will be implemented is not part of the Croke Park Agreement. Hence, for the government, the agreement is a strategy to guarantee industrial peace in pursuit of its public sector reform agenda. Central to this is a lean, policy-focused public service, the sale of semi-state assets and greater use of external service providers.

In April 2013, the Fine Gael/Labour government attempted to renegotiate the Croke Park Agreement with public sector unions. This was rejected by popular ballot despite the leadership of the Services, Industrial, Professional and Technical Union (SIPTU) calling for a “yes” vote (the first time a national agreement has been rejected in over 25 years). The government threatened another pay cut. Trade unions subsequently negotiated and accepted the Haddington Road agreement – which contained minor changes. At present the health and education sectors are doing most of the cost saving through a radical reduction in staff numbers. This will put unforeseen pressure on the public sector. But efficiency savings in the public sector, as a mechanism to reduce the budget deficit, will not solve Ireland’s public debt or fiscal crisis. The impact of the austerity-driven reforms will open up new cleavages among public sector employees as new entrants will have significantly reduced pay and conditions than compared to their unionized colleagues. This labour market dualization is a serious problem that has yet to be confronted by public sector unions.

Private sector

The Croke Park Agreement illustrates that collective bargaining is most influential in the most unionized sectors of the economy: the semi-state and public services. Outside the public sector there has been a decentralization of wage bargaining to company level, managed by the IBEC-ICTU Protocol of 2011 and renewed in November 2012. This agreement is premised on a strategy to sustain employment when companies face economic difficulty. In practice, it is symbolic, and serves as a mechanism to show the dispute resolution agencies of the State that the ICTU and IBEC still recognize one another.

Outside this protocol there are examples of innovative approaches to company-level partnership in the unionized private sector. Kirchhoff, Leo, Kerry Foods, Becton Dickenson, Saica and Theo Benning have all engaged with SIPTU in developing a bipartite approach to change.

But in the non-unionized sectors of the economy, reforms are being driven by employers, not by coordinated collective bargaining. This has further fragmented and dualized the Irish labour market. Collective bargaining only exists in the declining unionized sectors of the economy and the public sector.

Weakened unions

Most of the 55 unions affiliated with the ICTU are staff or professional associations representing very specific interests. SIPTU and UNITE are the only large industry-based unions with cross-sectoral representation, and these, in addition to MANDATE, are driving the core strategy of the ICTU's public investment proposal. Simultaneously, SIPTU, MANDATE and UNITE have developed an "organizing agenda" in response to a rapid decline in trade union density and the "casualization" of the workforce in the private sector, but this is proving difficult. SIPTU, in particular, has been equipped to service its members via government-sponsored social partnership. Large private sector unions are struggling more than their public sector associations to find an identity in the absence of direct access to government. SIPTU has, however, developed a variety of sector-based responses in the chemical, pharmaceutical and electronics sectors. Few of the large unions would currently support a partnership deal linking them to responsibility for managing the public finance crisis.

In the absence of a social partnership agreement, and with the new role of Labour in government, the ICTU has yet to develop an encompassing strategy beyond strong advocacy for an investment stimulus aimed at employment growth. It has prioritized resources to fund a new economic think tank, the Nevin Institute, with the role of providing an alternative economic analysis to the Department of Finance and the ESRI. But there is no underlying shared technical analysis on how the ICTU, IBEC and the government can generate economic and employment growth, even though they all agree that "growth"

is the only way to resolve the debt crisis. The ICTU wants the government to pursue a public investment strategy, using national pension and European strategic investment funds, in addition to off-balance stimulus. IBEC shares this growth agenda but not public investment, whilst the government is firmly committed to its fiscal adjustment targets. Economic growth, according to the government and the troika, will be achieved through structural reforms of labour and product markets.

The withdrawal of the State from social partnership has exposed an underlying weakness of trade union and employer associations in coordinating their interests autonomously. There has not been an organized decentralization of wage coordination, limited support has been provided to collective bargaining, and there is no State support for statutory short-term working schemes or the flexible reduction of working time with partial compensation for income losses.¹⁰⁵ This narrow focus on labour costs and fiscal consolidation has led some to conclude that 22 years of social partnership is a case of “Thatcherism delayed”. But given the monetary constraints of the EMU, Member States must pursue an internal devaluation. The implication is that the entire burden of adjustment is shifted to fiscal and labour market policy.¹⁰⁶ To move beyond this requires a transnational European response. This is a challenge for all the social partners in Ireland.

ASSESSING THE IMPACT OF THE CRISIS ON INDUSTRIAL RELATIONS

In the majority of non-unionized and precarious sectors of the labour market there is little or no interaction with the industrial relations institutions of the State. This has exposed a representational crisis for the ICTU, whose affiliates have experienced a gradual decline in trade union density and bargaining coverage. After 22 years of centralized bargaining, trade union officials are not equipped with the skills for firm or sector-based negotiation. Remarkably, given the employment crisis, there has been very little industrial action. There were only eight strikes in 2011, with 3,695 days lost – one of the lowest rates in the OECD. Most conflict is resolved through state-led dispute resolution agencies, leading to an increased role for the Labour Relations Commission. But given the voluntary nature of Irish industrial relations and a flexible approach to enforced employment rights legislation, some employers are developing innovative strategies to avoid contractual obligations. Protests by workers in

¹⁰⁵ There is no equivalent to the German *Kurzarbeit* scheme, the French *chomage partiel*, the Italian *cassa integrazione guadagni*, or Swedish style temporary layoff schemes, all of which are implemented by collective agreement at sectoral level.

¹⁰⁶ This is not to say the government has no domestic choices. In fiscal policy, it could increase corporate taxes as an alternative to public cuts. In labour market policy it could choose to support collective bargaining and income supports.

Vita Cortex, Lagan Brick, La Senza, Game, Waterford Crystal, SR Technics and Thomas Cook over the last few years reflect the difficulties faced by employees in enforcing the terms of their contracts.

The most important lasting change from the collapse of social partnership is the role of the Prime Minister's Office. It was central to negotiating and institutionalizing the social partnership process. Under the current Fine Gael Prime Minister, this role has effectively ended. The National Economic and Social Council has been tasked with continuing social dialogue, but its influence has diminished with the balance of power shifting back to the Department of Finance. An internal report by that department concluded that social partnership, as a mechanism for the Prime Minister's Office to increase its role in government by sharing policy space with organized interests, was a causal factor in Ireland's public finance crisis (Regling and Watson, 2010). This assumption is also shared by a large part of the governing Fine Gael coalition.

Business associations, particularly the SFA, appear to have more access to government decision-making than under formal social partnership agreements, reflected in the formulation of the government's job strategy. Some trade union leaders have close relationships with Labour ministers in government, and use this as an indicator of "social dialogue". But none of these informal bilateral relationships with ministers, in a more open government, have an impact on the main actors driving economic policy: the Department of Finance and the Department of Public Expenditure and Reform. This engine room of the state supports the policy assertions and oversees the implementation of the troika adjustment programme. The focus is firmly fixed on fiscal consolidation (to achieve a budget deficit below 3 per cent of GDP by 2015), not economic growth or investment. In this context, a renewal of a labour inclusive social partnership, under the constraints of the troika programme, is highly unlikely.

THE FUTURE OF SOCIAL PARTNERSHIP IN AN EVER-INCREASING EMU

In Ireland, the economic crisis has not resulted in a breakdown in industrial relations. This is largely because of a pragmatic preference by the social partners for stability. Whilst there is no formal social partnership agreement, the relationships built up over 22 years has led to important sector-based agreements such as Croke Park. In the private sector there is no incentive for Irish employers to engage in a coordinated labour market response to the crisis. The strategy has been to primarily cut jobs rather than wages as a strategy of adjustment. In the absence of beneficial constraints on employers to improve labour market coordination, social partnership will remain a centralized process dependent on the political preference of the government. This illustrates the limits of voluntarism in a context of weakened private sector unions and non-encompassing employer associations. To improve economic growth, production strategies, employment performance and social dialogue requires

an institutional reconfiguration aimed at embedding social partnership, and equalizing power relations, in the labour market. The role of the State in facilitating this corporatist process is fundamental, but it remains unlikely that the government will legislate for a right to collective bargaining.

The unsuccessful management of the macroeconomy in the post-EMU era suggests a limitation in Ireland's public policy regime. For this reason social partnership and trade unions have been identified as part of the problem, not the solution. In the absence of economic growth, a centralized wage agreement is unlikely to be resurrected anytime soon, although two factors might combine to change this. First, when pay pressures emerge in the private sector, employers may seek a centralized wage agreement to control labour costs, and secure the competitiveness gains of several years of non-wage growth. Second, in a context of increased EU monetary and fiscal integration, the government will attach increased importance to incomes and labour market policy in managing the economy. The government may thus want a national "competitiveness-oriented" income policy to ensure that the gains of an internal devaluation are not lost. Whether trade unions want to get into this type of relationship with the government, without a coordinating role for the Prime Minister's Office, is an open question. But they are unlikely to refuse access to the policy-making apparatus of the State against a backdrop of weak collective bargaining rights in the labour market.

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PORTUGUESE LABOUR LAW AND INDUSTRIAL RELATIONS DURING THE CRISIS

Maria do Rosário Palma Ramalho

This chapter has two objectives. First, it summarizes a more detailed study prepared by the author between April and June 2013 for the ILO Project “Promoting a balanced and inclusive recovery from the crisis in Europe through sound industrial relations and social dialogue”.¹⁰⁷ Second, it updates the information provided in that study.

As a shorter version of the earlier study, the chapter will follow the same structure, giving an overview of labour law, industrial relations and social dialogue in Portugal immediately before the financial and economic crisis, describing briefly the anti-crisis measures and, finally, tackling the effects of the crisis and of the anti-crisis measures in employment and industrial relations.

However, this short version will focus only on the key information and conclusions in the previous study, where more detailed information and data references can be found.¹⁰⁸ It also looks at developments after June 2013.

THE MAIN FEATURES OF LABOUR LAW, INDUSTRIAL RELATIONS AND SOCIAL DIALOGUE

When looking at labour law, industrial relations and social dialogue in Portugal, on the eve of the financial and economic crisis that led Portugal to apply to the Financial Assistance Programme, in May 2011, we see that the situation differs among the three areas.

For labour law, the traditional rigidity of the legal system (mostly due to the combination of strict constitutional and legal provisions with the leading role of the *favor laboratoris* principle in the evolution of the legal framework regarding employment and industrial relations for many years) had already changed to some extent. In fact, a clear evolution in the sense of increasing flexibility in legal provisions for job description and functions, working-time arrangements,

¹⁰⁷ That study benefited from contributions of Portuguese social partners at the highest level, as well as from the government and other official entities, which once again we acknowledge and thank. However the opinions expressed in that study, as in this chapter, reflect the personal views of the author as an independent expert in the field. For the edited version, see Palma Ramalho (2013).

¹⁰⁸ Palma Ramalho (2013).

the workplace and transfers (internal flexibility), and, within limits, special labour contracts (external flexibility), had already occurred.

However, legal provisions were still very strict and protective in issues like remuneration and other costs related to work, objective grounds for dismissal and severance pay attached to the termination of employment contract, and some special labour contracts like fixed-term and temporary agency work contracts.¹⁰⁹

Unlike employment, in industrial relations both the legal framework and practices remain quite rigid in Portugal, mainly for three reasons.

First, the collective bargaining system largely relies on top-level branch or professional collective agreements rather than plant-level agreements, thus enhancing less flexible regulation in areas like job description, remuneration and working-time arrangements.

Second, a collective agreement can only be replaced when the new agreement is overall more favourable to the workforce than the previous one.¹¹⁰ Thus the system is not dynamic because collective agreements tend to stay in force for many years, being regularly updated only for wages.

Third, the Portuguese collective agreements' system is efficient because it covers a great proportion of workers, but as a "representative" system it is somewhat artificial since its high coverage rate largely relies on the administrative extension of these agreements ("portarias de extensão", or *Pes*), that has been a very common practice over the years. Although such extensions make it possible to overcome the low level of workers' and employers' participation in trade unions and in employers' associations, and despite the fact that they promote equal labour conditions and economies of scale for firms,¹¹¹ in the long run these extension practices endanger the collective bargaining system as a "representative" system because they do not promote the affiliation of employers and employees to their representation entities, because that affiliation is no longer a condition to benefit from collective regulation.¹¹²

Social dialogue has been well established in Portugal since the 1980s, with fruitful results in that changes in legislation are regularly discussed and negotiated – including the "negotiation" of the more flexible legal provisions indicated

¹⁰⁹ On the implementation of these flexibility measures and of the more rigid areas in national legislation, see Palma Ramalho (2013), pp. 2 and ff.; Palma Ramalho (2001), pp. 590 ff. and 605 ff.; and Palma Ramalho (2012a), pp. 70 ff.

¹¹⁰ This is a very traditional requirement. Presently it is established in Article 503 No. 3 of the Labour Code, approved by Law No. 7/2009, of 12 February.

¹¹¹ These advantages of the PE are emphasized by the majority of the social partners; see Palma Ramalho (2013), pp. 4 and 25.

¹¹² For a more detailed justification of these features of industrial relations and of our own view on the subject of the PE, see Palma Ramalho (2013), pp. 3 and 4; and Palma Ramalho (2012b), pp. 208 and ff. and pp. 369 and f.

above – between the State and the social partners at a formal structure created for this purpose: the Comissão Permanente da Concertação Social. The tradition of social dialogue in Portugal confirms the social partners as key actors in the evolution of the legal framework for employment and industrial relations.

EMPLOYMENT LAW AND INDUSTRIAL RELATIONS MEASURES PROPOSED, AND ADOPTED, TO MEET THE CRISIS

Framework of the Memorandum of Understanding and the involvement of the social partners in the reform

Most of the measures adopted in Portugal to meet the economic and financial crisis in labour law and industrial relations were prescribed by the Memorandum of Understanding on Specific Economic Policy Conditionality (MoU) concluded on 3 May 2011 between the government, International Monetary Fund (IMF), European Commission (EC) and European Central Bank (ECB), under the aegis of the Financial Assistance Programme to Portugal.

The Portuguese social partners were also involved in defining these measures from the start, as the proposals of the MoU rely heavily on the tripartite agreement of 22 March 2011 (“Acordo Tripartido para a Competitividade e Emprego”) concluded between the government and all the employers’ confederations, as well as one of the two trade unions confederations at the Concertação Social. Subsequent changes to national legislation rely on another tripartite agreement signed on 18 January 2012 (“Compromisso para o Crescimento, Competitividade e Emprego”).¹¹³ For this reason we can conclude that the tripartite agreements are the basis of the major changes introduced in labour law and industrial relations in the original version of the MoU.

On other matters, however, the social partners claim that they were not consulted or their opinions were not taken into account for policies other than employment, namely the policies on stimulating the economy, investments, the tax system, and active employment policies, even though the above two tripartite agreements of 2011 and 2012 address those areas.¹¹⁴

The MoU proposed various measures in the area of the labour market, labour law and industrial relations, which considered as a whole, pursue four main objectives:

- to reduce costs associated with employment contracts (for example, measures to reduce severance payments and overtime pay alongside the prohibition to increase the minimum wage);

¹¹³ Both agreements were signed by the government, the General Workers’ Union (UGT) and the Employers Confederations of Industry (CIP), Commerce (CCP), Farmers (CAP) and Tourism (CGT). Only the General Confederation of Portuguese Workers (CGTP), one of the key union confederations in Portugal, along with the UGT, refused to sign.

¹¹⁴ Palma Ramalho (2013), p. 18.

- to tackle key points of the legal system either by introducing flexibility (such as measures to facilitate dismissal on “objective” or economic grounds) or by increasing the flexibility of provisions already in place (including measures enlarging flexible working-time arrangements);
- to relaunch collective bargaining and collective agreements under a new framework, intended to be more representative (such as the measure imposing new limits to the Pes), more dynamic (for example, that aiming to facilitate the replacement of collective agreements) and more decentralized (for instance, that admitting the workers’ councils as a counterpart in collective agreements at plant level); and
- to implement active employment policies, both in general and for specific groups like young people and the long-term unemployed (such as the changes in unemployment benefit legislation).

Coming back to the general picture of labour law and industrial relations before the crisis, we see that the first three objectives of the MoU aim at key points of the remaining alleged rigidity in Portuguese labour law and industrial relations, as described in the “main features” section above. Yet for active employment policies the MoU is rather vague, except on unemployment benefits.

Implementation of the MoU and post-June 2013 developments

Most of the measures proposed in the MoU were followed at national level in several stages. Apart from the MoU, other anti-crisis measures were proposed and some of them were adopted by the government (though others were abandoned) after meeting opposition from the social partners.

After the previous study (April–June 2013), other measures have been implemented but, at the same time, some of the measures adopted before were challenged before the Constitutional Court. That Court issued a judgment (Judgment 602/2013 of 20 September 2013) and because that judgment considered some of the measures unconstitutional, a revision of those measures is being discussed between the government and the social partners.

In the following description we provide a general picture of the anti-crisis measures already implemented, including those approved after June 2013,¹¹⁵ and subsequently look at the judgment of the Constitutional Court and its consequences.

In line with the MoU, the following changes in employment and industrial relations legislation have been introduced:

Unemployment benefits. Decree-Law No. 64/2012 of 15 March 2012 revised unemployment benefit legislation, reducing the amount of benefit paid and

¹¹⁵ For more detailed information as regards the measures approved until June 2013, see Palma Ramalho (2013), pp. 8 and ff.

the length of the payment but also enlarging access to some categories of independent workers and reducing the necessary contributory period to access it.

Employment protection legislation. The main changes were introduced in the Labour Code (approved by Law No. 7/2009 of 12 February 2009), in several stages and by the following Acts: Law No. 53/2011 of 14 October 2011, Law No. 23/2012 of 25 June 2012, Law No. 69/2013 of 30 August 2013 and Law No. 70/2013 of 30 August 2013. The following measures were adopted:

Severance pay due in case of dismissal or other forms of termination of the labour contract was reduced in several stages: in a first stage, the payments were reduced from an average of 30 to 20 days per each year of the contract, with no minimum limits and an upper limit of 12 months, but this reduction applied only to new hires (Law No. 53/2011 of 14 October 2011); in a second stage, these new provisions were extended to all employment contracts (by Law No. 23/2012 of 25 June, which changed Article 366 of the Labour Code). In a third stage, severance payments for the termination of employment contracts were reduced again to an average of 12 days per each year of contract (Law No. 69/2013 of 30 August 2013 of 30 August 2013, again changing Article 366 No. 1 of the Labour Code).¹¹⁶

In any case, on old employment contracts, the law grants accrued entitlements by applying the new formula to calculate the compensation only for the future and keeping in force the former and more favourable formula for the contractual period elapsed before the approval of the law (Article 6 of Law No. 23/2012 and, more recently, Article 5 of Law No. 69/2013).

Also, to ensure the practical effect of the new rules, the law prescribed the immediate application of these provisions over any collective agreement or labour contract with more favourable clauses (Article 7 of Law 23/2012 and Article 8 of Law No. 69/2013), by declaring null and void the clauses of collective agreements establishing higher compensation.

These provisions were challenged before the Constitutional Court but it ruled that they conformed with the Constitution.

Dismissal linked to the extinction of work position (“despedimento por extinção do posto de trabalho”) became easier owing to the following changes introduced in Articles 368 and ff. of the Labour Code, by Law No. 23/2012: elimination of the employer’s duty to offer another job to the worker, as an alternative to dismissal; replacement of the seniority criteria in the choice of the worker to dismiss, when there are several equivalent positions to

¹¹⁶ By the time we wrote our previous report, the third and final stage of the process to reduce severance payments had not yet occurred and was being challenged by the trade unions. Nevertheless, after an agreement with the social partners, it was prescribed by the Labour Code.

be abolished, on condition that the criteria are objectively grounded and non-discriminatory.

Challenged on those provisions, the Constitutional Court declared these changes unconstitutional (as we see later).

The grounds for dismissal linked to unsuitability of the worker (“despedimento por inadaptação”) were extended (Articles 374 and ff. of the Labour Code, as changed by Law No. 23/2012): in this sense, dismissal became admitted without the traditional requirement that the job had suffered technological or other significant changes in the course of the employment contract; it also became easier by eliminating the employer’s duty to offer another job to the worker as an alternative to dismissal. However, the Constitutional Court declared the last one of these changes unconstitutional (as we will see).

To grant the effective payment of part of the severance payment in case of dismissal, a fund (“Fundo de Compensação do Trabalho”) was created and regulated by Law No. 70/2013 of 30 August 2013. This fund, to which employers have to contribute, is responsible for part of the severance payment.¹¹⁷

Working time. The following measures were adopted in the Labour Code, by Law No. 23/2012, after the MoU:

Enlargement of flexible working-time arrangements in the form of “working time accounts” at individual and plant level (“banco de horas individual e grupal”) (Articles 208, 208-A and 208-B of the Labour Code).

Revision of the provisions concerning the suspension of employment contracts or the reduction of working-time (temporary lay-offs) in case of industrial crisis (Articles 298 and ff. of the Labour Code).

Reduction of the minimum additional pay for overtime work by 50 per cent, and the reduction of the compensatory time off for overtime work also by 50 per cent (Articles 229, 230, 268 and 269 of the Labour Code).

Here again, the Law established the immediate prevalence of the new rules over any collective agreement or employment contract with more favourable clauses, by stipulating the nullity or the suspension of more favourable collective or contractual clauses for two years (Article 7 No. 2 and No. 4 of Law 23/2012), and some of these changes were considered unconstitutional.

Collective bargaining and social dialogue. In this area, among the several measures proposed by the MoU, only the following were adopted:

The definition of clear criteria for the administrative extension of collective agreements, taking into account the representativeness of the negot-

¹¹⁷ By the time we wrote our previous report, this fund was already prescribed by the Labour Code but had not yet been regulated and put in place. This gap on the MoU programme is now filled.

iating organizations and the implications of such extension in non-affiliated firms. This measure was adopted by the Ministers' Council Resolution No. 90/2012 of 10 October 2012.

The promotion of decentralized collective bargaining, by allowing workers councils to negotiate at plant level in firms with a minimum of 150 employees, but still under the delegation of trade unions (Article 491 No. 3 of the Labour Code, with the changes introduced by Law No. 23/2012).

The creation of the Labour Relations Centre ("Centro das Relações Laborais"), intended to provide information and technical assistance to the parties involved in collective bargaining. Created by Decree-Law No. 189/2012 of 22 August 2012, this centre is integrated by representatives of the government and social partners.

Apart from the MoU, other provisions were adopted in the process of reform of the Labour Code, following the tripartite agreement between the government and the social partners, signed in January 2012. They comprise:

The transitional measure allowing for the *renewal of fixed-term labour contracts to prevent unemployment in the short-term* (approved by Law No. 3/2012 of 10 January 2012); and a new transitional measure allowing for another renewal of fixed-term labour contracts now in force, has been approved by Law No. 76/2013 of 7 November 2013.

The *elimination of four national holidays* (change of Article 234 No. 1 of the Labour Code, introduced by Law No. 23/2012 of 25 June 2012), entailing four additional working days per year.

The *elimination of extra annual holiday time* ("majoração de férias"), granted by the law as a premium to workers with no leave of absence in the previous year (change of Article 238 of the Labour Code, introduced by Law No. 23/2012 of 25 June 2012), which also increases working time.

To assure the immediate effect of these measures over collective agreements and employment contracts in force, Article 7 of L. No. 23/2012 declared null and void the clauses of those agreements and contracts that prescribed more favourable treatment in those areas. However, this provision was challenged before the Constitutional Court, which declared it partially unconstitutional (discussed below).

Finally, on proactive measures to promote employment, entrepreneurialism and innovation – to facilitate recapitalization and access of enterprises to credit and to support investment – the government put in place several programmes and measures.¹¹⁸ The more recent are the Incentive Programme for Employment

¹¹⁸ The programmes intended to promote professional training and create self-employment; opening of credit lines to small and medium-sized companies; adoption of more favourable tax provisions in certain situations; investment and exports; and innovation and new projects. For more detail see Palma Ramalho (2013), p. 11.

(“Programa Incentivo Emprego”),¹¹⁹ and the Placement Programme (“Medidas Estágio Emprego”).¹²⁰

Some government proposals that met opposition from the social partners (employers’ representatives, workers’ representatives, or both) were not, however, put in place.¹²¹

When comparing the changes introduced in national law with the programme of the MoU, it becomes evident that the great majority of that programme touching on employment and industrial relations is already in place. Also, some gaps noted in the previous study¹²² have been filled – although some remain.

The first remaining gap concerns wage policies, where no legal measures have been taken on the relation between salaries and productivity.

The second concerns collective bargaining. No measures were taken over the objective of shortening the validity of expired collective agreements that have not been renewed (“sobrevigência”). Also, the measures intended to promote decentralized collective bargaining by allowing workers’ councils to negotiate at plant level were only partially implemented, because this competence must still be delegated by trade unions.

Finally, active employment and investment policies require a closer look at the current situation to be able to draw any conclusions.

The judgment of the Constitutional Court No. 602/2013 of 20 September of 2013, and its consequences

To conclude this part of the chapter, we look at the Judgment of the Constitutional Court No. 602/2013 of 20 September 2013,¹²³ concerning the changes introduced to the Labour Code by Law No. 23/2012 of 25 June 2012, which is so far the more important piece of legislation in the implementation of the MoU’s programme in the area of employment and industrial relations.

Most of the provisions of the Labour Code, introduced by Law No. 23/2012 as anti-crisis measures, were challenged before the Constitutional Court by a group of members of Parliament. In its judgment, the Court considered the

¹¹⁹ Approved by Portaria No. 286-A/2013 of 16 September 2013.

¹²⁰ Approved by Portaria No. 2045-B/2013 of 18 June 2013.

¹²¹ As with the proposal to increase the daily maximum working time limit by half an hour, and the proposal to change the amount of the compulsory social security contribution (TSU) and its share between employers and employees, charging employees more and employers less.

¹²² As with the third stage in the reduction of severance pay in the case of dismissal, or the creation of the Compensation Fund for those payments. See Palma Ramalho (2013), p. 11 and f.

¹²³ This judgment can be traced at www.tribunalconstitucional.pt.

majority of those provisions in conformity with the Constitution, although it considered some changes to run directly against the Constitution. It considered another group of provisions in Law No. 23/2012 as a breach to collective autonomy, and in that sense also against the Constitution.

The changes introduced in the Labour Code by Law No. 23/2012 the Court considered directly against the Constitution for *dismissal linked to the extinction of work position* (“despedimento por extinção do posto de trabalho”) and *dismissal linked to unsuitability of the worker* (“despedimento por inadaptação”) – Articles 368 and 375 of the Labour Code, respectively.

In relation to both, the Court considered that the elimination of the employer’s duty to offer another job to the worker whenever possible, as an alternative to dismissal, breaches the fundamental right of the worker to be protected against unfair dismissal, as defined in Article 53 of the Constitution, since this right only admits dismissal as an *ultima ratio* measure.

On *dismissal linked to the extinction of work position*, the Court also considered unconstitutional the changes introduced in the Labour Code as regards the criteria for the choice of the worker to dismiss when there are several equivalent positions that can be made “extinct”, arguing that the new criteria drawn by Article 368 of the Labour Code were too vague, and therefore against Article 53 of the Constitution. However, it judged the extension of the situations that can give grounds for *dismissal linked to unsuitability of the worker* in compliance with the Constitution.

The other set of provisions that it judged unconstitutional relate to Article 7 of Law No. 23/2012 that assures the immediate prevalence of the new provisions of the Labour Code over collective agreements already in force, by way of declaring null and void, or temporarily suspended, the clauses of those agreements. The Court considered that the changes introduced in the Labour Code provisions and the reduction of compensatory time off for overtime work by 50 per cent, and the elimination of extra annual holiday time (“majoração de férias”) are, per se, in compliance with the Constitution. However, on Article 7 of Law No. 23/2012, the Court considered that these new rules cannot be imposed on collective agreements in force without breaching the fundamental right of collective bargaining, given in Article 56 No. 3 of the Constitution. This being the case, the clauses of collective agreements in those areas that are more favourable than the Labour Code cannot be declared null and void but remain in force.¹²⁴

¹²⁴ On the contrary, as regards the immediate prevalence of the new provisions of the Labour Code over collective agreements in relation to the reduction of severance payments for the termination of employment contract (Article 7 No. 1 of Law 23/2012) and the solution of suspending for two years the clauses of collective agreements regarding overtime pay and pay for work performed on a holiday (Article 7 No. 4 of Law 23/2012), the Court considered that they were in conformity with the Portuguese Constitution.

The consequences of this judgment are still to be evaluated.

As to the first set of provisions considered unconstitutional (those referring to dismissal linked to the extinction of work position and dismissal linked to unsuitability of the worker) the government discussed with the social partners a new version of Articles 368 and 375 of the Labour Code, to align these provisions with the judgment of the Constitutional Court. A new amendment to the Labour Code has been approved by Law No. 27/2014, of 8 May 2014. This Law reinstates the employer's duty to offer another job to the worker as an alternative to dismissal on grounds of unsuitability of the worker and dismissal linked to the extinction of the work position. It also indicates more concrete criteria to choose the post to eliminate when there are several equivalent positions (dismissal linked to the extinction of work position) – these criteria refer to the employee's qualifications, productivity, experience, social and family situation, and seniority.

The consequences of the decision on the second set of provisions (those regarding Article 7 of Law No. 23/2012) may be more drastic for companies, from an economic point of view, not only because Law No. 23/2012 had been in force for more than a year before this judgment, but also because there is a wide tradition of collective agreements to repeat legal provisions in many areas.

In fact, the more favourable provisions of the Labour Code before the approval of the anti-crisis measures of Law No. 23/2012 have been regularly transposed into clauses of collective agreements, which, as a result of the Constitutional Court's decision, will re-apply, despite the acceptance by the Court of the changes introduced in the Labour Code itself. This re-application, with a retroactive effect of more than one year, may result in high costs for companies, thus endangering the objective of reducing labour costs determined the measures in the first place.

However, from the employees' perspective, this judgment clearly favours their rights, on condition that they are grounded in a collective agreement.¹²⁵

THE EFFECTS OF THE CRISIS AND OF THE MEASURES APPROVED TO DEAL WITH IT IN EMPLOYMENT, SOCIAL DIALOGUE AND COLLECTIVE BARGAINING

Brief overview of the situation until June 2013

The final part of this chapter is intended to evaluate the impacts of the crisis and anti-crisis measures on employment, social dialogue and collective bargaining. The previous study (Palma Ramalho, 2013) presented statistical data on the crisis and the situation of enterprises, as well as the changes to employment

¹²⁵ In fact, the Court did not question the prevalence of the new provisions of the Labour Code over employment contracts (also established by Article 7 of Law No. 23/2012) but only over collective agreements. So, a more favourable treatment granted to the worker by employment contracts does not subsist under Law No. 23/2012.

and industrial relations, with particular reference to the public deficit, public debt and GDP; investments, labour costs, exports and productivity; the employment rate, distribution and type of employment; and the situation of collective bargaining.¹²⁶

Given the physical limits to the present chapter, we will restrict our statements to the more important findings in the areas of the previous study, focusing on later developments.

When we wrote the previous report, indicators suggested that the crisis was at its peak, with the public debt and public deficit growing and GDP and investments declining. However, unit labour costs were falling, and productivity and exports were rising.¹²⁷

On *unemployment*, data showed a rapid rise after 2008 that reached 15.5 per cent in the first semester of 2012, and even 17.5 per cent in the first semester of 2013, with a disproportionate effect on young people (37.7 per cent in 2012) and a high proportion of long-term unemployment.¹²⁸ As to the *type of employment contracts*, atypical contracts were not being used as a tool to fight unemployment, especially temporary employment contracts, which decreased during 2012 (from 18.5 to 17.0 per cent),¹²⁹ even though the law admitted an extraordinary renewal of such contracts at the start of that year.

The reduction of labour costs and increasing productivity in 2012 showed that companies might be informally adapting to the crisis.

As regards *the evolution of collective bargaining*, the number of collective agreements had been declining consistently since 2008 but fell sharply in 2012, when only a few new such agreements were negotiated. On the *predominant type of collective agreements*, for the first time in 2012 the number of plant-level agreements (Aes – “acordos de empresa”) reached the number of high-level agreements (CCTs – “contratos colectivos de trabalho” and ACTs – “acordos colectivos de trabalho”). Finally, on the *administrative extension of collective agreements* in force, the number of Pes decreased hugely after the second semester of 2011, causing a similar decrease in the total number of workers covered by collective agreements.¹³⁰ These trends led us to the general conclusion that collective agreements were not being used as a tool to fight the economic crisis and, in general, that the dynamics of collective bargaining remained uninspiring.

¹²⁶ Palma Ramalho (2013), tables on p. 13 and ff.

¹²⁷ Palma Ramalho (2013), p. 13, tables 1 and 2.

¹²⁸ Palma Ramalho (2013), p. 14, tables 3 and 4.

¹²⁹ Palma Ramalho (2013), p. 16, table 6.

¹³⁰ Palma Ramalho (2013), p. 20, table 8 and p. 22, figures 2 and 3.

More recent developments since June 2013

The situation described above has evolved relative to the dimension of the economic and financial crisis in Portugal and to employment, although the changes are insignificant in industrial relations and collective bargaining.

The main indicators of economic activity¹³¹ show a continued trend in the right direction, with positive forecasts for the economy in 2014, following the positive data for the second semester of 2013. In 2013, the public deficit and public debt fell sharply; GDP recovered (and will show growth in 2014); private consumption (which had fallen heavily in 2011 and 2012) recovered a little (and is forecast to keep growing in 2014); and government consumption fell (but is expected to fall further this year). The balance of goods and services has been positive since the first semester of 2013, and in 2014 exports of goods and services are forecast to grow twice as fast as imports. Economic activity seems to have been recovering since the second semester of 2013 and the economic climate indicator has been rising since January 2013.¹³²

These data give grounds for the provisional conclusion that the crisis has peaked and that Portugal is moving towards economic recovery.

Employment has also seen some changes. While at the start of 2013 unemployment was 17.7 per cent, by September it had decreased to 15.6 per cent (National Statistical Agency – INE).¹³³ Although this rate is still very high, especially compared with a few years ago, it is a step in the right direction.

On how unemployment is distributed, women are still more affected than men (15.9 per cent versus 15.3 per cent) and young people are still by far the most affected group (36 per cent of the unemployed are under 25 years old). However, long-term employment has fallen sharply from 27.1 per cent in July 2013 to 16.7 per cent in November 2013.¹³⁴

These data suggest that companies are recovering and either dismissals are falling or job hires are rising, as well as self-employment. (Nevertheless, no significant progress was made in some areas like those looking for their first job, among whom unemployment has decreased only 1 point, from 37.7 per cent at the end of 2012 to 36 per cent at the end of 2013.)

Yet it is too soon to know if the government's labour market policies and the recent changes to the Labour Code are responsible for these improving unemployment trends, or if they merely reflect the slightly better economic news.

¹³¹ Ministry of Economy (2014).

¹³² The exact figures can be found at Ministry of Economy (2014), pp. 13 and ff.

¹³³ This information on unemployment can be found at Ministry of Economy (2014), p. 17.

¹³⁴ Data on unemployment distribution was provided by the Directorate of Labour Relations of the Ministry of Employment and Social Security (DGERT), to whom we express our gratitude.

Coming now to *collective bargaining*, the picture loses some shine. According to recent data for all 2013:¹³⁵

- 27 CCTs were published in 2013, but they are all revisions of former CCTs, and only in one case was it a global revision;
- 18 ACTs were published, but only one was a new ACT, while all the others were revisions of former ACTs, five of which are global;
- 49 Aes were published, including 7 new Aes and 42 revisions, 9 of which were global;
- no arbitral decisions were published;
- 9 Pes were published;

No collective agreements have been put to an end without being replaced by new ones.

These numbers confirm the conclusions of the previous study. First, the dynamics of collective bargaining are still uninspiring, since very few new or globally revised collective agreements have been published in 2013 and old agreements remain in force. Second, plant-level agreements keep growing (contrary to the tradition of top-level and centralized collective bargaining of a few years ago). Third, mediation and arbitration procedures are still not used as a resource to resolve collective bargaining disputes. Finally, the new and more limited approach of the government to the administrative extension of collective agreements is still pursued, as shown by the small number of Pes published.

On the *content of the new and revised collective agreements* we have no information to conclude whether they are being changed to adapt to the economic environment. However, the few global revisions and new agreements suggest that most collective agreements have been revised only with regard to remuneration, as usually happens in partial revisions. In addition, the fact of the Constitutional Court's judgment on Article 7 of Law No. 23/2012 having reinstated collective agreement clauses that are more favourable than the legal provisions in several areas may well contribute to keeping old collective agreements unchanged.

Despite this general conclusion (and formal revisions of collective agreements aside), there are some examples of the use of collective bargaining as a tool to fight the crisis. The most significant is a very recent MoU, signed between a big private-banking group (Group Millennium BCP), which is under a financial assistance programme, and one of the major banking trade union federations (FEBASE – National Federation of the Financial Sector) directed to the revision of the plant-level collective agreement in force, where the trade union accepted salary reductions in exchange for the suspension of collective dismissal

¹³⁵ This information was supplied by DGERT.

procedures and for better conditions in negotiated terminations of employment contracts.¹³⁶

Finally, *social dialogue* has not changed significantly in the last few months and the social partners meet regularly at the Concertação Social.

At this level there seems to be a consensus on the idea that there is not much more to change in labour law, as the social partners agree that other factors are to be held responsible for the economic crisis, such as tax policies towards enterprises, the costs of doing business (e.g. export costs, electricity prices, and bureaucratic costs), restrictive public expenditure policies, and the financial policies that limit credit for enterprises.¹³⁷

Still, some tensions remain between the government and social partners. One was already there when we wrote the previous study – minimum wages.¹³⁸ Now as before the social partners keep on pressing the government for increasing them, as foreseen in previous tripartite agreements, and both trade unions and employers' associations seem to agree on this.

A second, which was at its peak last year but is still not resolved, concerns Pes, where almost all social partners disagree with the government's restrictive policy.¹³⁹

Finally, a new tension relates to the revision of the Labour Code, following the Judgment of the Constitutional Court on *dismissal linked to the extinction of work position*, which is being discussed at the Concertação Social. The government's proposed new criteria are being strongly challenged by the trade unions: they consider the criteria (apart from seniority) less objective and therefore easier to manipulate by employers if they want to target employees for dismissal.

¹³⁶ This MoU was widely disseminated by the media on 31 December 2013.

¹³⁷ See Palma Ramalho (2013), especially pp. 17 and ff.

¹³⁸ See Palma Ramalho (2013), p. 17.

¹³⁹ See Palma Ramalho (2013), p. 25. The only social partner in favour of this more restrictive policy is the CAP.

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THE GREEK ADJUSTMENT PROGRAMME: FISCAL METRICS WITHOUT ECONOMIC GOALS?

Zafiris Tzannatos¹⁴⁰

INTRODUCTION

History is being written as this paper is prepared and the economic future of Greece remains uncertain. Leaving aside the notorious unreliability of the statistics concerning Greece, new policies are introduced as old ones fail, and social discontent is rising amidst declining support for the adjustment programme introduced in 2010 to prevent Greece from bankruptcy and the Eurozone from meltdown. At European level, peripheral countries are struggling with adjustment while core ones have yet to pull out from their economic slowdown, if not recession.

Even with the widest margin for error, the on-going bail-out programme in Greece claims an important place in the list of countries that went through the worst structural adjustment programmes (SAPs). The Greek economy first contracted in 2008 and, apart from the odd quarter of weak growth, has been shrinking for six years. This surpasses Argentina where, like Greece, insolvency was also treated as illiquidity for the sake of investors and markets but the ensuing recession that started in 2001 lasted for “only” four years.

The numbers speak for themselves. One does not have to rely on figures put out by the opposition or the perennial critics of the “Washington Consensus”. According to the 2013 communiqué of the Ministry of the Economy:¹⁴¹

At the end of 2009 public debt was €299.7 billion (129.7% of GDP) ... and at the end of 2013 we estimate it will reach or slightly exceed €320 billion (174% of GDP) ... our manipulations [via Private Sector Involvement, or PSI, and repurchases] the debt was reduced by €126 billion (65% of GDP) in 2012 ... through the PSI most of the debt is now in the hands of the [European Union (EU)] partners and the euro-system... the average duration of the portfolio was extended to 15.3 years in 2013 from 6.6 years in 2011 ... The problem of sustainability of public debt remains open.

¹⁴⁰ The author wishes to thank, Sukri Dasgupta, Sarah Doyle, Christos Ioannou, Yannis Monogios, Konstantinos Papadakis and Geogios Symeonidis for useful materials and comments on an earlier version of this paper.

¹⁴¹ Statement on the public debt by Deputy Finance Minister, Christos Staikouras, during the parliamentary debate on the Draft Law “Code of Public Properties and Other Provisions”. Press Release 28 August 2013.

In plain terms, after six (so far) years of recession, the debt burden is still rising and has been passed intact to future generations – despite the biggest bail-out in world history that, in terms of disbursed and promised amounts in the form of loans, haircuts and forgiveness, exceeds €350 billion – compared with an initial debt of less than €300 billion in 2009.¹⁴²

To understand this rather odd situation, this paper starts by providing the context how Greece got to the crisis in 2009 since the fall of dictatorship in 1974. Then it summarizes the (changing and widening) focus of successive agreements (“Mnemonia” in Greek, or memoranda of understanding [MOUs]) since the crisis started. It then presents some indicators for the recession that followed and its effects on the economy, employment, industrial relations and the broader social sectors. It then reviews what has been described as a modern Greek tragedy, first, against the international experience with SAPs and, second, in the light of the June 2013 evaluation of the Greek adjustment programme by the International Monetary Fund (IMF) – and endeavours to show that the lessons from earlier SAPs were largely ignored in the Greek case. Finally, it attempts to identify possible scenarios for the future.

THE ROAD TO THE CRISIS: 1974 TO 2009

The dictatorship deprived Greeks of their political rights but at the time of its demise, in 1974, public debt stood at only 18 per cent of GDP. Since then, democracy provided Greeks with civil rights comparable to the best in the most advanced countries but by 2010 deprived them of their economic rights: public debt today is practically the second highest in the world, after Japan. Greece ended up not just illiquid but perhaps irreparably insolvent.

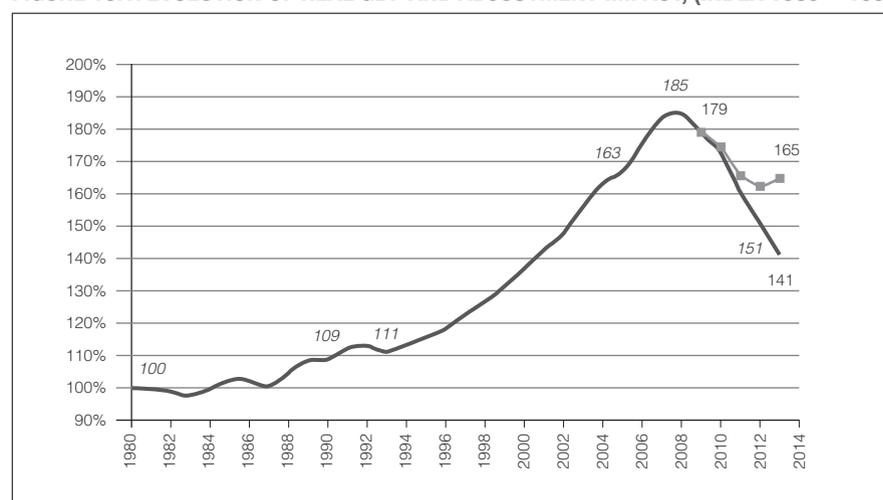
Unlike crises in other countries after 2008, the origins of the Greek crisis were not in the housing and financial markets but in the government sector. Unlike previous Greek crises that the Greeks habitually blamed international geopolitics (not always without reason), this crisis was home made, not the result of “xenocracy” (policies imposed by foreign masters). And unlike many domestic feelings about the bail-out, as summarized by the Greek President Carolos Papoulis in an emotive speech that “Greece will not give in to blackmail”, the “blackmail” came from the polarization created by some Greek policy makers on the pseudo dilemma between “Greece keeping the euro” or a “Grexit”. The euro partners did not want Greece to leave the euro, as evidenced by their decision to provide vast funding (at their cost) to create a firewall between a Greek default and its impact primarily on German and French banks and in turn the Eurozone.

¹⁴² The Greek bail-out programme included €240 billion of direct loans, and another €100 billion in the form of “haircuts” (participation of the private sector in the write downs of sovereign debt).

The Greek accession to the then European Community coincided with the election of the centre-left socialist party (PASOK) in 1981. While in opposition (1974-1981), the party's leader, Andreas Papandreou, had opposed joining the EU. He later changed his position when Greece approached a fiscal crisis in the mid-1980s. The crisis loomed despite the size of the assistance given to Greece in the form of structural adjustment funds by the European Community for Greece to align its economy and institutions with the rest of Europe. That assistance surpassed on a per capita basis that given to any other of the new members. Still, Greece needed support in addition to the EU structural funds that kept pouring in: the debt was increasing at 11 per cent annually and nearly tripled from 26 per cent to 70 per cent of GDP during Andreas Papandreou's first spell in office (1981-1989). During that decade, public spending increased by an unprecedented 460 per cent. Yet GDP remained practically stagnant, growing at less than 1 per cent a year (figure 10.1), while unemployment more than doubled to 7 per cent by 1989 from 3 per cent in 1981.

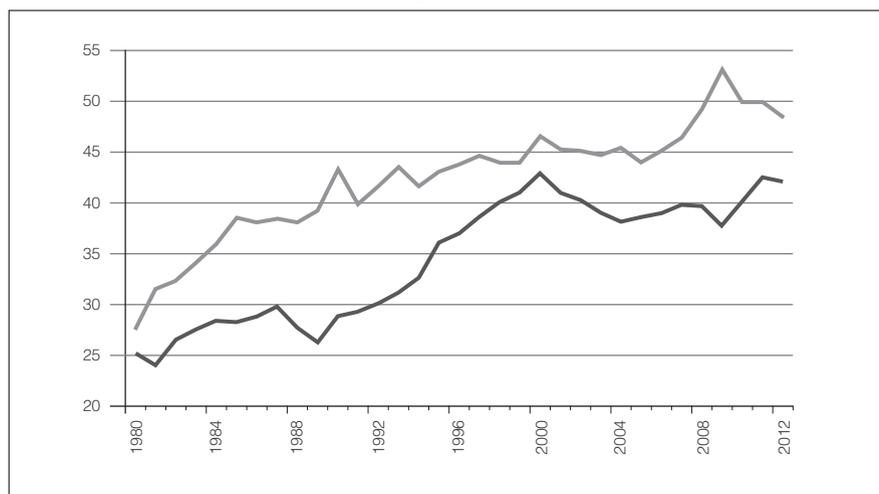
The support came in 1985 through the Integrated Mediterranean Programmes (IMPs) and a stabilization programme that followed it (1986-1988). The IMF was not involved then and, as the European Community lacked experience with SAPs and adequate supervision mechanisms, the impact of that programme was minimal: Fiscal imbalances were not corrected, the economy was not restructured and political accountability remained unchanged. Greece did not manage to "Europeanize" its economy and modernize its state institutions.

FIGURE 10.1: EVOLUTION OF REAL GDP AND ADJUSTMENT IMPACT, (INDEX 1980 = 100)



Note: The numbers in italics indicate election years; the dotted line indicates the start of the crisis (2009) and the forecast turnaround of the economy by the adjustment program; the last number on the right is end-2013 actual.
Source: International Monetary Fund, World Economic Outlook Database.

FIGURE 10.2: PERSISTENT DISCREPANCY BETWEEN GOVERNMENT EXPENDITURES AND REVENUES 1980–2012, (% OF GDP)



Note: Upper line expenditures, lower line revenues.

Source: International Monetary Fund, World Economic Outlook Database, April 2011.

From 1970 to 2007 employment increased by 31 per cent in the private sector and 150 per cent in the public sector. The increase in the public sector took place predominantly in state-owned enterprises (SOEs) under privileged employment conditions. By the time the current crisis struck, Greece was in the top 30 countries in the world in terms of per capita income, only 96th in terms of competitiveness (World Economic Forum, 2013) and last but one in Europe in terms of corruption – ahead only of Bulgaria.¹⁴³

From the 1990s the public sector continued to grow and, with it, the difference between government revenue and expenditure (figure 10.2). Its contribution to GDP reached nearly 54 per cent in 2009, the year the crisis started. Gross fixed capital formation fell continuously, almost linearly, from around 35 per cent of GDP in the 1970s to less than 15 per cent by 2009 (Papadimitriou, Nikiforos and Zezza, 2013). In the 1990s, the budget kept going up – by 350 per cent – but unemployment kept rising too, reaching 12 per cent by 1999. Public debt exploded from €2 billion in 1981 to €140 billion by 2000. Before the crisis hit, public spending had soared to €114 billion, meaning ever larger interest payments eating into the budget and jeopardizing services.¹⁴⁴

¹⁴³ Transparency International, Corruption Perceptions Index, available at: <http://cpi.transparency.org/cpi2012/>.

¹⁴⁴ Eppink, D.J. 2013. “Ireland and Greece prove the naysayers wrong”, *EU Observer*, 22 November, available at: <http://euobserver.com/opinion/122188>.

In addition to fiscal profligacy, the public sector continued its heavy-handed regulation of markets, less for improving competitiveness and more for clientelistic reasons through the substantially high number of mandatory procedures when dealing with the state compared with the average country in Europe. The big issue in Greece remains the numerous rent-seeking groups that curtail competition in the product and services markets. The state did not manage to ensure a minimum service to the broader interests of society and accountability was low, undermining growth prospects. The uneven playing-field, in addition to the high administrative burden imposed by the government, prevented the competitive functioning of private markets. A sluggish justice system has also posed major barriers to investment (Mitsopoulos and Pelagidis, 2011).

The associated costs were estimated to be very high. For example, start-up costs for businesses were estimated to average \$15,500 in Greece versus \$7,800 in Europe in the early 2000s. Mandatory procedures for registering a public limited company in Greece were 37 days, but only 3 in Denmark, 6 in the United Kingdom and 10 in Germany. The estimated administrative burden on Greek companies to deal with bureaucracy was estimated at 5.4–6.8 per cent of GDP in 2003, corresponding (then) to \$8.3 billion–10.6 billion, or more than what is currently required to eliminate the primary deficit and start making the debt sustainable (Kox, 2005).

The economic and fiscal situation deteriorated after Greece joined the Eurozone in January 2002. As well as easy access to borrowing that the creation of the euro initially enabled – thus increasing debt – export prices in Greece rose by more than 30 per cent compared with 9 per cent for the Eurozone and practically no increase in Germany. All in all, “Greek firms have been unable or unwilling to absorb the euro appreciation by lowering their margins” (Papadimitriou, Nikiforos and Zezza, 2013). This is an important point as in practical terms the “internal devaluation” under the post-2010 adjustment programme has placed emphasis on reducing wage costs and raising taxes (thus suppressing domestic demand) rather than increasing competitiveness and reducing expenditures (Ioannou and Ioannou, 2013).

THE 2010 CRISIS AND THE BAIL-OUT PROGRAMME UNTIL 2013

In October 2009, PASOK was re-elected with a comfortable majority in Parliament, replacing New Democracy (a centre-right party in power since 2004). Soon after, the new prime minister, George Papandreou (son of Andreas), announced that the official fiscal figures were fundamentally misreported. The previous official estimate of the budget deficit “between 6–8 per cent” eventually turned out to be nearly 16 per cent. Similarly, the revised figure for the public debt went up from 113 per cent to 129 per cent of GDP.

The markets reacted sharply. Rating companies started downgrading Greek government bonds (from A- just weeks before the crisis to junk). Bond spreads widened. Access to open-market refinancing operations became impossible. Social unrest increased. European finance ministers became alarmed as the prospect of a European meltdown became real: Greece was “too big to fail” with most of its debt being external. Europe came to the rescue but understandably its prime objective and responsibility was to save the euro.

A default, especially if accompanied by an exit from the euro, would make it impossible for Greece to meet its euro-denominated foreign debt obligations. The contagion from the Greek bankruptcy would spread across Europe (and beyond). At that time, European lenders, mostly German and French banks, held more than €50 billion in Greek sovereign debt (Von Hoffman, 2012). If Greece had defaulted, lenders would have lost the vast majority of it. The preferred solution from the lenders’ perspective was to “socialize” the debt, that is, to move much of the debt off private sector ledgers to governments – namely, taxpayers.¹⁴⁵

Greece was consequently not allowed to default. George Papandreou’s government offered a helping hand to the argument that Greece needed just a credit line (the “illiquidity, not insolvency” argument). Despite some initial ambivalence in Europe to bail-out bankrupt Member States of the Eurozone, European lenders and the IMF accepted that Greece was illiquid, even though it was considered insolvent like Argentina in the not so distant past. Accordingly, the biggest bail-out programme was set in motion following an official Greek request in April 2010 for financial assistance from the troika (the European Commission, European Central Bank and IMF).

An emergency loan was approved under streamlined procedures the following month under an agreement (MoU), or Mnemonio 1 (IMF, 2010). The agreement provided funding for a €110 billion bail-out package over three years on the condition and expectation that Greece would undertake a series of reforms during that period (see below). In parallel, the European Council and the EU Member States endorsed the European Financial Stability Facility, realizing that Greece was only part of the continent’s problem arising from the disconnect between monetary and fiscal policy across the Eurozone.

¹⁴⁵ The socialization of debt has little to do with the uniqueness of the Greek crisis. For example, after the introduction of the euro, Ireland had an influx of French and German capital seeking higher interest rates. Deposits were then lent to real estate developers and created a speculative bubble. After the global financial crisis in 2008, the capital flows reversed, the developers went bankrupt, the banks went bankrupt and, finally, when the state was forced by the ECB to save the banks, the state itself faced serious bankruptcy risks.

However, the issue of insolvency remained, the uncertainty of statistics continued,¹⁴⁶ political polarization between PASOK and the New Democracy parties reached its peak and social unrest continued. Moreover, the Eurozone was drawn into a recession, with few notable exceptions, including Germany. The main issue had become not Greece, but Europe.

Fast-tracking to the end of 2011, a chaotic range of legislative economic and social measures were enacted by a declining parliamentary majority for PASOK in a sporadic way, including the expectation that privatization proceeds would fetch €50 billion by 2015¹⁴⁷ – which has been more realistically revised to €22 billion by 2017. In July 2011 the troika agreed to increase its financial support through another MoU (Mnemonio 2). Mnemonio 2 added another €109 billion to the previously agreed €110 billion and included a “haircut” of around 50 per cent to government bonds through PSI (Private Sector Involvement), that is, participation of the private sector in the write-downs of sovereign debt.

Still, the fiscal situation continued to deteriorate while the deficit was stubbornly stuck at around 14 per cent of GDP. The EU Summit of the Heads of States in October 2011 increased the funds agreed in July that year from €109 to €130 billion in what became Mnemonio 2 Plus. That Mnemonio also included another haircut (the so-called PSI plus) bringing the losses to private investors and bondholders to around 75 per cent of the face value of Greek government bonds they were holding, corresponding to €110 billion (Dabilis, 2013). In parallel, at European level, there was an increase in the capitalization of the European Financial Stability Facility from €400 billion to €1.2 trillion for future needs of other countries in distress, such as Spain and Italy.

The situation had reached critical levels not only in Europe but in Greece where George Papandreou put forward the proposition for a referendum on the acceptability of the programme and, effectively, Greece remaining in the euro. Failing to gain domestic support and facing a hostile reception to the idea by European partners, the referendum never took place and he resigned. A caretaker technocrat prime minister was appointed, Lucas Papademos.¹⁴⁸

¹⁴⁶ For example, the deficit was to be revised 70 times by 2012 and still remains the subject of speculation – see Tzannatos and Monogios (2012). As of September 2013, the deficit had been eliminated according to the Minister of the Economy but remained negative according to the Bank of Greece. In any case, the calculation of the deficit excludes €8 billion in liabilities to the social security funds and another €4 billion in tax reimbursements that are due by the government.

¹⁴⁷ By 2013 privatizations have brought only half of a projected €3.2 billion into state coffers.

¹⁴⁸ It was never agreed among the parties that supported the Papademos government what kind of government it was. Popular terms that were used included “co-governance”, “government of national unity”, “emergency government”, “coalition government”, “government of national salvation”, “transitional government” and so on.

Papademos' main mandate was to endorse previous agreements and, after that, to lead the country to early elections in February 2012.

The new elections were delayed and took place only in May 2012 amidst hyperactivity at domestic and European levels, slippages and delays in programme implementation, persistent uncertainty over statistics and increasing social unrest. Mnemonio II was formally approved by Parliament and notably included a clause that new Greek bonds would carry rock-solid repayment guarantees under the jurisdiction of English law. Still Greece needed more external financial support.

The May 2012 elections proved inconclusive amidst the collapse of PASOK, the upsurge of an alternative left party (SYRIZA) and the emergence and rise of a neo-Nazi party (Golden Dawn). New elections took place in June 2012 and the wafer-thin difference of New Democracy over SYRIZA gave the leader of the former, Antonis Samaras, the right to form a government, which he did in coalition with its historic rival, PASOK, and a small centre-left party (DIMAR, which has now broken ranks).

Summarizing, and leaving aside whether Greece was illiquid or insolvent, Mnemonio I correctly focused on measures for reducing the number of jobs in the public sector, privatizing public assets and SOEs and reforming the exploding pension system. "Internal devaluation" was not, however, an explicit objective of Mnemonio I but became an overtly proposed means of adjustment in subsequent measures as no retrenchments in the public sector were effectively initiated, and privatization was stalled.

The discussion below traces the developments of the Greek economy and the initial effects of the adjustment programme under the New Democracy-PASOK coalition that is now supported by 154 MPs as suggested by the votes the 2014 budget received in the 300-member parliament. It was these two parties that hired large numbers of needless workers in the public sector (mainly SOEs under privileged employment terms) for generations in return for votes, weighing heavily on the economy.¹⁴⁹

THE INDUSTRIAL RELATIONS "NON-SYSTEM"

The main achievements of Mnemonio I were largely confined to reducing the 14 "monthly" payments to public sector workers to 12 months¹⁵⁰ and to slash-

¹⁴⁹ In only two years, since 1980, the budget was designed to have a surplus (0.5 per cent of GDP in 2001 and 0.5 per cent of GDP in 2002). Even in these two years, the actual outcome was respectively a deficit of 4.4 per cent of GDP and 4.8 per cent of GDP.

¹⁵⁰ Workers used to get two additional monthly payments a year, one at Christmas, half at Easter and another half as summer holiday benefit. This was perceived by the troika to be additional pay; another interpretation is that it constituted an annual salary paid in 14 instalments.

ing, rather than rationalizing, pensions. Already by 2011, main pensions were reduced by as much as 20 per cent for normal retirees and as much as 40 per cent for those who had taken early retirement (Symeonidis, 2013). The social sectors, in this case the labour market, were also adversely affected by legislative reforms in the area of collective bargaining that moved negotiations to company level or outright employer discretion.

Today the system of industrial relations can be best characterized as a “non-system”, though the original Mnemonio 1 stated that “The authorities are encouraged [to] promote a *tripartite* social contract between employers, unions, and the public sector, aimed at more cooperative bargaining to favour employment *growth* over income growth at this time, requiring understandings on wage moderation in return for *investment* and employment promotion” (IMF, 2009; emphasis added).

This was in line with ongoing IMF in-house research that “Crisis-driven labour market policies should give their place to broader structural reforms in the medium term ... Policies are also justified to avoid an increase in long-term unemployment and a drop in labour force participation during severe recessions ... Wage setting mechanisms work best when allowing adjustment via centralized coordination for economy-wide shocks” (Vamvakidis et al., 2010).

Even the President of the Hellenic Federation of Enterprises (SEV) commented at the time “The achievement of the fiscal targets in 2010 and 2011 appears to range from doubtful to impossible ... If the Mnemonio leads to national divisions, change will become impossible and bankruptcy unavoidable ... Collective agreements ... are useful [and] a way to avoid conflict ... Let’s leave companies and workers to communicate between themselves and find their own solutions ... What we support is derived from Europe [which] is envied globally for its system of social protection”.¹⁵¹

Departing from the original orientation of the programme (Mnemonio 1) and contrary to the IMF’s own research and Greek employers’ objections to not letting them negotiate directly with workers on what is best for both, the subsequent Mnemonio added measures to support the internal devaluation by changing wage-setting procedures and collective bargaining to “target a reduction in unit labour costs of about 15% during the programme period”. As noted in a later publication by the IMF (June 2013 – see below), the wage-cutting part of the internal evaluation succeeded but prices did not fall, competitiveness did not improve and productivity did not increase.

Successive government decisions and laws resulted in top-down cuts not only in public-sector pay by reducing the 14 monthly payments to 12, but also directly in the private sector by the government unilaterally prescribing lower minimum

¹⁵¹ Press conference by Dimitris Daskalopoulos, Chairman of the Board of Directors, Hellenic Federation of Enterprises, 16 November 2011.

wages than previously agreed between employers and workers in the National General Collective Agreement. The nominal national minimum wage was reduced by 22 per cent and by a further 10 per cent for young people (under the age of 25). The adult and youth minimum wages are now respectively €586 and €511 per month. They will stay at those levels until the end of 2014 and, after that, will be set by the government “after consultation with the social partners”.

Wage determination has been effectively decentralized to company level, if not to personal contracts effectively dictated unilaterally by employers; dismissals have been made easier; and full-time individual contracts can be converted to part-time or even casual. Effectively, the internal devaluation very much took the form of wage cuts and deregulation of some professions (from taxi drivers to pharmacists and lawyers). Improvements in product markets were less spectacular (see below).

Before these reforms, disputes could be referred to arbitration unilaterally either by employers or by workers. Since 2012 recourse to arbitration requires both parties to agree to it. This is a significant change as previously as many as one out of four collective agreements were settled through arbitration. The abolition of the right to unilaterally seek recourse to arbitration has therefore greatly affected the bargaining structure for collective regulation of pay and industrial relations. (Ioannou et al., 2011).

The treatment of expired collective agreements also changed. Now, in the absence of a new collective agreement within three months after the old one expired, pay reverts to the basic wage plus some specific allowances (such as for seniority, child(ren), education and occupational hazards), if they were provided for in the expired agreement. Other allowances come under managerial prerogative. A maximum duration of three years for all collective agreements was introduced in an attempt to terminate open-ended collective agreements with a view to ease the way wages reverted to the minimum wage.

Automatic seniority payments (“maturity coefficients”) based on length of service that were common in collective agreements have been frozen until unemployment falls below 10 per cent – something that may not happen for at least a decade.

Less controversially under current conditions, privileges granted to certain groups of workers, especially in current and previous (now privatized) SOEs, have been removed. Individual employment contracts of an open-ended type (those expiring upon age limit or retirement) are now automatically transformed into contracts for which standard layoff procedures apply.

These developments in industrial relations in Greece are said to be “unique and exceptional” in modern-day Europe (Ioannou, 2012). The relevant EU treaties exclude pay levels, wage setting, trade union rights and the right to strike from areas in which the EU can legislate and intervene in Member States’ activities. The decentralization of collective bargaining and the recasting of the national

system of industrial relations in Greece was part of Council Decisions based on Article 126 of the Treaty on the Functioning of the EU. Until then, there was no precedent indicating that EU treaties provided for direct intervention of the European Union in collective bargaining.

INTERNATIONAL APPROACHES

International support to Greece, like those to other EU countries under stress, falls under the class of SAPs. These gained momentum in the 1980s when they were routinely applied to ailing economies, predominantly in Africa and Latin America. They became the bread and butter of IMF and World Bank operations. The IMF was mainly concerned with short-term balance-of-payments problems (especially inability to repay international debts). The World Bank was involved in setting sustainable longer-term development agendas with loans granted on the basis of policy changes and sectoral improvements (such as public and private sector reforms, projects for infrastructure, education, health and so on). Working in tandem, the two Washington-based “Bretton Woods”¹⁵² institutions aimed, as later summarized, to “stabilize, privatize, and liberalize” (Rodrik, 2006).

SAPs were the brainchild of market-driven thinking that came to prevail in the economic discourse after the 1979 elections that brought to power Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States. The recipes advocated by “neoliberalism” fell on fertile ground following decades of increasing statism, high levels of protectionism, extensive industrial planning, failing state enterprises, lax fiscal policies and rising taxes to make up for the resulting debts and deficits that reduced economic efficiency, created inflation, choked economic growth and increased unemployment. In developing regions – the main arena of World Bank operations – bloated bureaucracies were becoming the norm in most African economies, which were consistently underperforming in the 1980s. Economic growth was also faltering in Latin America as fiscal pressures kept mounting and inflation was rampant.

The IMF–World Bank approach was coined “the Washington Consensus” (Williamson, 1989) and prescribed rolling back the state in production, privatization (including social services) and deregulation (including the financial sector). This was based on shared policy themes among the two institutions and, one can add, their next-door neighbour, the United States Treasury Department, whose influence on them has been often much greater than the collective influence of the other 185 or so countries that make up their executive boards.

¹⁵² Named after the area in New Hampshire, United States, where the two institutions were created in a conference organized by industrialized countries at the Mount Washington Hotel in 1944 to create structures for managing the world economy in the wake of the destruction caused by World War II.

The Consensus, as originally stated, included 10 broad sets of recommendations. The recommendations were fiscal discipline and avoidance of large fiscal deficits; redirection in public spending – especially subsidies that distort prices; broadening the tax base and reducing tax rates; market-determined interest rates; competitive exchange rates; trade liberalization through elimination of quantitative restrictions and protection through high tariffs; liberalization of inward foreign direct investment; privatization of state enterprises; market deregulation (including labour markets); and legal protection for property rights.

Few economists would argue that any of these recommendations are unworthy of serious consideration. Even credible critics of SAPs concede that “the Washington Consensus policies were designed to respond to the very real problems in Latin America and made considerable sense” (Stiglitz, 2002). Others have rightly noted that there was little consensus on how to go about SAPs in practice as there are, and have been, major differences between economists over what the correct economic policy is, especially how the 10 elements can be combined and over what timeline.

Alternatively said, “the science of economics” has a lot to offer but “economics” as is practised can fall prey to special interests ranging from local barons and policy makers to international organizations and superpowers (Shiller, 2013). The small print was lost in the ideological drive of the times, geopolitical considerations, the exuberance that was created by the political collapse of centrally planned economies and the fast growth of the financial sector whose impact has been often confused with the gains from globalization and was then revered (until the 2008 global financial, economic and social crisis).

More specifically, while reduction in public spending was a non-negotiable component of both the IMF’s and World Bank’s conditionalities for providing bail-out and developmental loans, the need also to preserve some spending for infrastructure, health care and education was more often than not neglected. The fact that many crises originate from rentier and corrupt governments was not of concern under the assumption that “the market works”, forgetting that there is a difference between *markets* and *competitive markets*. Especially with respect to privatization, the result was more akin to denationalization and appropriation of the proceeds by the economic elites – domestic or international, the latter often footloose investors.

After years of failing to kick-start the economies undergoing SAPs and with mounting evidence of their adverse effects on the social sectors, SAPs came under scrutiny. Issues that became increasingly prominent included the incidence of deep and prolonged collapse in output in many countries that extended beyond what the programme expected. The Greek case fits this description (figure 10.1).

Moreover, many Sub-Saharan African economies continued to rely heavily on foreign loans that gradually turned them from illiquid to insolvent, also like the Greek case. Initially successful countries saw their fortunes soon reversed.

Comparisons between earlier economic growth with that post SAP could not establish a positive “net” benefit of adjustment policies. This comparison was blurred by political considerations as, unfortunately, many countries shied away from enacting meaningful institutional reforms or actively implementing them. Thus efforts to modernize the economy continued to flounder and this gave the supporters of SAP the excuse that what was at fault was not bad economics but bad politics.¹⁵³

One of the earliest and most influential evaluations of SAPs came from a report by UNICEF (Cornia, Jolly and Stewart, 1987). It can be debated whether the report challenged the economic principles underlying the Consensus. What is more certain is that it focused on what was missed big time by the SAPs under the untested textbook assumption that efficiency gains from just “setting the prices right” will “trickle down” to the economy and the society. The report’s strength lies, first, on the empirical evidence based on 10 country studies that showed the negative impact of SAPs on health and education and, second, its recommendations for protecting public social expenditures. The times were changing. Even the very person who coined the term Washington Consensus subsequently said that he did not endorse market fundamentalism and believed in Consensus prescriptions that also address inequality and social issues (Kuczynski and Williamson, 2003).

Additional evidence kept pouring in and criticisms mounted that culminated in what might be considered the first anti-globalization and social media event – the protests during the annual meetings of the Bretton Woods institutions in Madrid in 1994 under the slogan “50 Years is Enough”. The campaign aimed to change not only IMF and World Bank policies but also their internal structures. The time was getting ripe for the two institutions to reconsider their policies, along with more sustainable, inclusive and equitable development as subsequent protests also attested.

By the mid-1990s the lessons from past SAPs indicated that the way the Consensus had been applied had to move away from the shock therapy approach and its narrow emphasis on fiscal, rather than economic, adjustment.¹⁵⁴ It could no longer ignore rural/urban and poor/non-poor divides and the effects

¹⁵³ See for example Loxley (1983).

¹⁵⁴ In-house research on adjustment and broader developmental policies are a never-ending activity at the World Bank. For example, in 2005 the World Bank commissioned an internal critique of adjustment programmes (see Rodrik, 2006) that shows how far discussion has come from the original ideas of the Washington Consensus. Gobind Nankani, a former vice-president for Africa at the World Bank, wrote in the preface: “there is no unique universal set of rules... We need to get away from formulae and the search for elusive ‘best practices’...” (p. xiii). The World Bank’s new emphasis is on the need for “humility, for policy diversity, for selective and modest reforms, and for experimentation”. In 2003 the World Bank’s Operations Evaluations Department had already commented that the Bank’s recommendations were not adapted to individual country circumstances.

of SAPs on the invisible economy and the social sectors. Implementation capacity (and corruption) needed to be taken into account as well as preserving the drivers for growth (compared with uncritically adopted austerity measures). These issues are now prominent again in European debates and policies.

The narrow economic analyses that had justified past SAPs were replaced by Poverty Reduction Strategy Papers (PRSPs) as a condition for financial assistance within a broader framework that has been labelled the Post Washington Consensus. While maintaining the economic principles of managing liberalized trade, finance and monetary systems and creating enforceable codes and standards, the new approach was to address adverse social impact of traditional recipes through social safety nets, better vertical and horizontal policy coherence, and a more active role of businesses and nongovernment organizations in the PRSP process.¹⁵⁵

At least in theory, the development of the PRSPs and the design of programmes were no longer to be done by officials in Washington – a point relevant to Europe today regarding the way citizens view the IMF or the troika. Under the new approach, programmes are expected to be designed by the countries themselves through broad-based participation of civil society and a focus on poverty reduction (including the protection of critical social sectors like education and health). They should also involve all parties (such as the government, domestic stakeholders, external bilateral and multilateral donors) and be based on a long-term perspective geared towards reducing poverty. World Bank operational guidelines now require analysis of the impact of adjustment programmes on the poor and, when needed, compensatory measures to be introduced.

The distinction between illiquid and insolvent countries was also recognized. New initiatives and lending instruments were developed, one of them the Highly Indebted Poor Countries Initiative (HIPC), which started in 1996. The initiative recognized that there is little point in trying to get much out of countries facing an unsustainable debt burden that cannot be managed with traditional means. Such countries, around 40 mainly in Africa, received debt relief and low-interest loans to cancel, reduce or restructure their external debt repayments to sustainable levels. In return, these countries had to meet a series of conditions for economic management and performance targets, including protection of the social sectors (such as basic education and health).

In the area of labour markets, SAPs had originally blindly followed the concept of flexibility, indiscriminately and rigidly. They failed to differentiate trade-offs between different types of flexibility such as price flexibility (wage adjustment), quantity flexibility (employment adjustment), managerial flexibility (company practices) and distant flexibility (subcontracting). By focusing on labour mar-

¹⁵⁵ See World Health Organization (WHO), Post-Washington Consensus, available at: <http://www.who.int/trade/glossary/story074/en/>.

kets alone, SAPs failed to take into account ills elsewhere in the economy, such as in government and market failures. Policies to replace collective bargaining by individual contracts between workers and employers became prevalent.

However, the World Bank started undertaking research on labour issues, completing its first study on trade unions and collective bargaining in 1998, though not published until 2002 (Aidt and Tzannatos, 2002). The study took a more balanced view on the effects of trade unions and collective bargaining, a view reiterated in subsequent research by the IMF (e.g. Vamvakidis et al., 2010). Ease of hiring and firing workers, which had traditionally been included as a composite indicator in the World Bank's *Doing Business Index*, was removed in 2011. The *Employing Workers index* is now presented in the annex report and is revised to give favourable scores to countries complying with relevant International Labour Organization conventions,¹⁵⁶ though even this index can also be criticized in the way it calculates labour "inflexibility".¹⁵⁷

It needs to be stressed that, when push came to shove as in the case of the Asian financial crisis in 1997 or Argentina in 2001¹⁵⁸ or more recently Europe, especially Greece, some adjustment programmes were not that dissimilar to those that gave SAPs a bad name. The post-1980s orientation of the IMF and the World Bank made a distant memory the pivotal role these two institutions played in reconstructing Europe after World War II and for two or so decades later when they initiated largely successful operations in developing regions.

Nevertheless, the lessons from this eclectic review suggest that for adjustment to succeed:

1. There should be correct diagnosis of the problems and clear objectives (including balancing austerity with prospects for economic growth);
2. The programme must be technically sound in terms of composition and sequencing of measures, expectations for recovery and capacity to implement the reforms; and
3. The measures should be socially acceptable with an emphasis on protecting the poor and reducing vulnerability among the middle classes.

¹⁵⁶ World Bank Group, *Doing Business. Measuring Business Regulations*, available at <http://www.doingbusiness.org/>.

¹⁵⁷ For example, a higher minimum wage (as a ratio to value added per worker) is always taken to imply more rigid labour markets and inefficiencies – something that can be contested (Lee, 2012). For a broader critique see Dasgupta (forthcoming).

¹⁵⁸ Interestingly, the shock therapy policies prescribed in the adjustment programmes in the East Asian crisis in the late 1990s were diametrically opposite to those adopted post 2008 that affected mainly the United States and Europe.

EFFECTS AND ASSESSMENT

Practically none of these lessons were followed in the case of the Greek adjustment programme:

1. The diagnosis was that of conventional illiquidity that could be overcome quickly with little assistance, though it was evident that Greece was insolvent.
2. While the original programme (Mnemonio 1) correctly focused on the public sector and privatization, it downplayed how quickly reforms could be implemented and public assets could be sold given subdued markets and outright corruption. Instead of keeping the eye on these two sectors, subsequent versions of the programme kept adding individual measures¹⁵⁹ that either contradicted the lessons from SAPs¹⁶⁰ or, at the macro level, made the Greek recession a global first in duration and almost in depth.
3. There was little concern over the social impact. A word search in the initial programme documents failed to find anywhere the word “equality”; “equity” was included but with reference to banks; and “protection” was included for depositors’ protection and legal protection in the context of privatization and of reducing employment protection.¹⁶¹

The IMF’s June 2013 review of the programme’s achievements chimes with these remarks (IMF, 2013). It has conceded that,¹⁶² based on international experience “restoring competitiveness by way of internal devaluation has proved to be a difficult undertaking with very few successes” adding that for Greece “the country’s initial conditions look unfavourable in comparison with prior international experience”. Moreover, according to the Director of the Research Department of the IMF “the best way forward would have been a negotiation between social partners to reduce wages and prices, and avoid a long and painful process of adjustment”.

The thrust of the IMF’s assessment can be summarized in the following few quotations from its own June 2013 review:

¹⁵⁹ Since Mnemonio 1 Greece has witnessed more than 150 implementing laws, including no fewer than four on public sector pay. Many more are pending.

¹⁶⁰ One can list here the sharp/shock therapy for the private sector (including taxes) and the attempt to formalize the informal with the view to taxing it rather than bringing it under social insurance (Tzannatos and Monogios, 2012).

¹⁶¹ There was, though, a vague reference in a European Commission publication that “all will be done while protecting the vulnerable”.

¹⁶² See IMF (2012).

“In the event, the SBA-supported program served as a holding operation. On the positive side, moving ahead with the Greek program gave the euro area time to build a firewall to protect other vulnerable members and averted potentially severe effects on the global economy”.

“Not tackling the public debt problem decisively at the outset or early in the program ... aggravated the contraction in output ... A delayed debt restructuring also provided a window for private creditors to reduce exposures and shift debt into official hands ... leaving taxpayers and the official sector on the hook”.

“Prices fell by less than the decline in wages¹⁶³ reflecting continued rigidities in product markets ... There was little pick-up in exports ... Prices have not been as flexible as wages”.

“There were limited gains in productivity ... Reductions in ULCs [unit labour costs] were wage driven with few indications that productivity had increased”.

“The burden of adjustment was not shared equally across the society”.

Beyond that, IMF’s in-house research based on analysis of 107 countries and 79 episodes of public debt reduction driven by discretionary fiscal adjustments during 1980–2012 shows that expenditure-based, front-loaded fiscal adjustments can dampen growth when there are credit supply restrictions. Instead, fiscal adjustments that are gradual and rely on a mix of revenue and expenditure measures can support output expansion, while reducing public debt. In this context, protecting public investment is critical for medium-term growth, as is the implementation of supply-side, productivity-enhancing reforms (Baldacci, Gupta and Mulas-Granados, 2013).

In the same vein, the then IMF’s mission chief for Greece, Poul Thomsen, has been quoted as saying that though Greece still needs to find further savings to meet its fiscal bail-out targets “there should be no across-the-board measures and that they should focus on areas of waste”.¹⁶⁴ This can be contrasted with the “horizontal” reductions in wages, pensions and benefits that were introduced in the early phases of the adjustment program.

All in all, one can say that the Greek adjustment case resembles fraudulent conveyance when a creditor makes a loan, knowing the debtor cannot pay in the normally expected course of events, while expecting an even greater return from the loan. As of today Greece cannot repay its debts: the “greater return” for the creditors was the euro’s rescue.

¹⁶³ Labor costs per hour are now 30 per cent below 2008 levels.

¹⁶⁴ Reuters. 2013. “Greece needs no across-the-board fiscal cuts, IMF says – report”, 23 November, available at: <http://www.reuters.com/article/2013/11/23/greece-imf-idUSL5N0J80G020131123>.

This is, however, only one side of the story. The other is what Greek policy makers did and whose side they appear to have been on. More specifically, whether Greece would have stayed in the euro was a home-made pseudo-issue created by George Papandreu (through his call for a referendum on the issue) and his successor (who labelled his political opponents advocates of “the return to the drachma”). This slogan had significant impact on the electorate given the ambivalence of the opposition on this issue. Even after six years of recession, 71 per cent of Greeks (and only 66 per cent of Germans) “would like to keep the euro as their currency and not return to the drachma (or the Deutsche Mark).¹⁶⁵ Today, even the main opposition leader of SYRIZA, Alexis Tsipras, admits that he has no intention of taking Greece out of the euro. Even if this account is contested, the substantial amounts that the troika provided Greece indicate that there was no intention then to allow a Grexit from the euro.

PROSPECTS

Greece remains insolvent even though it has received more money than it originally owed. This does not make sense to anyone who knows even basic arithmetic, let alone to professional economists. As the IMF noted in June 2013, “a quick recovery in growth appeared optimistic”. June 2013 also saw another world record: Greece became the only country to be downgraded from developed economy status to emerging economy status in the MSCI’s Emerging Markets Index.¹⁶⁶ Greece remains in the bottom 10 countries on the Depth of Globalization Index, a group that includes Iran, Venezuela, Central African Republic, Uruguay, Argentina, Syria and Uzbekistan.¹⁶⁷

The Greek prime minister shortly after his election in June 2012 declared that Greece would return to the markets in 2013 (and unemployment would be reduced to 10 per cent within four years). The troika now puts the return of Greece to the markets in 2014 and has postponed the return to sustainable ratios of debt/GDP to 2022, against an initial target of 2020.

Rather than trying to put some definite future dates and values to indicators, the international experience provides some benchmarks for the prospects of

¹⁶⁵ Pew Research Centre, 2012. “European Unity on the Rocks Greeks and Germans at Polar Opposites”, Pew Research Global Attitude Project, 29 May, available at: <http://www.pew-global.org/2012/05/29/european-unity-on-the-rocks/>.

¹⁶⁶ Funds Europe. 2013. “Greece Led Developed Markets in October before Downgrade”, 4 November, available at: <http://www.funds-europe.com/news/12860-greece-led-developed-markets-in-october-before-downgrade>. Also MSCI at <http://www.brecorder.com/market-data/stocks-a-bonds/0/1198301/>.

¹⁶⁷ See Ghemawatand, P; Altman, S.A. 2013. “Depth Index of Globalisation. And the Big Shift to Emerging Economies”, IESE Business School, available at: [http://www.ghemawat.com/Dig/Files/Depth_Index_of_Globalization_2013_\(Full_Report\).pdf](http://www.ghemawat.com/Dig/Files/Depth_Index_of_Globalization_2013_(Full_Report).pdf).

recovery of Europe's sickest child. Some are reviewed below bearing in mind that the benchmarks refer to the "average" country, not the case of Greece, which is a statistical outlier.

A study of 44 countries over 200 years found that of the 26 cases where the ratio of debt to GDP exceeded 90 per cent for five years or more, the average high-debt spell was 23 years (Reinhart and Rogoff, 2010).¹⁶⁸ According to the IMF, "The post-2008 crisis increase in debt-to-GDP ratios of 25-30 percentage points would require fiscal adjustment over the next twenty years to first stabilize and eventually return public debt to pre-crisis levels relative to GDP" (Lipsky, 2011). This applies to advanced countries where their debt is neither the size of Greece's nor are their institutions comparable to those of Greece. Even if Greece starts growing soon at the historically high pre-crisis rates of the 2000s, getting its GDP back to its 2008 level, having lost nearly 25 per cent, may not happen before 2030.

This distant time horizon may also be relevant for the labour market. Research at the International Labour Organization also points to a 20-year horizon or even longer as the average time it takes for youth employment to attain pre-crisis levels (ILO, 2010).

Like the adjustment programme dominated by euro-wide considerations, the prospects for Greece cannot be separated from those elsewhere in Europe. The Eurozone – the prime economic partner of Greece – is also in distress facing, at the time of writing, stagnant if not negative growth in many countries and anaemic growth overall. Solutions for Greece cannot be separated from those in the Eurozone. For example, one such solution, and an imperative one, is that the architecture of the Eurozone should be strengthened through governance at European level of public fiscal policy and banking supervision, with the objective of banking union. In addition, economic policy should be linked to social policy, aiming to reduce unemployment and poverty in a kind of a pan-European Marshall Plan.

Domestically, political risks and fiscal policy uncertainties still loom large. The traditional political polarization between New Democracy and PASOK has been transformed by these parties now occupying one corner and the parties of the left and extreme right occupying the other corner. In fiscal terms, no domestic solution seems feasible as long as the cost of borrowing by the private and public sectors remains above the growth rate. Domestic private demand for consumption or investment is bound to stay depressed for quite some time following the reductions in incomes. The alternative – a suspension of the austerity programme and the implementation of expansionary job-creation policies in the public sector – can be ruled out for now. And as the debt is now almost

¹⁶⁸ See also Reinhart, C.M.; Rogoff, K.S.; 2013. "Debt, Growth and the Austerity Debate", *The New York Times*, 25 April, available at: http://www.nytimes.com/2013/04/26/opinion/debt-growth-and-the-austerity-debate.html?pagewanted=all&_r=0.

entirely held by foreigners (90 per cent – 80 per cent of that by the troika),¹⁶⁹ servicing the debt in the future will involve a large net transfer out of the country with offsetting effects on aggregate domestic demand.

The possibility of a strong increase in exports is as desirable as it is uncertain. The increase in tourism revenues by 13.7 per cent in 2013 may continue but, despite its substantial share in GDP and employment (one in five workers),¹⁷⁰ there are limits to how much a single sector can leverage the rest of the economy. Moreover, the recent increase in tourism may prove short-lived, as it was spurred by adverse political developments in competitor countries such as Turkey (notably Istanbul), Syria, Egypt and North Africa.¹⁷¹

There is no question that the fiscal and public-sector adjustment in Greece was long overdue and had to be done. But, apart from wage and pension cuts, the rationalization of the public sector has barely begun. As the IMF's June 2013 review cites "the authorities have not finalized yet plans for staff reductions". Of the planned layoffs of 15,000 public sector employees in 2012 and another 150,000 during 2013–2015, the first 4,000 took place only in summer 2013, affecting almost exclusively, and abruptly, the personnel in the public broadcasting corporation, ERT.

Liquidity for the private sector has yet to be restored, though this is the easier part of the equation to solve, perhaps in a year or two. Still, the increase in unemployment came almost exclusively from the private sector despite the fact that 300,000 Greeks, mostly young and educated, may have emigrated since the crisis started.¹⁷²

¹⁶⁹ Lachman, D. 2013. "The IMF and Germany Debate: Should Europe Write Down Greece's Debt?" *SeekingAlpha.com*, 21 October, available at <http://seekingalpha.com/article/1758352-the-imf-and-germany-debate-should-europe-write-down-greeces-debt?source=feed>, and Santa, M.; Strupczewski, J. 2013. "Troika inspectors to put return Greek visit on hold, officials say", *Reuters*, 31 October, available at: <http://www.reuters.com/article/2013/10/31/eurozone-greece-idUSL5N0IL3AY20131031>.

¹⁷⁰ Maltezou, R. 2013. "Greece Sees Tourism Revenues Rising 13 percent", *Reuters*, 19 November, available at: <http://news.yahoo.com/greece-sees-tourism-revenues-rising-13-percent-2014-095010125--business.html>.

¹⁷¹ Moreover, according to the Bank of Greece the cumulative current account balance turned into surplus till September 2013. This is the first time it happened since Greece joined the euro in 2002 and owes as much to tourist receipts as to collapsing domestic demand for imports. See George Georgiopoulos reporting for Reuters in "Greek current account surplus widens in September", *Reuters*, 19 November, 2013, available at: <http://ca.finance.yahoo.com/news/greek-current-account-surplus-widens-september-091911080--business.html>.

¹⁷² Smith, H. 2013. "Greece's former king goes home after 46-year exile", *The Guardian*, 15 December, available at: <http://www.theguardian.com/world/2013/dec/15/greece-former-king-exile-constantine-ii-anne-marie>.

In the social sectors, owing to the recession and 25 per cent loss in the value of GDP, an additional 5 per cent of Greeks saw their incomes in 2009 fall below the poverty line in just one year (Matsaganis and Leventi, 2011). Today the estimated poverty rate has increased to 20 per cent. The share of non-poor at risk of poverty has now reached 30 per cent. This makes Greece the sixth-worst country for living conditions in the EU followed only by Bulgaria, Romania, Latvia, Hungary and Lithuania.¹⁷³

As a result of pension cuts, the poverty at-risk rates for pensioners reached 20 per cent, versus an average of 14 per cent in the EU27 and EU15 (Symeonidis, 2013). In 2012, 60 per cent of families were reported to be suffering from food insecurity while 23 per cent lived in a state of food insecurity *and* hunger.¹⁷⁴ The narrow fiscal focus on pension cuts ignored the fact that too many pensions were already too low. Still, according to a World Bank study, pensions were the main vehicle for poverty reduction in Greece in the absence of other transparent and effectively targeted benefits for citizens (De Neubourg, Castonguay and Roelen, 2007).

Cuts in health spending are also having possibly catastrophic effects, while the main culprit of high health expenditures, i.e. pharmaceuticals, are among the very few whose price has kept rising, despite general deflation.¹⁷⁵

Less-known effects of the crisis include the failure of Greece to keep up with the treatment and disposal of urban waste water. Indeed, the European Commission is referring Greece to the European Court of Justice to impose fines consisting of a lump sum of €11.5 million and a daily penalty payment of approximately €50,000 until the obligations are fulfilled.¹⁷⁶ In addition, the prison budget has been reduced from €136 million in 2009 to about €111 million in 2013 – a figure that compares poorly with the Netherlands, which has a similar number of prisoners (around 12,000) and an annual prison budget of about €2 billion.¹⁷⁷ As with water, the European Court of Human Rights recently

¹⁷³ Channel News Asia, “Greece Ranked Sixth in EU”, available at: <http://www.channel-newsasia.com/news/world/greece-ranked-sixth-in-eu/921954.html>.

¹⁷⁴ ANSAMed. 2014 “Greece: 60% of families experience food insecurity”, 7 October, available at: http://www.ansamed.info/ansamed/en/news/sections/generalnews/2013/11/25/Greece-research-60-families-experience-food-insecurity_9677462.html.

¹⁷⁵ Imerisia.gr, “Τύρισε» 51 χρόνια πίσω ο... αποπληθωρισμός”, 7 October, 2014, available at: <http://www.imerisia.gr/article.asp?catid=26516&subid=2&pubid=113144605>.

¹⁷⁶ Venitism blogspot, “European Commission takes Greece back to Court for waste water”, 20 November, 2013, available at: <http://venitism.blogspot.com/2013/11/european-commission-takes-greece-back.html>.

¹⁷⁷ See Becatoros, E. 2014. “Greek prison system collapsing – labelled ‘inhuman’”, Ekathimerini.com, 7 October, available http://www.ekathimerini.com/4dcgi/_w_articles_wsited_1_28/12/2013_533963.

ruled that Greece was responsible for “inhuman and degrading conditions” in prisons, and imposed additional penalties.¹⁷⁸

Unemployment is expected to rise further according to recent studies locally (e.g. from KEPE) or internationally (e.g. the Levy Institute forecasts unemployment higher than 30 per cent by 2016). This is despite continuing massive emigration. And after six years, the 25 per cent loss of GDP translates into a reduction in average household income of 35-40 per cent after taking into account increases in taxes and reductions in benefits. Unemployment has soared to more than 27 per cent with youth unemployment near 60 per cent – both the highest in Europe. Against this, Prime Minister Antonis Samaras declared upon taking office in 2012 “I believe, and I am working on this, that we can bring unemployment down to 10 per cent in the next four years” – unemployment then was 24 per cent.

CONCLUSIONS

Greece entered the euro in 2002 evidently with doubtful statistics and major economic and political imbalances. The inflexibility in managing the economy being in the Eurozone compounded governance problems, such as corruption is likely to continue to hurt competitiveness.

The crisis-adjustment programme has many faults: it treated insolvency as illiquidity, was front-loaded despite the limited institutional capabilities of Greece to enforce it, was based on unrealistic assumptions and projections for changes to fiscal fundamentals, kept adding measures in the absence of feasible goals, and relied excessively on raising taxes (rather than cutting expenditures – thus choking the productive sectors, formal or informal) and on reducing disposal incomes, and so domestic demand.¹⁷⁹

Statistics remain elusive. The Organization for Economic Co-operation and Development (OECD) forecasts a further decrease in GDP of 0.4 per cent in 2014 compared with government estimates of 0.6 per cent growth (Gatopoulos and Becatoros, 2013). In November 2013 the government believed that it needed to find spending cuts worth a further €500 million in 2014, but the troika considered the shortfall to be around €2.9 billion.¹⁸⁰ While the government,

¹⁷⁸ See more at The Malay Mail Online, “Greece responsible for inhuman prison conditions, says ECHR”, 13 December, 2013, available at: <http://www.themalaymailonline.com/world/article/greece-responsible-for-inhuman-prison-conditions-says-echr#sthash.mvX0ig2r.dpuf>.

¹⁷⁹ Though the initial design put more emphasis on raising taxes, tax revenues turn out lower than expected given the depth of the recessions (GDP loss of nearly 25 per cent) and an inefficient/ corrupt collection machinery.

¹⁸⁰ Fox, B. 2013. “Greece under fire as creditors lose patience”, *EU Observer*, 15 November, available at: <http://euobserver.com/news/122115>.

at the time of the writing of the present chapter, expects to achieve a primary budget surplus, it seems to exclude moneys owed to social security, the deficit of state enterprises, transfers to city and town administrations and some military expenditures.

Under the debt sustainability analysis for Greece published by the IMF and the European Commission in July 2013, the debt-to-GDP ratio is projected to peak at 176 per cent of GDP in 2013 and then fall steadily to 124 per cent in 2020. However, an alternative debt sustainability report from the OECD is less optimistic: the debt-to-GDP ratio is expected to continue to rise until 2015 and only fall to below 160 per cent of GDP by 2020.¹⁸¹ Real GDP would have to rise by 4.8 per cent a year between 2014 and 2020 to achieve the target of 124 per cent of GDP. This seems highly unlikely.

Addressing the Greek problem remains part of the broader European problem. In the end, solutions should be sought in fundamental reforms in the structure of the Eurozone. These can include a determined move towards a real banking union, as without it money will continue to flow from the weakest countries to the strongest; debt mutualization (e.g. Eurobonds) that would allow Europe to borrow at low costs (like the United States, which has a much higher debt-to-GDP ratio than the Eurozone); a central bank that does not focus uncritically on inflation but also on growth and employment; and a replacement of narrow austerity policies with pro-growth policies paying attention to infrastructure, investment in people and the broader social sectors.

Irrespective of the accuracy of statistics that can change the magnitude, though not the nature, of the problem, and which way Europe will move in, the options for Greece are three: debt forgiveness, more foreign assistance and rolling the government debt over a longer period at low interest rates. All are currently debated. On the one hand, the IMF seems to be taking the position that Greece's official creditors (other than the IMF) should write down some of their claims on Greece; on the other, the non-Greek Europeans are resisting adding more charges to their own taxpayers.

In economic terms, the international experience, if not simple accounting, suggests that the ability to meet debt obligations is primarily affected by the growth rate. This has been forgotten in the fiscal adjustment approach adopted by the Greek programme – as it has also been forgotten that the best approach of exploring ways to come out of crisis “with a human face” is for labour market settlements to be reached by the social partners, a role that is now undertaken directly by the Greek government.

¹⁸¹ Ekathimerini.com “Falling prices may pose risks to Greece's bailout, says OECD”, 27 November, 2013, available at: http://www.ekathimerini.com/4dcgi/_w_articles_wsite2_1_27/11/2013_529704.

The governance of policy reforms in southern Europe and Ireland

The current crisis gave Greece the latest of a series of opportunities to turn itself into an effective modern state. While one may argue that this may have not yet been materialized, the rich history of Greece suggests another opportunity will arise again. And hopefully by the time this happens, the Greeks will have learnt from their own history faster than they write it.

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