Chapter 3
Impact of the euro crisis on wages and collective bargaining in southern Europe – a comparison of Italy, Portugal and Spain

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Introduction[1]

The austerity measures implemented in the European Union have reinforced the dominance of competitiveness as a central frame of reference for wage policies. So-called 'internal devaluation'–based on wage cuts– has been presented as the solution needed to overcome the crisis, particularly in southern European countries.

However, after several years of austerity measures, there is now uncontested evidence of their negative impact on economic growth and social cohesion, which is admitted even by supranational institutions.[2] Various studies have shown that internal devaluation has been ineffective in addressing macroeconomic imbalances and the debt crisis in the European Union (Holland 2012). There is also a broad consensus that austerity has reinforced existing divergent trends with regard to wages and collective bargaining. In southern European countries, these policies have led to deep wage cuts and radical changes in collective bargaining systems, resulting in lower standards in terms of incomes, wage-setting arrangements and social cohesion (Bernaciak and Müller 2013).

This chapter aims to address the impact of the euro-crisis on wages and collective bargaining in three southern European economies, namely Spain, Italy and Portugal.[3] To meet this challenge, we decided to struc-

1. We would especially like to thank Reinhard Naumann for his contributions and suggestions during the elaboration of this chapter, which were very relevant and constructive.
2. The International Monetary Fund admitted that large and rapid fiscal consolidation may lead to unintended economic consequences for growth and employment (Blanchard and Leigh 2013).
3. Taking into account other southern European countries, as Greece, where austerity policies have generated much more serious negative consequences, both economic and social (Triantafillou 2014).

ture our analysis by moving from more general to more specific aspects, for example, of legal and economic measures.

The structure of this chapter is as follows. In Section 1 we review so-called 'new economic governance' in Europe, as well as the main rationale put forward for austerity and internal devaluation. In Section 2 we explore some microeconomic aspects of labour market 'reforms' imposed by the Troika, focusing on (i) the intense privatisation process and (ii) the strong determination to reduce the importance of collective bargaining. We analyse these two dimensions in the three case studies. In Section 3 we present the main outcomes of labour reforms, in terms of wage development, economic growth and social indicators. Finally, in Section 4 we draw some conclusions.

In our analysis we also try to evaluate how homogeneous institutional reforms have had different practical consequences, addressing the diverse reactions of national governments, as well as the various intensities and outcomes of these reforms, especially with regard to wage trends.

It must be noted that our analysis is not based on a narrow comparison of experiences, but rather on a synthesis of the outcomes of austerity and internal devaluation in southern European countries. Therefore, in many cases the use of the data provided, both economic and regulatory, may serve as guidance for a more comprehensive understanding of the consequences of particular policies for wages and collective bargaining. The analysis covers wage developments and other variables until 2013, within the framework of the broader impact of austerity measures.

1. The euro-crisis in southern European countries: wage policy framework

The financial and economic crisis that began in 2008 metamorphosed during 2010–2012 into an intense crisis of the euro. The credit risk of government bond yields experienced a sharp rise in peripheral economies during these years to the point of forcing bailouts by the European Union of Greece (May 2010), Ireland (November 2010), Portugal (May 2011), Spain (June 2012) and Cyprus (March 2013).

The economies of southern Europe – particularly Spain, Italy and Portugal– had had no significant fiscal problems before the economic crisis.

Italy and Portugal had a moderate public deficit in 2007 (–1.6 per cent and –3.1 per cent of GDP, respectively), while Spain showed significant surplus (1.9 per cent). Similarly, the ratio of public debt to GDP was not excessive in the case of Portugal (68.4 per cent, in line with France and Germany), Spain had a low figure (36.3 per cent) and the high Italian public debt (103.3 per cent) was not considered critical due to its domestic nature (see below).

However, the development of the crisis in these three economies during the period 2008–2010 led to a significant increase in government deficits and public debt, making it very difficult to obtain financing on international capital markets. The economic cycle with an increase in spending associated with the automatic stabilisers, the bailouts of the financial system and the fall in tax revenues due to the slowdown of economic activity thus explain the deterioration of public finances.

On the other hand, Spain, Italy and Portugal accumulated – as did Greece and Ireland– substantial current account and financial imbalances from the establishment of the Economic and Monetary Union (EMU): the increase of external private debt (particularly in Spain and Portugal) was the consequence of growing trade deficits toward the core economies of the euro zone. With the adoption of the common currency and the absence of institutional arrangements to prevent and correct these external imbalances, current account deficits in 2007 reached –10 per cent of GDP in Spain and Portugal and –1.3 per cent in Italy.

The explanation given by the EU institutions for these fiscal and external imbalances has determined the type of policy response implemented. First, both Brussels institutions and the German government insist on presenting fiscal imbalances as one of the main reasons for the sovereign debt crisis. Second, the current account deficits of peripheral economies are interpreted as a result of their uncompetitiveness in relation to the central and northern countries, due to higher growth in unit labour costs.

Both macroeconomic imbalances are – according to Brussels– a clear sign that these countries have 'lived beyond their means'. The solution implemented is therefore based on strict fiscal austerity packages and wage cuts.

A complementary, but different explanation is not considered, however: the current account deficits within the EMU are not the result of 'policy mistakes' by peripheral economies, but of unbalanced growth between core and periphery in 1995–2008.

This unbalanced development is based on two poles. One group of economies – particularly Germany – has been characterised by wage restraint and weak domestic demand, with economic growth driven mainly by a strategy of increasing exports (*export-led growth*). Another group – of which Spain is a good example – has based its expansion on strong internal demand financed by external debt (*debt-led growth*), thereby enabling recycling of the trade surpluses of the first group of countries.

Both strategies were in fact interdependent: growth in core countries was (in part) based on external demand in the peripheral economies and, simultaneously, the latter needed the surplus countries to finance their current account deficits. A common monetary policy and the existence of the single currency have played an important role in the development of this model, imposing the same interest rate on all economies and reducing the credit risk of peripheral government bond yields.

It is worth stressing the key element underlying the development of this unbalanced growth model: the establishment of the Economic and Monetary Union (EMU). The proposal to impose a single currency on different economies with diverse industrial structures and productivity levels without – crucially – any institutional mechanism aimed at limiting external imbalances between these economies resulted in an unsustainable model (Álvarez *et al.* 2013).With a single currency, the counterpart of a strong trade surplus in Germany – partially due to its reduced domestic demand – is an intense flow of capital towards more dynamic areas, such as the south, with corresponding external imbalance problems due to high domestic demand (as typified by Spain).

Furthermore, an expansionary monetary policy designed to meet the needs of the core countries during the years before the crisis contributed to very low real interest rates in the south, leading to rising debt levels.

In addition, the Monetary Union was constructed according to the model of the German Bundesbank, with a strategy favouring a strong currency and the priority of avoiding inflation. Companies in core countries had decades of 'practice' under these conditions and learned to live without currency devaluations. Companies in southern Europe, by contrast, had a much shorter period to learn to compete in such a context and the result was that many of them got into trouble. This was not the result of wrong policies but of a race with very unequal competitors, and EMU had no mechanisms to compensate for the ensuing imbalances.

Taking this analytical framework into consideration would have required the implementation of quite different policy measures to those applied by the EU (for example, an increase in German domestic demand). However, the crisis has been used by the institutions in Brussels and by political and economic elites to deepen the neoliberal economic strategy and redefine labour and social relations in southern Europe.

1.1 Austerity policies and the new economic governance

The economic policy imposed in the euro zone since May 2010 contains a strong dose of external intervention: the influence of the EU – through the European Council, the Eurogroup, the Commission and the Troika– on the policies adopted by the governments of the different member states has increased considerably. EU influence has been consolidated by a series of agreements that strengthen the capacity of the European institutions to monitor member state economic policies and to impose financial sanctions on countries that do not comply with central directives.

This external intervention is overwhelming in the Memorandums of Understanding signed with the countries bailed out by the European Stability Mechanism (ESM). In these cases, the ESM bailout mechanism involves strong conditionality in terms of economic policy, similar to the structural adjustment policies imposed by the International Monetary Fund in Latin America during the 1980s and 1990s. Some authors even describe this economic policy as ‘authoritarian neoliberalism’ (Bruff 2012).

The main decisions adopted within the framework of new economic governance were taken outside the European Semester. The main actors were the Eurogroup and the ECB, neither of which is democratically accountable or open to public debate (Rocha 2014). As an example of this lack of open debate we have the ECB’s ‘secret letters’ to Spain and Italy (August 2011), demanding reforms in collective bargaining, the abolition of inflation-adjustment clauses, private sector wage moderation and other labour market regulations (Rodriguez Zapatero 2013), which were reflected in the measures finally adopted.[4]

Among the economic policies imposed by member state governments and European institutions on peripheral countries, two in particular shape the wage policy framework (European Commission 2011; Schulten and Müller 2013):

(i) *Fiscal consolidation should be the priority of any economic policy*. This consolidation has been understood as a prerequisite for reducing government bond yields in financial markets, restoring the country's access to external financing and stabilising the single currency. In accordance with this approach, even though European economies are still in crisis, governments decided to cease fiscal stimulus, restoring – in line with the Maastricht Treaty– the control of public deficits as the top priority. To guarantee such control, public spending is cut. History has thus repeated itself with, as in 1931 and German Chancellor Heinrich Brüning or in 1935 and the French government of Pierre Laval, major European governments implementing public spending cuts in a recession.

(ii) *Internal devaluation by reducing wages is supposed to correct differences in competitiveness and current account imbalances*. The increase in current account imbalances is perceived, as already mentioned, as being the result of diverging competitiveness between economies. At the same time, this divergence is explained by discrepant growth of unit labour costs. Since EMU's institutional framework does not allow currency devaluations to regain lost competitiveness, such recovery must come – according to the EU– from 'internal devaluation', understood as a reduction in unit labour costs in deficit countries. Wages are thus considered the main adjustment variable with regard to macroeconomic imbalances.

These two macroeconomic policies are presented by the Troika as necessary to ensure financial stability, facilitate international financing and

4. For example, in Italy we find Act. 148/2011, Berlusconi's immediate answer to the ECB's 'secret' letter (August 2011), in which for the first time a company or territorial 'proximity' agreement is allowed in Italy –concerning new investments, jobs, savings, adoption of new technologies or forms of workers' participation– to derogate, not only from national sectoral agreements, but even from laws, the only limit being respect for constitutional or international rights and conventions.

increase external competitiveness. They are supposed to lead to the recovery of credit, investment, exports and employment, as well as an increased potential for long-term growth.

In order to institutionalise these measures in the euro zone, governments have substantially transformed economic governance in Europe. In 2010, with the adoption of the Europe 2020 Strategy proposed by the European Commission, the European Semester got under way, which is an annual mechanism of macroeconomic, budgetary and structural policy coordination. According to this mechanism every year the EU issues a series of recommendations to member states that have to be embodied in a National Reform Programme, whose implementation is evaluated by the European Commission. Furthermore, states also have to submit their plans for sound public finances (stability or convergence programmes). The European Semester is therefore an instrument designed to enable the Commission to achieve more effective ex ante control of economic policy in different countries (European Commission 2011).

This new European economic governance has continued to develop. In 2011 the so-called Six-Pack was adopted, consisting of five Regulations and one Directive aimed at strengthening not only fiscal but also macroeconomic supervision of member states (especially in the countries of the euro area). This attempt to reinforce economic governance is being imposed by three instruments (European Commission 2012a; Uxó *et al.* 2011).

First, the Six-Pack ensures tighter fiscal discipline through a stricter interpretation of the Stability and Growth Pact. Second, a mechanism for preventing and correcting potential macroeconomic imbalances has been created, involving the monitoring of various economic indicators (not only fiscal indicators). Third, an automatic procedure for sanctions has been introduced for countries that do not comply with policy recommendations emanating from this EU alert mechanism. As a result, policy recommendations from the EU to member states have ceased to be voluntary (Schulten and Müller 2013).

In 2011, the member states ratified the so-called Euro-Plus Pact (later the Pact for the Euro). This agreement has also helped to institutionalise austerity and internal devaluation policies in the EU. The Pact for the Euro contains mechanisms to ensure the 'sustainability' of public finances by monitoring and reforming pension, health and unemployment systems. Furthermore, this agreement aims to supervise the growth of unit labour costs in order to link the evolution of (nominal) wages to (real) productivity and thereby improve the external competitiveness of the economies of the euro zone. In this sense, the pact was designed with the intention of promoting more 'flexible' labour markets and achieving (hypothetical) productivity gains.

1.2 Labour reforms and work deregulation in private and public sector

As already discussed, the increase in external imbalances experienced within the euro zone is perceived by the European institutions as resulting from the diverging competitiveness of core and peripheral countries, due to growing differences in unit labour costs. The European institutions explain these differences in unit labour costs as a result of so-called 'institutional rigidities' in labour markets: collective bargaining systems, regulation of layoffs, minimum wages and employment protection, among other things. These 'rigidities' explain, according to the orthodox approach, the 'excessive' growth of unit labour costs in peripheral countries, the decline in external competitiveness and structural unemployment, as well as loss of growth potential (Álvarez *et al.* 2013).

The strategy to reform labour markets – lowering the minimum wage, allowing more flexible dismissals, eroding collective bargaining and ultimately limiting the ability of unions to achieve agreements – is supposed to encourage the necessary 'internal devaluation' and to facilitate recovery of both competitiveness and GDP growth. Thus, wage cuts are part of an export-led recovery strategy for peripheral countries, while macroeconomic imbalances and aggregate demand problems are supposed to be solved by supply-side measures.

The EU is thus interfering with wage policy in the member states, an area traditionally closed to European regulation (Schulten and Müller 2013). The legal basis for this intervention is linked, as already mentioned, to the Six-Pack and the Pact for the Euro, as a result of which, as already mentioned, wage growth is used as the main adjustment variable to promote competitiveness and reduce macroeconomic imbalances.

Although Article 153 of the Treaty on European Union states that wage policy is beyond the powers of the EU, the Macroeconomic Imbalance

Procedure linked to the adoption of the Six-Pack provides the basis for new intervention in wages. This is not confined to monitoring wage growth,[5] but also covers other areas, such as national systems of collective bargaining.

In the context of the crisis, and according to the Macroeconomic Imbalance Procedure, the EU has recommended labour market reforms to half of the member countries (European Commission 2012b). These recommendations are increasingly unavoidable, to the extent that countries that fail to comply with them will risk significant economic sanctions.

However, in the case of peripheral countries with external financing difficulties this influence has been implemented with much greater intensity. Labour market reforms carried out since 2010 by Portugal, Spain and Italy have comprised strong deregulation of the institutional framework. These reforms – reviewed in Section 2– are supposed to decentralise collective bargaining, reduce the regulatory scope and duration of collective agreements, facilitate opt-out clauses and alleviate redundancy costs. Therefore, labour reforms adopted in these countries have the ambition of realigning the collective bargaining systems towards the current Anglo-Saxon model based on decentralisation and deregulation.

The high unemployment caused by the crisis has been particularly useful in legitimising such 'reforms'. Unemployment is used not only to claim (once again) that a more 'flexible' labour market would ensure the creation of new jobs, but also to limit employees' bargaining power in these countries (Baylos et al 2014).

In southern European economies labour policy is aimed not only to deregulate labour markets and reduce wages in the private sector. Cutting public sector wages and freezing the minimum wage are even more important.[6] As a consequence of these developments, southern Euro-

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5. The new monitoring of economic indicators adopted with the Six-Pack explicitly includes unit labour costs among the indicators to be controlled. The nominal growth of this variable may not exceed 9 per cent in a period of three years for euro zone economies (and 12 per cent for countries which are not members of EMU).

6. Public wages in Spain were cut by 5 per cent in June 2010 and Christmas bonuses were abolished in 2012. Later on, they were frozen. In Portugal public wages were frozen in 2010 and experienced a 5 per cent cut in 2011; furthermore, above a certain income threshold, the two annual bonus payments were eliminated in 2012 and 2013. In Italy public wages were frozen in 2012. Moreover, the minimum wage was not updated in 2012 and 2013 in either Spain or Portugal.

pean economies experienced severe wage devaluation during the period 2010–2014, in both the private and the public sector.

2. Collective bargaining systems in Italy, Portugal and Spain

The disruptive effect of the crisis on industrial relations has been considerable in southern European countries. It is too early to affirm that the reforms enacted in 2010–12 will lead to systemic change, but it is certain that they have affected a number of very important institutions, such as collective bargaining and thus wealth distribution and the working and living conditions of working people.

The southern European countries have traditionally shared some industrial relations features in the EU context, such as high collective bargaining coverage rates and national-level social dialogue.[7] Moreover, strikes are much more frequent and a class orientation more prevalent in the unions. They are also similar in relation to other features, such as union fragmentation and politicisation, gaps between large and small companies and a high degree of informality in the labour market. The Italian, Portuguese and Spanish systems are based on the principle of trade union pluralism.

Specifically, the collective bargaining systems share more commonalities than differences. These systems play an essential function in regulating labour relations. In the 1980s, collective bargaining developed in accordance with the *favor laboris* principle.[8] However, since the 1990s this principle has undergone significant change. It began with the implementation of special acts on specific issues aimed at introducing more flexibility in employment relationships. In this way, relations between legal and conventional regulations changed in order to introduce derogations *in peius* by collective bargaining to achieve greater 'flexibility'. This means that since then the *favor laboris* principle has undergone a major evolution in which legal regulation of collective bargain-

7. For instance, in Italy and in Spain very important labour market reforms were instigated by social dialogue (1997, 2003 and 2006).
8. This means, in this case, collective bargaining was obliged to improve legal regulations. In other words, relationships between legal and conventional regulations produced as a result a situation in which labour rules gave advantage to the labour relation weaker part (workers).

ing has ceased to respect minimum legal rights in an effort to improve 'flexibility'.

Approaches to collective bargaining differ in Italy, Portugal and Spain. While in Italy this process is based on the freedom of negotiators to balance different interests in bargaining (*flessibilità contrattata*), in Portugal and Spain the law has played a more substantial role, determining the areas and limits in which collective agreements could introduce this flexibility. This has made it possible for collective agreements to establish less favourable conditions than those prescribed by law (Palma Ramalho 2013). During the crisis, these relations between the law and collective bargaining have experienced another development in which legal provisions, often adopted directly by the executive and circumventing parliament, have abrogated collective agreements.

Generally, there is a tendency for legal provisions to override collective bargaining, sometimes violating the constitution, as in Spain (Art. 37.1 CE) and affecting trade union association rights.[9]

2.1 Features of the collective bargaining system of each country before the crisis

To understand the impact of the crisis and, above all, the anti-crisis measures on collective bargaining, it is essential to review corporate and industrial relations in Italy, Portugal and Spain prior to the crisis. The following features must be taken into account.

(i) The majority of Italian, Portuguese and Spanish companies are micro-size companies, with fewer than 10 workers.[10] However, these companies employ less than 50 per cent of the total workforce.[11]

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9. In this regard, it is interesting to analyse the two complaints brought by Spanish trade unions CC.OO. and UGT in 2011 and 2012. Case nº 2918 (http://www.ilo.org/dyn/normlex/en/f?p=1000:50001:0::NO:50001:P50001_COMPLAINT_FILE_ID:3056434) and Case nº 2947 (http://www.ilo.org/dyn/normlex/en/f?p=1000:50001:0::NO:50001:P50001_COMPLAINT_FILE_ID:3063806).

10. In Italy: 95 per cent of companies have fewer than 10 workers (source: ISTA. http://www.istat.it/it/archivio/4870; in Portugal around 95 per cent of companies have fewer than 10 workers (source: National Institute of Statistics); while in Spain 97.8 per cent of companies had fewer than 10 workers in 2008. (source: Spanish Statistical Office http://www.ine.es/daco/daco42/dirce/dirce08.pdf).

11. Perhaps Spain is the most representative because almost 99 per cent of companies are small or micro companies. See: http://www.ine.es/inebmenu/mnu_empresas.htm.

(ii) All systems have a long tradition of social dialogue between the government and the representative associations and organisations of employers and employees, especially at the highest level of representation. Social dialogue consists of regular consultations on the approval of new legislation on employment and industrial legislation, except in Italy, where social dialogue generally concerns wealth distribution policy and trade union regulation (EESC 2011).

(iii) There is also a long tradition of collective bargaining and collective agreements, whose structures are similar, principally at the sectoral level (national, regional and provincial). This preference for sectoral branch agreements is due to the small size of most companies and has played a significant role in the inclusiveness and homogenization of working conditions and living standards. In Italy, the national agreement establishes a basis of rights and standards, including minimum wages, for industry at large.

(iv) Competence to sign collective agreements, at every level, on behalf of employees is mainly accorded to trade unions, except at the company level, where works councils are the favoured bodies. In this regard, there are some differences between the countries, especially in Italy where since 1993 under the Inter-confederal Agreement one-third of the seats on works councils have been reserved for trade union representatives.[12] Usually, the company agreement is the level at which flexibility is introduced more frequently.

(v) In the case of binding collective agreements it is possible to apply the results of bargaining to all workers. In Italy (Ferraro 2013) and Portugal the general principle is that outcomes apply only to members of the trade unions or employer associations that signed the agreement (affiliation principle), but in practice it is also possible to apply the contents of collective agreements to unaffiliated workers [13] (in Italy by a judicial ruling and in Portugal through an administrative extension procedure). However, in Spain the main principle is general application to all workers, affiliated and non-affiliated

12. Collective bargaining depends only on the social partners' mutual recognition; agreements are not legally binding and their contents are only formally enforceable by affiliates of the signatories.

13. The exception here is the public sector, in respect of which since the late 1990s there has been a law on the selection of representative unions entitled to bargain (Legislative Decree No. 296/1997 and 165/2001, Art. 43). Unions need to pass a 5 per cent threshold to take part in national collective bargaining, whereas a final agreement is binding if signed by unions representing at least 51 per cent of the relevant workforce. These thresholds are calculated as a weighted average between votes and members.

– *erga omnes* – when collective agreements respect the legal provisions on bargaining legitimacy. Nevertheless, in Spain, trade unions and employers' associations can sign collective agreements in which the negotiating bodies are not composed in accordance with the relevant legal provisions. In this case, the contents of the collective agreement apply only to affiliated workers, although individual workers can ask for its extension to them (judicial ruling).

(vi) One of the most important features of collective agreements in Italy, Portugal and Spain is the period of validity. In these collective bargaining systems collective agreements remain in force until they are superseded by another one. In Italy, this provision is introduced by collective agreement, while in Portugal and Spain it is statutory. This kind of provision provides the workers with substantial security with regard to working conditions and living standards, but it has also hampered the development of collective bargaining over the years.

As a result of these institutional characteristics of collective bargaining, especially extension, coverage rates are very high in the three countries: in Italy, collective bargaining coverage in 2008 was about 80 per cent,[14] in Portugal, between 71 and 80 per cent[15] and in Spain (depending on the source) coverage was between 80 and 85 per cent (EPA 2008)[16] in 2008 (or 74.5 per cent according to the Social Security Survey 2008).

2.2 Main changes in collective bargaining systems: public and private sector

According to the European Commission and the institutions regulating the financial markets – such as the ECB and the IMF – economic measures aimed at reducing public deficits in Italy, Portugal and Spain should be accompanied by government action to impose in-depth 'structural reforms', which entails a series of reforms related to labour relations, the social security system and collective bargaining, with the express aim of creating and/or preserving jobs. In other words, while state macroeconomic action has tended towards reducing public deficits, and hence to

14. See: http://www.eurofound.europa.eu/eiro/country/italy_4.htm.
15. Ministério do Trabalho e da Solidariedade Social 2008: 86.
16. Also very useful is the information from Comisiones Obreras on collective agreement registration (REGCON). See in this regard, Secretaria Acción Sindical 2014.

contract the public sector, efforts to maintain and create jobs have been restricted to revising the regulation of employment relationships and social protection systems. Two main lines of action have thus emerged (Baylos and Trillo 2011).

The first concerns the 'inevitability' of austerity measures and public deficit reduction as the only way to exit the crisis and achieve economic recovery. The political and economic debate has therefore moved away from issues such as changing the production model and reforms needed to boost economic activity, thereby absolving economic and business actors of their responsibilities. Collective bargaining in the public sector has been affected by non-application of wage clauses (cutting or freezing, depending on the country).

The second line of action is closely related to the reforms carried out with regard to labour relations, based on the questionable principle that jobs can be created or maintained only by reducing legal and political employment guarantees and reducing average wages, redundancy costs and working conditions, setting job creation against robust employment rights. This view, which is hardly new, has not been shown to be correct, either in the current crisis or in previous crises, such as those in the 1980s and 1990s.[17] During 2009–2013, there was intense reform, both qualitative and quantitative, based on the assumption that employment rights are the main cause of legislative rigidity and hence job destruction.

Public deficit reduction measures have been introduced progressively since 2010, with particular emphasis on cutting spending within the different public authorities. This does not mean that no decision has been adopted affecting revenue, but the majority of legislative work has focussed on the restructuring of public personnel costs, reducing public deficits, policies intended to reduce social spending and the privatisation of public services.

17. As we can see from several studies, employment creation is not in the power of labour market institutions. Naturally, greater flexibility in this respect can contribute to greater job insecurity, but ultimately the causes of employment creation are not on the supply side. It depends rather on demand, in a given model of organisation of production, the difference between more and less productive jobs, as well as in the business management model. As an example of the impact of trying to create jobs by relaxing statutory employment guarantees, in Spain there have been more than 52 labour reforms since 1980, most of them focused on employment growth, resulting more and more precarity of employment (Rocha and Aragón 2012).

Having stressed the significance of the public sector in Italy, Portugal and Spain, we should also mention measures aimed at reducing public spending as an anti-crisis strategy. The main measures in this respect include suspension of pension adjustments – except for minimum pensions and non-contributory pensions– and reductions in the wages of public employees, as already mentioned.

Public sector wage cuts have triggered an ongoing legal debate on the binding nature of collective agreements with general scope that govern labour relations of employees of public authorities and public companies. For instance, in Spain such cuts directly contravene the *Acuerdo Gobierno-Sindicatos para la función pública en el marco del Diálogo Social* (2010–2012) – a government/trade union agreement on public employees within the framework of social dialogue – which, a few months previously, had laid down wage rates that took account of the ongoing crisis. All collective agreements for people working for the various administrations were affected.

Other measures in the public sector concerned, for example: (i) the replacement rate for civil servants and (ii) working time increases for public employees. The same is true of certain public bodies in which working time is set by means of statutory collective bargaining. In this case, there was a conflict concerning the binding nature of collective agreements and, ultimately, the right to free collective bargaining.

In the private sector, very important legislative reforms have been adopted since 2010 in Spain, Portugal and Italy.[18] Significant measures have affected the main aspects of collective bargaining. Essentially, executive power has promoted collective bargaining at company level, even with regard to aspects regulated by sectoral agreements, such as wages or working time, when there are economic, technical or productive reasons for taking action. These reforms are intended to promote the preferential use of company-level agreements over sectoral agreements, except when prohibited by competition rules or by the terms of an agreement.

It is also worth stressing that – at the same time– the demand for decentralisation of collective bargaining made by the Troika and national

18. A good analysis of the legal reforms of the collective bargaining systems in Spain, Italy and Portugal could be seen in Rocha 2014.

governments could be hiding an other objective: the weakening of collective bargaining at sectoral level. A good example of this is the Portuguese case, which shows clearly that the real effect of these measures is the collapse of bargaining at sectoral level and its weakening in general (see below), without any sign of decentralisation. The demand for decentralisation is being used to make changes in southern European countries to reduce or even eliminate the space for collective bargaining.

The various regulations adopted in southern Europe include stipulations that:

– Priority should be given to the regulation of certain working conditions agreed in the company-level collective agreement, such as the amount of the basic wage and wage supplements; payment or compensation for over-time and specific payments for shift work; the hours and distribution of the working day; professional classification; measures for reconciling personal, family and working life.
– The list of issues forming the minimum content of a collective agreement has been increased significantly, while at the same time the freedom of the collective parties to decide the content of the text has been reduced.
– A restriction of the time during which a collective agreement can remain in force after it has expired, by setting a maximum negotiation period according to the agreement's period in force, establishing an obligatory system of arbitration for times when negotiations on the collective agreement are deadlocked, which was previously decided by the collective bargaining parties. This is intended to restrict the time period during which, once an agreement has elapsed, its provisions can remain in force until a new text is agreed.
– Labour reforms adopted in these countries generalise the application of opt-out clauses. (Rocha 2014)

Reforms were adopted against a background of no political debate nor participation of social partners. For example, the Spanish labour reform in 2012 came to light within two weeks of the *Second Agreement on Employment and Collective Bargaining* (2012–2014), reached by trade unions and business organisations (ibid.). This agreement, which required a major effort from the social partners, covers the structure of collective bargaining and lays down a set of coordination and implementation rules for collective bargaining, also introducing some changes to wage indexation (introducing GDP and other variables in the wage-setting mechanism).[19] The efforts of social partners are evident also in Italy, with the last *Interconfederate Agreements on Workers' Representation and Collective Bargaining* (2011/2013/2014).[20]

2.3 Impact of collective bargaining reforms

In this section we examine how these austerity-oriented labour reforms are affecting collective bargaining. To this end we present statistical data on the crisis and collective bargaining. We shall look at how the anti-crisis measures have affected collective bargaining in Southern countries.

In the area of collective bargaining, the impact of the reforms manifests itself in three major areas: (i) growing collective bargaining decentralisation or, as in Portugal, the collapse of most negotiations at all levels (sectoral, branch and enterprise); (ii) the failure to apply collective agreements as a way of achieving internal devaluation, not only through cutting wages, but also modifying *in peius* other rights, such as working time; and (iii) limiting the validity of collective agreements as, allegedly, a *necessary reform*, originating in the productive context in which many economic changes are taking place very rapidly. All these policies on collective bargaining are the consequence of these national reform policies, supported by Memorandums of Understanding (ETUI 2014).

The first item, growing decentralisation, has been the most important action implemented by the Italian[21] and Spanish governments in relation to collective bargaining. The theoretical basis for this policy con-

19. *Second Agreement on Employment and Collective Bargaining*, http://boe.es/boe/dias/2012/02/06/pdfs/BOE-A-2012-1778.pdf

20. In Italy, the key issue of certifying the number of trade union votes and members has not yet produced its effects because the whole procedure –involving the National Institute for Social Protection (INPS) and the almost defunct National Council for Economy and Labour (CNEL)– has been going quite slowly. As result, it's very unlikely that the new wave of sectoral agreements will be in accordance with the new rules.

21. In Italy, on 22 January 2009, a tripartite Framework Agreement for the Reform of Collective Bargaining (FARCB) was signed without CGIL and against its opposition. The new rules formally safeguarded the two-tier structure, with sectoral agreements continuing to provide basic protection nationwide. Their duration was set at three years for both the normative and economic parts, having previously been four and two years, respectively. The new system aimed to strengthen and enlarge the second level of collective bargaining, at company or territorial level. Decentralised collective bargaining will last three years (against the previous four) and will cover topics defined by sectoral agreements or legislation and which do not concern those already regulated at other bargaining levels.

cerns competitiveness, both domestically, as in Italy – for example, Fiat threatened its employees and the Italian government with production relocation due to the high labour costs imposed by the national collective agreement– and also internationally. In other words, wage cuts as the only way of improving competitiveness in international markets, thereby producing national economic recovery. Collective bargaining decentralisation has been considered a very important aim. In Portugal, against the background of decentralisation a policy has been implemented that has resulted in the almost complete collapse of bargaining at all levels (including the enterprise level).

Within this process, the data show us different collective bargaining dynamics. In Portugal, for example, the scope of collective bargaining has been reduced dramatically since 2010, first at sectoral level, but the number of multi-employer and company agreements has also decreased substantially. In this case, the huge reduction in the number of collective agreements at all levels expresses labour market deregulation and loss of bargaining power. The result can be clearly measured by the significant reduction of the number of workers covered by collective agreements, which has been drastically reduced (almost 1 million of workers fewer than in 2010 – see Table 1).

Table 1 **Number of collective agreements by type, extensions and coverage, Portugal, 2008–2013**

	2008	2009	2010	2011	2012	2013
Agreements	295	251	230	170	85	94
Branch agreements	173	142	141	93	36	27
Multi-employer agreements	27	22	25	22	10	19
Company agreements	95	87	64	55	39	48
Administrative extensions	137	102	116	17	12	9
Workers covered	1,894,788	1,397,355	1,407,066	1,236,919	327,662	242,239

Source: UGT, Relatório anual da negociação colectiva (2013).

With a similar trend but a different impact, collective bargaining in Spain manifests a smaller reduction, derived from the social partners' interest in maintaining collective agreements in exchange for substantial modifications of working conditions (mainly wages and working time). Here, there has also been a decrease in the number of collective agreements, with a progressive rise in the number of company-level agreements, but without significant changes in the structure of collective bargaining. As in the Portuguese case, the result of this process has been a significant reduction of the number of workers covered by collective agreements (Table 2). In Spain, sectoral bargaining has been more stable, while at the same time registering an increase in new collective agreements at the company level, whose main motivation has been the downward modification of wages and also the emergence of new enterprise agreements in sectors in which previously they were rarer (Secretaria Acción Sindical 2014) (in 2011, 1,033 new company agreements were signed, rising to 1 243 in 2012 and to 1 877 in 2013, see Ministry of Employment and Social Security of Spain 2015).

Table 2 **Number of collective agreements by type and workers covered, Spain, 2008–2013**

	2008	2009	2010	2011	2012	2013
Agreements	5 987.0	5 689.0	5 067.0	4 585.0	4 376.0	3 161.0
Company agreements	4 539.0	4 323.0	3 802.0	3 422.0	3 234.0	2 274.0
Higher level	1 448.0	1 366.0	1 265.0	1 163.0	1 142.0	887.0
Workers covered (1000)	11 968.1	11 557.8	10 794.3	10 662.8	10 099.0	8 531.1
Company agreements	1 215.3	1 114.6	923.2	929.0	925.7	656.0
Higher level	10 752.9	10 443.2	9 871.1	9 733.8	9 173.3	7 875.0

Note: Updated data, February, 2015 (registered until 31 January 2015). * 2013, provisional data.
Source: MEYSS, 2014 (2002–2010) Boletín de Estadísticas Labourales (2011–2014) Principales Series.

Behind these changes in collective bargaining (content and structure), it is worth stressing the importance of the production and business context of the southern European countries, in which more than 90 per cent of companies are small or micro-size.

Despite the general trend of collective bargaining decentralisation in these systems, in Italy, aware of the risks of chaos, the social partners have gradually re-established cooperative relations, signing new framework agreements concerning trade union representativeness and collective bargaining. The agreement of 28 June 2011 – signed by Confindustria and CGIL, CISL and UIL– confirmed the two-tier system and the primacy of the industry level, with the possibility of adopting 'modifying agreements' at company level, but only when permitted by the sectoral agreement. Moreover, such modifications need to be signed by a majority of works council members (RSUs).

The second item, the failure to apply collective agreements, is related to the aim of 'internal devaluation'. This policy was generally introduced in the first period of the crisis, at least in Portugal and Spain. The basic assumptions underlying this provision were the dire straits in which companies found themselves and the need to maintain employment. Employers were given the option to bargain on wage cuts with representative bodies in the company to ensure the company's economic survival and, at the same time, maintain employment rates.

However, these options were still not enough for the employers, who still raised complaints about downward rigidity. In Portugal's austerity packages and the latest labour 'reform' in Spain this provision was further developed to reinforce unilateral employer decision-making.[22] As a result, employers are no longer obliged to bargain with collective representative bodies, but only to engage in consultation. Moreover, this reformed legal provision provides the option to refrain from applying working conditions bargained in the company agreement. The result of this bargaining process is a failure to implement the wages provided for by collective agreement. Once again, the Spanish case is most representative of this trend among the three legal systems analysed. In 2012 there were 748 non-applications of collective agreements, affecting 29 352 workers and in 2013 the number increased to 2 512, affecting as many as 159 550 workers. The provisions not applied were related to wages in 1 932 cases, the rest concerning working time (duration and distribution).[23]

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22. Reforms implemented in Portugal, with the MoU's requirements on collective bargaining (Law 23/2012), and in Spain, through the labour reform adopted in 2012 (Royal Decree-Law 3/2012) have had a significant impact on collective bargaining, reinforcing employers' unilateral decision-making. See (Rocha 2014).

23. Data from Collective Agreement Statistics, Ministry of Employment and Social Security, Spain.

Last but not least, changes in the validity of collective agreements has been another way in which Italy, Portugal and Spain have converged. The theoretical justification, again, is that collective bargaining systems that are oriented towards the long term and maintain a certain level of working conditions until a new collective agreement is agreed are much too rigid, hindering the adaptation of production and other elements in companies. It is also argued that collective bargaining hinders development because trade unions are only interested in raising wages and improving working conditions, to the exclusion of other topics or considerations. Portugal and Spain have made statutory provisions in this regard. In Portugal, when a collective agreement expires, the Labour Code that came into force in 2003, with revisions in 2006, 2009 and 2014, applies.

Finally, it is very important to stress how anti-crisis measures have caused collective bargaining coverage rates to fall (ETUI 2013).[24] This indicates a key trend in the European social model regarding labour relations. The new European labour relations model is based on individual agreements between employer and employee, at least in those countries in which companies tend to be small or even micro-sized. This return to the principles of economic liberalism is justified in terms of governance – so-called *new economic governance*– by the European political institutions, especially the European Commission. Last but not least, this further diminution of democratic influences on labour relations is leading, among other things, to a rapid rise in inequality in certain European members states, as the OECD recently pointed out (OECD 2014).

3. Internal devaluation in southern European countries: the result of wage reforms

In this section we look at so-called 'internal devaluation' in the southern European countries Spain, Portugal and Italy during the economic crisis. Focusing mainly on wage trends, our analysis attempts to address the impact of austerity policies and labour reforms. In Sections 3.1 and 3.2 we analyse wage developments, related to the main economic indicators, sectoral trends and the role of collective bargaining; in Section 3.3 we

24. In Italy the collective bargaining rate is 80 per cent, in Portugal, 90 per cent and in Spain it fell to 70 per cent in 2013.

look at structural factors in wage developments; and finally in Section 3.4 we trace recent trends in the economic and social outcomes of internal devaluation.

3.1 Wage development during the crisis

Nominal gross wages – understood as compensation per employee in terms of the national accounts – in the southern European countries have shown similar dynamics since the beginning of the crisis. Despite difficulties arising from having to work with aggregated data,[25] two distinct periods can be identified. From 2008 to 2009, wages in these countries grew above the EU average (around 2 to 6 per cent), despite the consequences of the economic crisis. This trend can be explained by several factors, but mainly by the consequences of the crisis and the destruction of employment. During this period, in the southern European countries there was a significant loss of temporary jobs, which produced a general increase in average nominal wages.

Table 3 **Nominal and real compensation per employee in the EU28, Spain, Italy and Portugal, 2008–2013 (% of previous year)**

	2008	2009	2010	2011	2012	2013
Nominal compensation per employee						
EU28	0.6	–0.9	3.9	1.9	3.2	0.9
Spain	6.8	4.4	1.1	0.9	–0.6	1.7
Italy	3.7	2.2	2.7	1.1	0.9	1.2
Portugal	2.6	2.4	2.1	–1.8	–2.1	3.5
Real compensation per employee (HICP)						
EU28	–3.1	–1.9	1.8	–1.2	0.6	–0.6
Spain	2.7	4.6	–0.9	–2.2	–3.0	0.2
Italy	0.2	1.4	1.1	–1.8	–2.4	–0.1
Portugal	–0.1	3.3	0.7	–5.4	–4.9	3.1

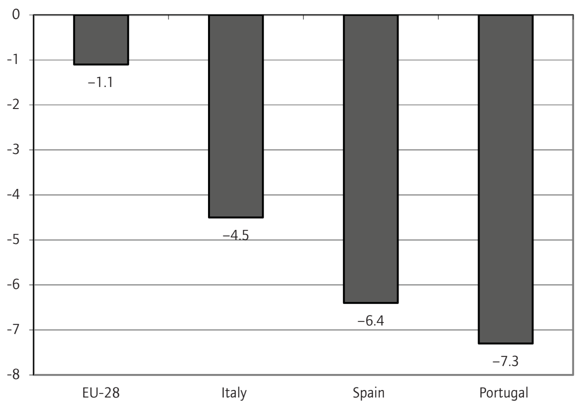
Note: Real compensation per employee = nominal compensation per employee adjusted by the HICP.
Source: Calculations based on AMECO and Eurostat, 2015 (update: 24 February 2015).

25. In the aggregate data differences between workers are not registered, although they can be very significant in terms of level of qualifications, job, company size, industrial sector, trade union influence and collective bargaining systems.

In the second period (2010–2013), gross wage dynamics in southern Europe was significantly lower than the EU average. In 2011, nominal wages decreased in Portugal, while Italy and Spain experienced much more modest wage development than in previous periods. These changes were used as justification for public sector cuts (employment and wages) made in southern European countries within the framework of so-called 'austerity' measures, with a profoundly negative impact on nominal wages.

This wage decline appears more sharply if we analyse real wage dynamics (wages per employee deflated by CPI). Thus, real wages fell (by between –3 and –2 per cent) in the EU28 in the first period (2008–2009), while in the southern European countries there was an substantial wage increase (1 to 4 per cent).This changed dramatically from 2010 with a general downward trend in wages in the EU28, which was particularly strong in Spain, Portugal and Italy, with reductions of around –1 per cent and –5 per cent in 2011 and 2012 (Table 3). In aggregate terms, the austerity period has led to a –1.1 per cent reduction in the EU28 average real wages, while in the southern European countries the fall has been significantly higher (from –4 per cent to –7 per cent), which clearly reflects the impact of austerity measures on wage development (Figure

Figure 1 **Real compensation per employee in the EU28, Italy, Spain and Portugal, 2010–2013 (in %)**



Note: Real compensation per employee = nominal compensation of employees/ total employees and adjusted by the HICP.
*Spain: provisional data, according to National Accounts, Eurostat (update: 24-02-2015).
Source: Calculations based on National Accounts, and HICP, Eurostat, 2015.

1). In this context, changes in the composition of employment have been marked and have played a notable role in aggregate wage developments, which could explain part of the increase in real wages early in the crisis and at the same time the bigger reduction in the second period. In Spain, for example, the process of moderation of nominal wages initiated in 2010 may be somewhat sharper than is indicated by the aggregate statistics on labour costs (Puente and Galán 2014).

Looking at this general context, it is worth stressing the impact of austerity measures on the different sectoral trends. The most recent published data show that in southern European countries the highest wage reductions have been in the public sector (public administration, defence, education, health care and social services), followed by real estate and financial services and construction, among others.[26] Government austerity has involved freezes or cuts of public sector wages in order to cut public expenditure directly, thereby also giving a lead to private sector wage reductions. This has also happened in other European countries subject to financial bailout programmes (such as Greece, Latvia and Hungary) (Bernaciak and Müller 2013).

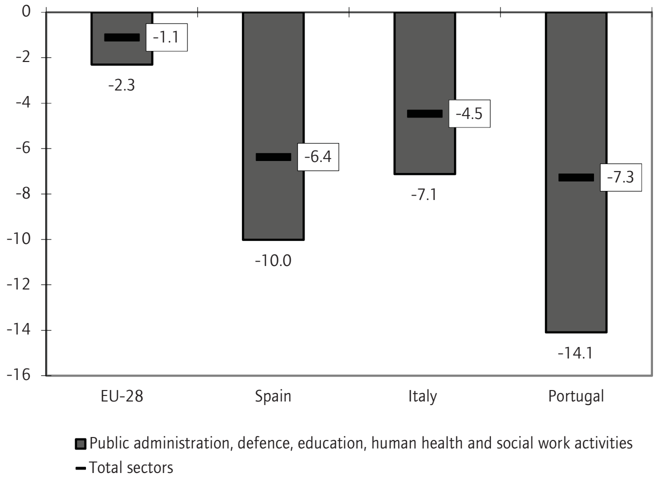
In Portugal and Spain, the development of the public sector is a crucial element in understanding real-wage dynamics, mainly because the sector represents an important part of added value and employment in the whole economy.[27] In Italy, a country with a different production profile, the development of real wages in the public sector has had less impact on general wage dynamics, although it has also experienced a substantial fall in aggregate demand and industry recession during the economic crisis.

The public sector is also important in terms of the application of austerity measures in the southern European countries, given the relationship

26. According to calculations based on the National Accounts and HICP, the sectors with the highest wage reductions between 2010 and 2013 vary between countries. In the EU28 the highest reductions have been registered in agriculture (–5.2 per cent), financial services (–3.8 per cent) and public administration (–2.3 per cent). In Spain, they have been concentrated in real estate (–11.3 per cent), agriculture (–10 per cent) and public administration (–10 per cent). In Italy, they were in public administration (–7.1 per cent), financial services (–6.3 per cent) and real estate (–6.2 per cent) and in Portugal, the reductions were in public administration (–14.1 per cent), real estate (–10.7 per cent) and construction (–7.4 per cent).

27. Despite the crisis, in Portugal and Spain the public sector represented around 18 per cent of total added value and 22 per cent of total employment in 2013. Authors' calculations based on National Accounts and Labour Force Survey, Eurostat, 2013.

Figure 2 **Real wages per employee in public administration, defence, education, health care and social work in the EU28, Spain, Italy and Portugal, 2010–2013 (in %)**



Note: Real wages per employee = nominal wages of employees/ total employees and adjusted by the HICP.
*Spain: provisional data, according to National Accounts, Eurostat (update: 24-02-2015).
Source: Calculations based on National Accounts, and HICP, Eurostat, 2015.

between the public sector and trade unions. In Greece, Italy, Spain and Portugal trade unions have been able to direct protests against plans to cut social expenditure and to mobilise people in general strikes. Governments have tried to reduce public employment and weaken the trade unions' political influence (Glassner 2010).

Within the framework of government austerity measures, either directly or indirectly, there have also been changes in the national development of minimum wages, particularly in Portugal and Spain.[28] Portugal's Troika agreement recognises that 'over the programme period, any increase

28. The main changes in national minimum wages were made in Portugal and Spain, where they can be changed by the unilateral decision of the government. In the case of Italy, collective agreements are the main mechanism used for regulating low pay, what means that minimum wage rates are bargained by the sectoral social partners in collective agreements and applied to everyone in the particular sector.

in the minimum wage will take place only if justified by economic conditions and agreed in the context of regular programme reviews'.[29] This formula limits the development of minimum wages (establishing cuts and freezes) and justifies future external intervention. In Spain, similar measures have been adopted since 2011, although intervention has not been so direct.[30] In both countries, the minimum wage has been frozen. As a result, the real minimum wage has fallen since 2011, with a general drop of 5 per cent in Spain and 4.6 per cent in Portugal (2011–2013).[31]

3.2 Development of agreed wages and wage drift

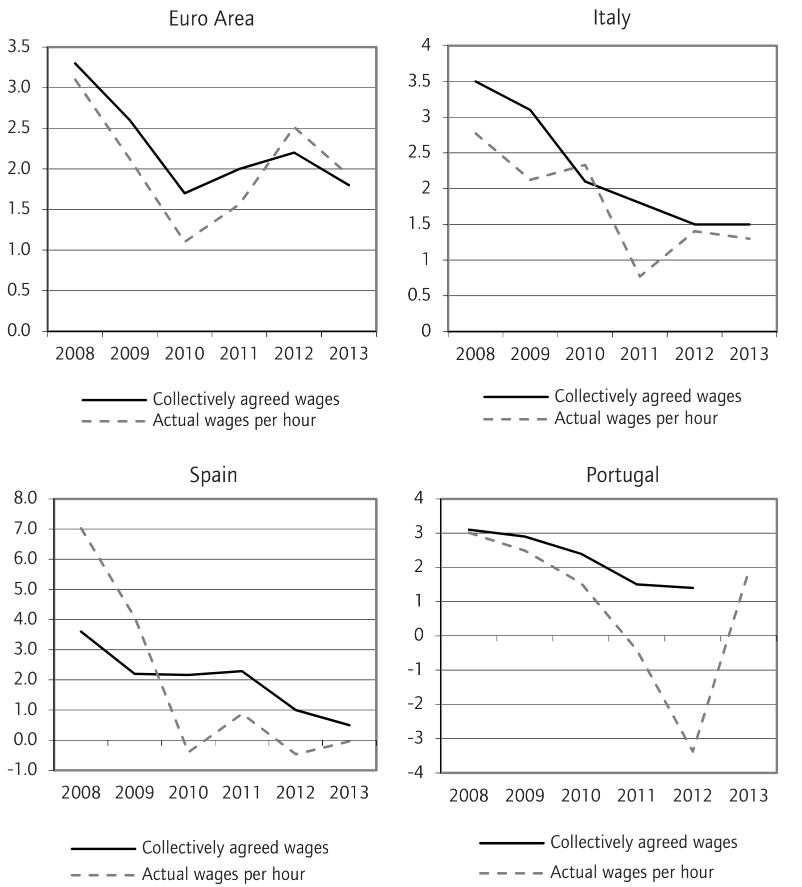
Over the past decade, wage dynamics in collective bargaining in southern European countries have been adjusted to the objective of curbing inflation, which has had a strong impact on wage moderation (Birindelli and Leonardi 2012; Naumann *et al.* 2012; Cruces *et al.* 2012). Since the crisis began, wages agreed in southern European countries have fallen progressively, demonstrating that collective bargaining has been a flexible instrument in the face of changes experienced by companies during the economic crisis. However, since 2010, as a result of the changes in collective bargaining – which have reinforced the employers' side and weakened collective action among workers– agreed wages have continued to register a substantial decline in southern European countries.

In the southern European countries, which are characterised by a comparatively high level of bargaining centralisation, austerity policies and labour reforms are having a huge impact on agreed wage development. At the beginning of the crisis, collective bargaining made it possible to preserve wage increases and prevent drastic reductions. However, the reforms of collective bargaining summarised above have enabled enterprises to reduce wages significantly, including collectively agreed ones.

There are, nevertheless, a few differences between the southern European countries that have to be taken into account. In Italy, for example, wage development – at least compared with other countries– has remained relatively stable and the trade unions (so far) have been able to

29. International Monetary Fund (2011), Portugal: Letter of Intent, Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding, 20 May 2011, IMF.
30. This issue was incorporated in the ECB letter to the Spanish government, in return for the financial commitments (El Pais, December 2011).
31. Authors' calculations based on Eurostat (2013).

Figure 3 **Collectively agreed wages and actual wages per hour, 2008–2013 (% of previous year)**



Note: * Euroarea: selection from the Cawie Database. 2012 and 2013, provisional data in Spain (agreed wages).
Source: CAWIE Database, 2014.
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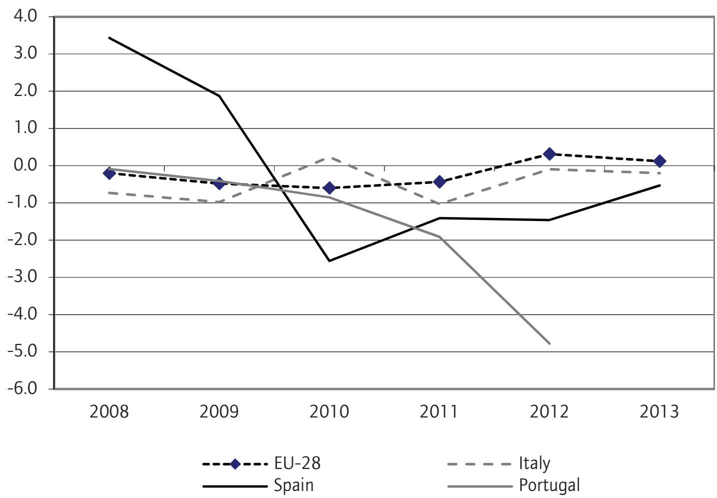
fend off the most radical procedural reforms of the traditional system of coordinated bargaining (Meardi 2012). The wage moderation achieved by the social partners through collective bargaining has produced a significant reduction in agreed wage increases (–1.4 per cent, 2008–2010) in line with actual wage development.

A similar reduction of agreed wages has been experienced in Spain (–1.4 per cent), due to a strategy based on wage moderation, combined with a much steeper fall in actual wages (–7.7 per cent). Among other factors, this particular evolution can be explained by the first consequences of austerity policies, linked to public sector wage cuts and the destruction of permanent employment. It is worth stressing that agreed wages in Spain are becoming less representative due to the impact of drastic employment cuts, the decline of collective agreement coverage and the significant increase in the non-application of collective agreements. In the negotiation process there has also been a moderate increase of agreed wages at sectoral level, which before 2012 was higher than the company level, but now is falling lower.

Finally, in Portugal the reduction of agreed wages, although less marked than in Italy and Spain (–0.7 per cent), was combined with a fall in gross wages (–1.5 per cent). In this case, it is important to point out the impact of wage cuts in the public sector and the freeze on wages in the private sector. The employers' demands – based on a very rigid position

Figure 4 **Wage drift in the euro area, Spain, Italy and Portugal, 2008–2013 (in percentage points)**



Note: * Euroarea: selection from the Cawie Database. 2012 and 2013, provisional data in Spain (agreed wages).
Source: CAWIE Database, 2014.

on wages– and the suspension of the extension mechanisms of collective agreements (many employers' associations did not sign any agreement) are the main factors that explain the deep crisis in collective bargaining. Workers in the private sector, subject to a wage freeze, have also experienced a significant reduction of their disposable income as a consequence of changes in taxes and benefits (tax and social contribution increases and benefit cuts).

As a result of these different trends with regard to agreed wages and gross wages in the southern European countries, substantial variation in terms of wage drift can be discerned. Current gross wages in Italy are in line with collective bargaining, resulting in very low (positive or negative) wage drift. In contrast, gross wages in Spain have fallen considerably since 2008. This can be explained by a number of factors that tend to reduce the average wage.[32]

Finally, in Portugal gross wages have also fallen substantially during this period, moving away from agreed wages. Both Portugal and Spain are clear examples of the impact of austerity policies (public sector wages) and labour reforms, where gross wages actually received deviate more from those agreed in the collective bargaining process.

At present (March 2015), in a deflationary context, wage negotiations are facing new challenges with a substantial impact on the social partners.[33] For example in Italy, the chemical and pharmaceutical employers' associations – at the beginning of the renewal rounds of the next three-year national agreements– have been wondered about the gap between real and forecasted inflation. For the first time, collectively agreed nominal wages have been higher than expected inflation. In Spain, a new Agreement on collective bargaining is expected to be signed, with a foreseeable wage increase and the deepening of changes made in wage indexation (incorporated in the previous agreement).[34]

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32. Here, we might mention the reduction or elimination of overtime; the reduction of working hours below the agreed hours (included in many measures of collective dismissals); the lowering or elimination of wage supplements, such those related to profits or sales; companies' unilateral cuts in wages not affected by collective agreements and derogations from wage conditions laid down in collective agreements.

33. It is important to be aware of the stratification of framework agreements; Italian industry-wide agreements, when it comes to economic issues, can address only purchasing power and nothing else. Variable and performance-related wages are dealt with at the second level of collective bargaining, if it exists.

34. Second agreement on collective bargaining (2012–2014) http://boe.es/boe/dias/2012/02/06/pdfs/BOE-A-2012-1778.pdf

3.3 Understanding other significant factors in wage development

Besides government intervention and collective bargaining, the internal devaluation being implemented in southern European countries can be fully understood only if we consider other important factors. This allows us to transcend the conventional approach of competitiveness based on wage cuts. It is important to mention such factors as employment and job quality; the specialisation of the economy; unemployment pressures; and the development of investment and corporate profits. All are structural factors that have influenced wage development (ILO 2012).

Productive specialisation

The specialisation of the economy is one of the most important variables to be taken into account in debates on wages, as a factor in a country's competitiveness in the global economy (what is produced and its value).[35] The southern European countries, despite their common situation, have several structural differences in terms of economic sectors (value added and employment) that must be analysed.

According to its National Accounts, Italy has a more industrially-oriented economy,[36] while Spain and Portugal have developed a similar productive structure focusing on wholesale, retail and public administration, although construction is also important in Spain.[37]

These economic structural differences, which were already there at the beginning of the crisis, explain why austerity policies have had a deeper impact in Portugal and Spain, especially in public services. Thus, between 2011 and 2013, the value added of public administration in Portugal fell by 24 per cent, followed by financial services (21 per cent) and

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35. As we have seen in the past, the real foundation of Germany's strong competitive position was not wage moderation but specialisation in high technology and high-quality niche markets, in which German companies enjoy strong pricing power. The specialisation model of German industry has focused on products that emerging economies are interested in buying (for example, machinery, telecommunications equipment, transport equipment). In this model, the demand for German products was unaffected by price, but rather by technology and quality (Felipe and Kurmar 2011; Janssen 2012; see also Chapter 7 in this volume).

36. In Italy, 21 per cent of value added in 2008 was concentrated in industry and 18 per cent in manufacturing. Portugal and Spain have a similar structure with regard to wholesale and retail (22 per cent in 2008) and public administration (16 and 21 per cent, respectively). The construction sector in Spain represented 14 per cent of total added value in 2008.

37. Authors' calculations based on National Accounts (second quarters), Eurostat, 2013. dias/2012/02/06/pdfs/BOE-A-2012-1778.pdf construction (30 per cent). In Spain, public administration was cut by 6.5 per cent, but the most substantial fall during this period was registered in construction (19 per cent). In both Portugal and Spain, austerity measures have affected not only public administration, but other sectors. In Italy, however, economic decline during this period is linked more closely to industry and falling consumption.

In terms of employment, all countries have experienced a huge reduction since the beginning of the economic crisis, particularly in the construction sector in Spain and Portugal.[38] During the period of strictest austerity (2011–2013), employment destruction continued with this sectoral pattern, with the exception of public administration.[39] In Spain, for example, 15 per cent of total employment was destroyed in construction, followed by 13 per cent in public administration. In Italy and Portugal, the scenario is fairly similar, with construction losing a substantial number of jobs (25 and 24 per cent of total losses, respectively), but industry and manufacturing have also experienced significant losses (30 per cent). Finally, it is important to note the influence of declining consumption on employment. In Spain and Portugal there has also been substantial job destruction in wholesale and retail (12 and 10 per cent of total employment lost, respectively) during this period.

Quality of employment

The kind of employment is another factor that has to be taken into account in wage development. The volume and evolution of temporary and part-time jobs have a decisive influence. Furthermore, the destruction of temporary employment at particular times may produce a ‘composition effect’, which is a statistical result from eliminating low-paid wages, increasing the average wage. Similarly, an increase in part-time jobs with shorter hours and lower wages can have a significant downward effect on wages.

Southern countries registered a huge reduction in temporary employment in the initial stages of the economic crisis. During 2008 and 2009, 66 per cent of the jobs destroyed in Spain were temporary. A similar situ-

38. The construction sector represented 24 per cent and 15 per cent of total employment destroyed from 2008 in Spain and Portugal, respectively. In Italy industry and manufacturing accounted for 28 per cent. Authors’ calculations based on LFS data (second quarters), Eurostat, 2013.

39. Here we include public administration and defence, education, health care and social work. LFS, Eurostat.

ation was experienced in Italy (60 per cent) and Portugal (58 per cent), with values much higher than the European average (45 per cent),[40] which is reflected in the development of temporary employment. During the austerity period (2011–2013), this dynamic was less pronounced, partly because of the major loss of permanent jobs, which amounted to a qualitative change in employment trends (this represented 52 per cent of employment destruction in Spain, 88 per cent in Italy and 70 per cent in Portugal).

Table 4 **Temporary employment rate, unemployment, part-time employment and long-term unemployment in southern European countries, 2008–2013 (in %)**

	2008	2009	2010	2011	2012	2013
Temporary rate (15–74)						
EU28	14.1	13.6	13.9	14.0	13.7	13.7
Spain	29.1	25.2	24.7	25.1	23.4	23.1
Italy	13.3	12.5	12.8	13.4	13.8	13.2
Portugal	22.7	21.9	22.8	22.0	20.5	21.4
Part-time						
EU28	18.2	18.7	19.2	19.5	19.9	20.4
Spain	11.8	12.5	13.0	13.6	14.5	15.8
Italy	14.3	14.3	15.0	15.5	17.1	17.9
Portugal	12.2	11.9	11.9	13.6	14.6	14.3
Unemployment rate (15–74)						
EU28	7.0	8.9	9.6	9.6	10.5	10.8
Spain	11.3	17.9	19.9	21.4	24.8	26.1
Italy	6.8	7.8	8.4	8.4	10.7	12.2
Portugal	7.7	9.6	11.0	12.9	15.8	16.4
Long-term unemployment (15–74)						
EU28	37.2	33.4	40.0	43.1	44.6	47.4
Spain	18.0	23.8	36.6	41.6	44.4	49.7
Italy	45.7	44.4	48.5	51.9	53.0	56.9
Portugal	47.5	44.2	52.2	48.4	48.8	56.4

Source: LFS, Eurostat, 2015.

40. Authors' calculations based on LFS data (second quarters), Eurostat, 2013.

The austerity period is characterised, however, by growth in part-time employment, which is one of the consequences of legal reforms adopted in this period to promote labour market deregulation. As we can see, the proportion of part-time workers has risen significantly in Spain and Italy (2.2 and 2.4 percentage points, respectively, to 2013), less so in Portugal (0.7 percentage points).This trend underlies the reduction of real wages in all three countries.

Labour markets in southern Europe have experienced deep labour segmentation. It is important to stress that the most dynamic sectors have based their economic growth on intensive use of unskilled jobs, associated with poor working conditions and greater precariousness, generating deeper social inequalities, especially among women and immigrants.

Pressure of unemployment

Southern European countries have also experienced a sharp increase in unemployment, which in Spain is among the highest in Europe. Although the impact of unemployment on wages has not been sufficiently analysed (Gregg and Machin 2012), it is a very important variable at present. Unemployment has risen constantly during the crisis, but we can identify two periods in which austerity policies had a marked effect. Spain is the most relevant case: unemployment rose to 20 per cent in 2010 and 26 per cent in 2013. Italy and Portugal, although with lower unemployment rates, have experienced the same trend.[41]

Profits and investment

Finally, within the internal devaluation process we must also examine how profits and business investment have behaved during the crisis. Conventional economic doctrine claims that by imposing wage cuts companies can become more competitive, allowing them to invest more in production and increase their export options. However, the experience of the southern European countries – especially Spain and Italy– shows, wage cuts have not been accompanied by increased investment or a reduction in corporate profits (nor a significant fall in prices).

In Spain and Portugal the percentage of profits over gross value added (GVA), which has increased continuously since the beginning of the

41. Even more important is the percentage of long-term unemployment, which in these countries represented more than 50 per cent of total unemployment in 2013.

crisis, has experienced a substantial boost during the austerity period. In 2008, profits represented 41 per cent of GVA in Spain and 40 per cent in Portugal; in 2012 they reached 43.7 per cent and 43.2 per cent, respectively. In contrast, in Italy there was a significant reduction (1.5 percentage points in the same period). In terms of investment, all three countries have experienced a similar decline, particularly in Spain and Portugal (Table 5).

Table 5 **Profits and investment in southern Europe countries, 2008–2013**

	2008	2009	2010	2011	2012	2013
Gross operating surplus (% over GDP)						
EU28	41.4	40.4	40.7	40.9	40.3	40.2
Spain	41.7	42.2	41.3	42.2	43.4	43.7
Italy	48.6	47.9	47.7	47.8	46.7	47.1
Portugal	40.6	41.2	41.3	41.6	43.1	43.2
Gross fixed capital formation (% over GDP)						
EU28	22.5	20.6	20.1	20.2	19.7	19.3
Spain	29.2	24.3	23.0	21.4	19.7	18.5
Italy	21.2	20.0	19.9	19.6	18.6	17.8
Portugal	22.8	21.1	20.5	18.4	16.3	15.1

Source: Calculations based on National Accounts, Eurostat, 2015.

Thus, particularly in Spain and Portugal, the reduction of wages and unit labour costs has not resulted in a fall in export prices, which have remained stable, but to an increase in corporate profits. This upward trend in profits–in inverse relation to wage evolution– and the reduction of investment in these countries show clearly the shortcomings of a wage policy based on 'moderation', which, as already experienced in previous periods, does not improve export competitiveness, even in the most globally oriented economies.[42]

42. The result of the wage moderation that followed Germany during the past decade was a good example of this phenomenon (Jansen 2011).

3.4 Economic and social outcomes of internal devaluation

Internal devaluation has had different effects from those proclaimed by the Troika, both economically and socially. Economic growth has not recovered since the crisis and we have even experienced a double-dip recession since the implementation of austerity and internal devaluation. During the period 2010–2013 job losses continued in the EU, particularly in peripheral countries. Other macroeconomic variables have also evolved adversely: the deficit has not fallen by much and the targets laid down by the European authorities have been missed by a long way; in addition, public debt has increased markedly in both the euro zone and in peripheral countries, while private debt levels are still very high.

Overall, development of the real wage in southern European countries during the austerity period has had a negative impact on economic activity. In the early years of the crisis, the three countries analysed registered a significant drop in GDP, especially in 2009, as a result of the economic decline, especially Italy. During the period 2010–2013 austerity policies and internal devaluation deepened the crisis, due to a further drop in economic activity as a consequence of the sharp decline in aggregate demand. This occurred in all three countries, starting in Portugal in 2011 and continuing in Spain and Italy from 2012 (Table 6).

Table 6 **Real wage per employee, GDP at constant prices and employment in EU28, Spain, Italy and Portugal, 2008–2013 (% of previous year)**

	2008	2009	2010	2011	2012	2013
Real wage per employee (HICP)						
EU28	−3.0	−1.9	1.6	−1.0	0.5	−0.7
Spain	2.7	4.4	−1.6	−1.8	−2.2	−1.0
Italy	0.2	0.9	1.2	−1.6	−2.3	0.0
Portugal	0.4	3.7	0.6	−4.2	−4.8	2.3
GDP, constant prices (2005)						
EU28	0.4	−4.5	2.0	1.7	−0.4	0.1
Spain	0.9	−3.8	−0.2	0.1	−1.6	−1.2
Italy	−1.2	−5.5	1.7	0.5	−2.5	−1.9
Portugal	0.0	−2.9	1.9	−1.3	−3.2	−1.6

Table 6 **(cont.)**

	2008	2009	2010	2011	2012	2013
Employment						
EU28	0.8	−1.8	−0.6	0.2	−0.2	−0.4
Spain	−0.1	−6.5	−2.2	−1.9	−4.2	−2.9
Italy	0.2	−1.7	−0.7	0.3	−0.2	−2.0
Portugal	0.5	−2.8	−1.5	−1.9	−4.2	−3.2
Productivity						
EU28	−0.4	−1.5	2.1	1.3	0.6	–
Spain	0.7	2.4	1.9	1.6	3.5	–
Italy	−0.7	−2.2	2.4	0.2	−1.0	–
Portugal	0.2	−0.2	3.7	1.3	0.5	–

Notes: Real wages per employee = nominal compensation per employee adjusted by the HICP Productivity: Real labour productivity per hour worked.
Source: Calculations based on AMECO and Eurostat, 2014.

The decline in wages in peripheral countries since 2010 has, together with austerity policies, led to a deep fall in domestic demand. This reduction in domestic demand has been more substantial than the expansion of exports (Table 7). In other words, the negative trend in domestic demand could not be offset by the positive performance of external demand.

Why has the internal devaluation strategy failed in its objectives? First, when all the countries of the euro area try to implement a strategy of simultaneous and coordinated wage reductions, as is currently the case, they can scarcely expect to exit from the crisis on that basis: the 'internal devaluation' of one country is cancelled by those of the others.

Second, this strategy seems oblivious to the fact that wages are not just a cost, but also a crucial part of aggregate demand. The strategy of reducing unit labour costs is deflationary because it reduces domestic consumption and external demand for other economies. This is particularly important in a context of high household and business debt, with a rising debt-to-income ratio.

It is worth stressing that the fall in real wages in these countries is linked to a significant increase in 'passive' labour productivity – that is, produc-

Table 7 **Contribution to GDP increase at constant market prices, EU28, Spain, Italy and Portugal, 2008–2013 (% of GDP)**

	2008	2009	2010	2011	2012	2013
EU28						
Domestic demand	0.2	–4.4	1.5	0.8	–1.5	–0.4
Exports	0.6	–4.8	4.1	2.7	1.0	0.7
Imports	–0.4	4.7	–3.5	–1.7	0.1	–0.2
Spain						
Domestic demand	–0.6	–6.7	–0.6	–2.1	–4.1	–2.7
Exports	–0.3	–2.7	2.8	2.1	0.6	1.6
Imports	1.7	5.6	–2.4	0.0	1.8	–0.1
Italy						
Domestic demand	–1.2	–4.4	2.1	–1.0	–5.1	–2.7
Exports	–0.8	–5.0	2.7	1.7	0.6	0.0
Imports	0.9	3.9	–3.1	–0.2	2.1	0.8
Portugal						
Domestic demand	0.9	–3.7	1.9	–5.5	–6.9	–2.6
Exports	0.0	–3.5	2.9	2.2	1.1	2.4
Imports	–0.9	4.3	–2.8	2.1	2.6	–1.1

Source: AMECO, 2014.

tivity that stems from job losses (Rocha *et al.* 2008). During this period, productivity growth has not occurred as a result of rising value-added on the part of the factors of production, but rather through job destruction, which was much higher than GDP growth. This has happened in particular in Portugal and Spain. In Spain labour productivity has been rising since 2009, with annual growth rates between 2.4 and 3.5 per cent, as a consequence of massive employment destruction (–6.5 per cent in 2009 and –4.2 per cent in 2012), combined with a GDP reduction (or even light increase) during the same period (Table 7).

Although rising labour productivity in the southern European countries has been portrayed as indicating a clear improvement in their economies, due to enhanced competitiveness, in reality, job losses and wage cuts have depressed domestic demand and industrial production, which has produced a new downturn in economic activity.

The differences between Spain, Italy and Portugal can be attributed to various factors (as we shall see below). Among them we might mention production specialisation and employment structure (labour-intensive sectors), a strong presence of SMEs and the influence of various factors that contribute to poor overall efficiency in the use of production factors (infrastructure, R&D, low-skilled workers). These differences, which are profoundly related to the production model of each country and its role in the global economy, explain why Portugal and Spain have been more vulnerable to the economic crisis and austerity policies in terms of aggregate demand and employment.

Other economic variables have also been affected by wage development. Since the beginning of the crisis, southern European countries have experienced a huge reduction in the adjusted wage share – compensation per employee as a percentage of GDP– due to wage cuts and the substantial increase in corporate profits, in which austerity policies have played a key role.

Between 2008 and 2010, the adjusted wage share fell slightly in Spain, while there was a small increase in Italy and Portugal flat lined. However, dynamics changed from 2010 to 2013, when workers' income fell greatly in Spain (–3.5 percentage points) and Portugal (–2.8 percentage points). This reduction highlights how austerity policies – with strong intervention– have been a key instrument in cutting wages to maintain business margins, which could be seen as the foremost expression of internal devaluation in southern European countries.

Table 8 **Adjusted wage share* in southern European countries, 2008–2013 (in %)**

	2008	2009	2010	2011	2012	2013
EU28	55.5	57.2	56.4	55.9	56.2	56.2
Spain	58.0	58.7	57.7	57.0	55.2	54.5
Italy	52.9	54.2	54.0	53.6	53.8	53.8
Portugal	56.7	57.6	56.5	55.5	54.1	53.9

Note: * Percentage of GDP at current market prices (compensation per employee as percentage of GDP at market prices per person employed).
Source: AMECO, 2015.

In general terms, the decline in the wage share has entrenched a low-wage model, which has caused further segmentation and impoverishment of the working population. According to the EU-SILC, Spain and Italy have experienced substantial growth in poverty since 2010 and more markedly in 2012, when Portugal also increased its poverty rate, a dynamic which corresponds to the effects of austerity policies.[43] In Spain, inequality has also grown significantly, while other countries have not registered such variations.

Table 9 **Poverty and inequality indicators in southern European countries, 2008–2013**

	2008	2009	2010	2011	2012	2013
People at risk of poverty or social exclusion (18 and over; in %)						
EU28	–	–	22.8	23.6	24.0	23.8
Spain	23.2	23.1	24.5	25.5	26.1	26.1
Italy	24.5	23.8	23.6	27.3	29.1	27.7
Portugal	25.1	24.0	24.6	23.5	24.8	26.5
Gini coefficient (scale from 0 to 100)						
EU28	–	–	30.4	30.8	30.4	30.5
Spain	31.9	32.9	33.5	34.0	34.2	33.7
Italy	31.0	31.5	31.2	31.9	31.9	32.5
Portugal	35.8	35.4	33.7	34.2	34.5	34.2
Inequality of income distribution (80/20 income quintile share ratio)						
EU28	–	–	4.9	5.0	5.0	5.0
Spain	5.7	5.9	6.2	6.3	6.5	6.3
Italy	5.1	5.2	5.2	5.6	5.5	5.7
Portugal	6.1	6.0	5.6	5.7	5.8	6.0

Source: EU-SILC, Eurostat, 2015.

We have to recognise that, although these countries have very similar social situations, it is difficult to compare the impact of the economic crisis and the austerity policies by means of poverty and inequality indicators, such as in-work poverty (Pontieux 2010). The different trends

43. We have to keep in mind that the EU-SILC income data for 2012 correspond to the previous year, 2011.

are based on several factors, which are strongly influenced by employment status, household characteristics, the development of social and redistributive policies and the varying impact on inequality of different fiscal measures.[44]

4. Conclusions

The diagnoses of the economic and financial crisis, the situation in Italy, Portugal and Spain and the measures adopted to tackle it by the European and international institutions (European Commission, European Central Bank, IMF) are profoundly distorted by ideology. Various international forums are undertaking bold work that aims to expose the inconsistency of this economic analysis, however, showing the links between austerity policy/internal devaluation and the interests of big capital and business.

Furthermore, closely related to the above, the neoliberal ideology underlying technical analyses and the proposals derived from them is aimed ultimately at rewriting the rules on economic governance laid down in the Treaties of the European Union. This change is being implemented largely by neglecting the democratic principle of 'free collective bargaining' that appears in legal texts at European level, with serious repercussions in different national contexts. However, the impact of this process at the national level, as we have seen, has varied according to national context, indicating scope for political action between national and supranational levels.

We have noted an obsession with austerity and internal devaluation, which suggests that financial interests are putting all their bets on shaping a new European social model, characterised by capital unilateralism, boosting capital gains and a growing acceptance of social inequalities.

In this context, one of the strongest obstacles faced by neoliberal ideology has been trade union action through collective bargaining. Hence,

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44. To this we must add the varying impacts of fiscal measures on inequality, which in some cases can have a progressive effect and in others the opposite (Gutierrez 2013), although these factors are beyond the scope of our study. In addition, few comparative studies have analysed the effects of the crisis and austerity policies in terms of inequality data (Jenkins *et al.* 2012; Ayala 2013), given that due to the prolongation of the crisis the most severe effects came to light later.

beside the intense privatisation process imposed in return for bailouts, collective bargaining has been a prime target of the new austerity policies, with the revival of old debates, as is the relationship between the autonomy of the parties and the unilateralism of employers in setting working conditions. The latter is clearly expressed in the collective bargaining mechanisms that favour wage cuts: (i) weakening of collective bargaining at sectoral level, only partly compensated by the decentralisation of collective bargaining to the enterprise level in national frameworks characterised by a high percentage of SMEs; (ii) the unilateral imposition of labour conditions and the non-application of collective agreements (including those agreed at the enterprise level); and (iii) limiting the authorisation mechanisms concerning the validity of collective agreements.

We have also looked at the results of austerity measures and labour reforms. The experience of the southern European countries well illustrates how changes in collective bargaining frameworks have a strong negative impact on wage development.

Against the conventional wisdom, wage dynamics in collective bargaining show that they have not been an obstacle to competitiveness in recent decades, as reflected by fairly moderate price growth (as can be seen in other chapters in this volume). Why has such strong pressure been brought to bear on collective bargaining? The answer lies in its success. The increasing deregulation of labour and bargaining power is a clear and direct attack on the working population. Financial interests are taking advantage of the current situation to substantially reduce the labour share in the distribution of income and, at the same time, to weaken the options available to engage in collective action to improve working conditions. This not only increases the impoverishment of a large segment of the population, but also limits its ability to exercise a 'voice' on working conditions and living standards.

In addition to the enforced decline in collective bargaining, a number of other structural factors explain wage development in southern European countries. Austerity policies in the public sector have adversely affected employment and wages. Austerity has also squeezed the disposable income of private sector workers via increases in taxes and social contributions and cuts in all sorts of benefits. Portugal and Spain are a good example of this process. Other important factors include the structure of production, job quality (the increase of temporary and part-time employment), the pressure of unemployment and the growth of corporate profits.

All in all, internal devaluation policies in southern Europe have had a lamentable effect, both economically and socially, with a sharp drop in domestic demand and degradation of working conditions and living standards, with rising poverty and social inequality. Ultimately, this threatens to diminish democracy, given the inseparable relationship between democracy, wages and trade unions.

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