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Collective bargaining responses to the economic crisis in Europe

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Policy implications

Collective bargaining has proven to be an effective instrument to maintain employment and to allow companies to find flexible solutions to deal with the steep economic downturn. In particular, social partners played an important role in implementing statutory short-time working provisions aimed at maintaining employment through the temporary reduction of working time. However, the increased pressure for the flexibilisation of working time, wage-setting and employment conditions may give rise to a trend towards 'disorganised' decentralisation of collective bargaining. Thus, it is vital that trade unions ensure that deviations from collective agreements are applied only temporarily in companies encountering economic difficulties. Furthermore, increased efforts by trade unions to coordinate their bargaining policies across borders are of particular importance in order to counter downward pressures on wages and working standards. Lastly, the role of the state is decisive in providing the preconditions for inclusive and effective collective bargaining and encompassing tripartite structures to involve social partners in public policy-making.

Introduction

The economic crisis that hit Europe in late 2008 is still far from being overcome. As a longer-term consequence of the banking crisis, access to credit for companies is still restricted and many enterprises have been forced into restructuring, particularly in the manufacturing sector. The consequences of the sudden and severe contraction of industrial output throughout Europe are increasingly being felt in the labour market. The unemployment rate had increased from 7.3 per cent in October 2008 to 10 per cent by the end of 2009. Prospects for 2010 and 2011 are even bleaker.

Rising unemployment and increasing job insecurity have diminished the bargaining power of organised labour vis-à-vis business. Against this background, this Policy Brief focuses on the effects of the economic crisis on collective bargaining in Europe, and in particular the following questions:

- What factors enhance or hinder 'negotiated responses' by the social partners – that is, through collective bargaining

- to the economic crisis at the inter-professional, sectoral and company levels?
- How are state policies and measures, such as the extension or introduction of statutory short-time working arrangements, linked to collective bargaining?
- What is the character of the social partners' 'negotiated responses' in terms of contents and measures included in collective agreements at the (inter)sectoral, sectoral and company levels?

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- What effects has the crisis had on collective bargaining systems and practices so far, and what are the possible longer-lasting effects on collective bargaining in Europe?

Negotiated responses by collective bargaining actors contrast with unilateral responses or straightforward disagreement and conflict, and include, first of all, collective agreements, which can be concluded at the company, sectoral and inter-sectoral levels. They also include the participation of workers' and employers' organisations, together with the government, in public policy-making through tripartite deliberations and agreements.

In the following sections we consider the various types of such negotiated responses aimed at safeguarding employment and increasing the adaptability of companies in times of crisis. We focus on agreements made in the period between November 2008 and autumn 2009 at the various levels already mentioned. Our assessment is necessarily a preliminary one: it is as yet impossible to provide a comprehensive overview of the effects of the crisis and all the agreements made in response. A more detailed overview of the social partner agreements considered can be found elsewhere (Glassner and Keune 2010).

Factors determining negotiated responses to the crisis

One of the most important factors determining the emergence of 'negotiated responses' to the crisis is the legal-institutional framework of collective bargaining. The configuration of industrial relations is relatively stable over time and varies strongly between (groups of) countries (Crouch 1993; Traxler et al. 2001; Ferner and Hyman 1998). Major differences concern the levels of trade union membership, the percentage of employees covered by collective agreements, the levels at which collective bargaining takes place and the role of the state and of labour legislation.

Second, the role of governments is decisive in providing a supportive framework for collective bargaining in the economic downturn. A wide range of 'anti-crisis' measures have been taken by governments, often in deliberation with unions and employers' organisations, with a view to helping companies and workers to maintain employment, facilitate transitions to new employment, offer training and so on. Government influence on employment policies and collective bargaining can be either direct or indirect. By establishing a legal framework for the collective reduction of working time and by compensating losses in workers' incomes resulting from a cut in working hours, or by subsidising the labour costs of employers, the state indirectly shapes the setting of collective bargaining. A wide variety of short-time working and partial unemployment schemes exist in various countries (see, for example, Glassner and Galgóczi 2009; Eurofound 2009; Rychly 2009). A common feature of these arrangements is their implementation through collective agreements at the sectoral and/or company levels.

State actors may also *directly* participate in tripartite negotiations with the social partners at the inter-sectoral, sectoral or company levels. Negotiated responses in that case rather have the character of tripartite pacts or agreements.

Third, the economic situation of companies, sectors or countries plays a key role. Obviously, the range of possible responses is different for companies facing bankruptcy than for companies facing a minor and temporary fall in demand.

Finally, within their respective institutional and economic contexts, the collective bargaining actors define their strategies based on their interests and ideas, and also reshape the institutions they are confronted with. Hence, their responses to the crisis are not predetermined but involve an important element of strategy and choice.

Three aspects of collective bargaining against the background of the crisis will be addressed in this Policy Brief. First, the link between collective bargaining and *statutory short-time working arrangements* will be presented in more detail; second, examples of '*state-supported*' *collective agreements* will be given; and third, the most important *issues and measures* included in *sectoral and company agreements* dealing with the challenges of the crisis, such as the *flexibilisation of wage-setting*, the *flexible reduction of working time*, *restructuring and training programmes*, are described.

The role of collective bargaining in implementing statutory short-time working schemes

In a number of countries – such as Austria, Belgium, France, Germany, Italy and the Netherlands – legally based arrangements for short-time working and partial unemployment existed prior to the crisis, dealing mostly with (seasonal) fluctuations in employment in particular sectors. In response to the crisis, governments extended the eligibility criteria and duration of such schemes, which have proved to be an important instrument for maintaining employment and workers' purchasing power (Glassner and Galgóczi 2009; Eurofound 2009). In some countries – Bulgaria, Hungary, Poland and Slovenia – legal provisions for short-time working have been newly introduced.

Arrangements for the collective reduction of working time differ between countries in terms of duration of entitlement, eligible workers (for example, temporary and fixed-term contract workers), the level of pay compensation for 'lost' working hours and so on. Statutory arrangements for short-time working and partial unemployment share two features. First, wage and labour cost subsidies are usually financed through public unemployment funds, and second, legally based short-time working provisions have to be implemented via collective agreement. Table 1 shows the link between the statutory arrangements and their implementation through collective bargaining.

Table 1: National short-time working schemes and their implementation via collective bargaining

National short-time working arrangements	Country/ countries	Implementation		
		- Based on labour law (LL) - Based on multi-level collective agreement (CA)	Implemented by collective agreement	
			sectoral level	company level
Short-time working ('Kurzarbeit')	DE, AT	LL	**	**
Partial unemployment ('Chômage partiel')	FR	LL	*	**
Temporary economic unemployment	BE	LL	**	**
Reduction of working time (*'Werktijdkorting')	NL	LL	**	**
Short-time working, reduction of working time, wage subsidies for companies	PL, BG, HU, SI	LL	-	**
Wage Guarantee Funds (*'Cassa integrazione guadagni')	IT	LL	*	**
'Temporary lay-offs'	SE	CA	*	**
'Work-sharing'	DK	CA	*	**

Notes:

* important level

** predominant level

- bargaining level marginal or non-existent

Sources: Glassner and Galgóczi 2009; Glassner and Keune 2010

In most countries, short-time working schemes are based on labour law, but in two cases regulation on the temporary reduction of working time is based on a collective agreement. In Sweden, the 'Agreement on temporary lay-offs', concluded in March 2009 for blue-collar workers in the manufacturing sectors and later extended to professional technical staff, provides for compensation of losses in income resulting from working time reductions. Likewise, the Danish agreement on work-sharing was reached by unions and employers in the manufacturing sectors in 2007 and provides for a 13-week period of work sharing. This period can be extended to 26 weeks via company agreement. Work-sharing measures cover both white- and blue-collar workers.

The social partners have strongly supported government decisions to extend access to short-time working and partial unemployment benefits, or to newly introduce such provisions. Even more important is the social partners' role in implementing these provisions at the sectoral and – in particular – the company levels. In countries such as Austria, Belgium, Germany and the Netherlands provisions on the implementation of short-time working schemes have been established in a number of sectoral collective agreements.

In other countries – mostly those in which collective bargaining is predominantly carried out at the enterprise level – short-time working provisions are implemented primarily through company agreements. In some of these countries, characterised by decentralised collective bargaining and weak representation of workers at the company level – that is, Bulgaria, Hungary and Poland – collective agreements on short-time working have been implemented primarily in large and multinational companies. In Slovenia, the provision of wage subsidies for

cuts in full-time working requires a collective agreement at company level. In Italy, the use of resources from the so-called 'Wage Guarantee Funds' (see Table 3), which provide for the reduction of working time or the temporary total suspension of activity by compensating workers for losses in income resulting from cuts in working hours, presupposes a collective agreement at the company or plant level. In some sectors – such as the financial sector – agreements on the reduction of working time and other employment-related issues (such as early retirement and training) have been re-negotiated in order to address the employment effects of the crisis. The Swedish agreement on temporary lay-offs concluded for blue-collar workers in the manufacturing sectors and a similar agreement concluded later on for professional technical staff are implemented at the company level.

The role of the state in supporting the emergence of collective agreements during the crisis

A number of 'state-sponsored' agreements resulting from the direct influence of government actors on bipartite social partner negotiations have been concluded since the onset of the economic crisis. One of the most prominent examples is the *inter-sectoral framework agreement* for 2009–2010, concluded by peak-level employers' organisations and unions in Belgium. It aims to strike a balance between companies' competitiveness, workers' purchasing power and employment in times of crisis (Perin 2009). It proposes measures to raise the net wages of workers without raising wage costs for employers, a continuation of the automatic indexation of wages to inflation, the maintenance or increase of the real value of social benefits,

higher benefit for workers who are temporarily unemployed because of the crisis and tax reductions on labour costs and financial incentives to recruit the long-term unemployed. Although the government did not directly participate in the negotiations, the agreement serves the implementation of a range of public policy measures.

The collective agreement on short-time working in the German metal sector, concluded in April 2009, is an example of an agreement devising legal provisions on short-time working at the industry level. Similar agreements that stipulate – besides basic pay and other issues – conditions for the collective reduction of working time, top-ups for statutory short-time working allowances and the procedure for calculating compensation according to the number of 'lost' working hours (Vogel 2009) have been concluded in other sectors, such as the public sector, textiles, banking, construction and retail (Bispinck 2009). In general, (multi)sectoral collective agreements that specify statutory provisions on short-time working at the sectoral level exist in a number of countries, including Austria, Belgium, France, Italy and the Netherlands (see Glassner and Galgóczi 2009; Eurofound 2009).

The 'Welfarma project', launched in Italy, is an example of a bipartite agreement strongly supported by the government in order to assist, retrain and place workers made redundant in the crisis-ridden pharmaceutical industry. A permanent committee has been established at the Ministry of Economic Development for this purpose. Also, a national observatory for the monitoring of the sector's labour market will be established by the social partners, together with the Ministry of Labour, Health and Social Policy, companies in the sector and other actors (Galetto 2009). Another example of a 'state-sponsored' agreement – concluded between the state and organised business – can be found in the French chemical sector. The agreement on training for chemical workers has been concluded by the sector's employers' association, the UIC (Union des Industries Chimiques), and the Ministry of Economy, Industry and Employment and provides a national framework agreement on the use of training programmes in order to increase the employability of workers, avoid redundancies and increase the competitiveness of companies in the industry (ICEM 2009). The agreement – which is strongly supported by the Fédération Chimie Energie of the CFDT union (FCE-CFDT) – makes ample use of the recent reforms of the French vocational training system laid down in a national inter-sectoral agreement in January 2009 (Alleki 2009).

Sectoral collective agreements on the flexibilisation of wage-setting

Clauses on the flexibilisation of wage-setting (for example, opening or 'hardship' clauses) have been an important element in sectoral collective agreements in some EU countries, and in particular in Germany (see, for example, Bispinck 2007). Opening clauses were introduced in Germany on the basis of the 'Pforzheim Agreement' concluded in the metal sector in 2004, which allows for a 'controlled' undercutting of provisions

settled in higher-level agreements, under certain conditions, that is, if they serve the aim of improving innovativeness, competitiveness and investment conditions for firms, as well as the *protection of employment* or the creation of new jobs. Since the onset of the economic crisis in autumn 2008, agreements aimed at the flexibilisation of wage-setting at the company level have been concluded in other countries as well.

Three types of agreement are exemplary in this respect (see Table 2). First, the 'pilot agreement' reached by the Finnish social partners for blue-collar workers in the technological manufacturing sector (that is, electronics, mechanics, ICT and metalworking) concluded in August 2009. The agreement provides for the possibility of 'incremental' wage increases at the company level according to conditions set in the sectoral agreement. At the company level, the sectorally agreed pay rises can be delayed or even abandoned under certain circumstances – for example, if a company's present financial situation cannot reasonably take the strain of higher labour costs; if demand is exceptionally weak; or if the wage increases would threaten jobs. A similar agreement that provides for the renegotiation of wage increases in 2010 and 2011, taking into account the company's economic situation, was later agreed for salaried employees in this sector.

Second, in Sweden two collective agreements for employees in the technological sector (that is, engineers, architects and other professional technical staff) secure a general pay increase of 2.3 per cent for a period of one year, which can be undercut, however, if the company faces economic difficulties. In contrast to the agreement concluded by the Swedish white-collar multi-sector union Unionen, the agreement for architects and engineers does not include a general wage norm for 2010, and pay increases are set exclusively at local level.

Another example is the agreement concluded in the German metal sector in November 2008. The agreement had an important 'signalling function' for wage bargaining in other sectors in the last bargaining round and stipulates – besides a lump sum and a special one-off payment – a general pay increase of 2.1 per cent in two steps, which can be suspended if the company's financial situation is particularly strained.

Company-level agreements dealing with the effects of the crisis

A wide range of crisis-related company-level agreements were concluded during the period under consideration. These agreements differ in character, depending on the economic situation of the company and the sector, and the balance of power between the bargaining parties. Thus, they may represent 'emergency agreements' which secure the (temporary) survival of the plant or company by helping to implement cost-saving measures or mitigate the social effects of redundancies resulting from far-reaching restructuring programmes or the closure of the company. In other cases, agreements may be less determined by competitive cost reductions but rather allow for longer-term restructuring and reorganisation of the company.

Table 2: Examples of (multi-sectoral) agreements on the flexibilisation of wage-setting

Country	Name/type of agreement	Signatory parties to the agreement	Main provisions of the agreement
Finland	Three-year pay agreement for the technological manufacturing sector (August 2009)	Metalworkers' Union (Metallityöväen Liitto) and Confederation of Finnish Industries – EK Later (September 2009) adopted for professional and managerial staff in the technological manufacturing sector (concluded by the Federation of Professional and Managerial Staff – YTN and EK)	<ul style="list-style-type: none"> - Possibility to set pay increases on a company-by-company basis, depending on the company's economic situation - Increasing flexible wage-setting in line with economic developments by allowing for step-wise ('incremental') salary increases - Suspension of wage increases only under the condition of a continuing demand crisis, labour cost growth beyond the company's means and pay rises that would threaten jobs
Sweden	One-year national collective agreement on pay for professional technical staff (September 2009)	Unionen and Almega STD	<ul style="list-style-type: none"> - Collectively negotiated wage increase of 2.3% that can be undercut at company level if economic conditions require it
Sweden	Two-year agreement on pay (September 2009)	Sveriges Ingenjörer and Sveriges Arkitekter, and Almega STD	<ul style="list-style-type: none"> - Collectively negotiated wage increase of 2.3% that can be undercut at company level if economic conditions require it - For 2010, no general wage norm in the agreement, wages set exclusively at company level
Germany	Metal sector collective agreement (November 2008)	IG Metall (Baden-Württemberg) and the employers' association Gesamtmetall	<ul style="list-style-type: none"> - Step-wise general pay increases (2.1% bi-annually in 2009), which can be suspended if company is in economic difficulties - Lump-sum payment of €510 to compensate for three months without a pay increase (November 2008 to January 2009) - Contributions by employees (0.4% of monthly wages between January and April 2010) to finance pre-retirements

Source: Glassner and Keune 2010

Particularly important is whether and to what extent company agreements have been made in the context of a higher-level agreement that sets limits on a possible under-cutting of collectively set terms and conditions.

Rather than giving an exhaustive summary of agreements concluded in response to the economic downturn, we shall present examples illustrating the most important *measures and issues* addressed in such company agreements, including the *flexible reduction of working time* and *internal restructuring* through measures such as *mobility procedures*, *work-sharing* and *solidarity contracts* (see Table 3).

One of the most frequent measures included in company agreements is the **flexible reduction of working time** on the basis of statutory provisions and instruments to regulate and financially support short-time working. For instance, in Italy, in companies such as the steel manufacturer Ilva, the Fiat-affiliate Powertrain and Fiat, at its plant in Naples, agreements on the use of the Ordinary Wage Guarantee Funds (CIGO) have been concluded by metal sector unions and the companies' managements in order to maintain employment through the reduction of working time. Similar agreements – albeit based on the 'Extraordinary Wage Guarantee Funds' (CIGS) that can be used for a longer period (12 to 24 months) – providing workers with compensation for losses in income resulting from working time reductions have been concluded in companies such as the steel producers Indesit and ThyssenKrupp, as well

as at the producer of agricultural machinery New Case Holland. Collective bargaining has not always been without conflict, however. For instance, the management at a Fiat affiliate in Emilia Romagna was ready to negotiate on the introduction of short-time working only after strike action had been taken by the workers. Similarly, collective action by workers at Indesit, the producer of household appliances, resulted in the resumption of negotiations by the management and the avoidance of a plant closure, which saved 600 jobs.

In Sweden, the multi-sectoral agreement on temporary layoffs has been implemented via job-saving agreements, such as those concluded at Volvo and Scania. At Volvo, jobs have been saved by reducing working time, mainly via flexible working time accounts, with wages almost fully maintained. Likewise, at Scania a similar agreement that limits losses in pay to 10 per cent (with a reduction of working time by 20 per cent) has been concluded, including the adoption of a training programme, funded by the European Social Fund. Measures aimed at maintaining employment in companies undergoing restructuring through the reorganisation of working time have been adopted in a number of Danish companies on the basis of the collective agreement on 'work-sharing'. The period of work-sharing stipulated in the multi-sectoral agreement can be further extended through collective agreement at the enterprise level, as adopted for instance at the national engineering company Danfos and the multinational Grundfos.

Collective bargaining aimed at the conclusion of 'job-saving' agreements, including the extensive use of short-time working measures, has been more conflictual at two companies particularly hard hit by the crisis, Schaeffler and Daimler. At Schaeffler, workers' wages have been 'adjusted' in line with the reduction of working hours and one-off payments have been cut. The 'cost-cutting package' concluded at Daimler does not provide for pay compensation for lost working hours. The general pay increase of 2.1 per cent set by collective agreement has been postponed, and a job guarantee settled in a previous agreement has been made conditional on the company's economic situation in 2010.

This contrasts with collective agreements negotiated at the Dutch subsidiary of DAF Trucks and at Renault in France, where reductions in working time do not incur any income losses on the part of workers. At Renault, a 'special crisis fund' that backs up the wages of workers in partial unemployment, in addition to the public partial unemployment benefit, has been established.

Measures of **internal restructuring** are likely to increase during an economic downturn. Mobility procedures have often been combined with the introduction of short-time working. For instance, mobility procedures that regulate the transfer of workers within companies have been adopted at a number of companies in Italy, such as Indesit, Telecom Italia, Powertrain and Fiat. At the Fiat plant in Naples the introduction of job placement measures has been criticised by unions as representing 'unilateral postings' of workers by the management from one plant to another. An instrument for internal restructuring adopted in Italy that is aimed at maintaining employment through the reduction of working time is the conclusion of 'solidarity contracts'. For instance, at Telecom Italia a two-year agreement sets conditions for solidarity contracts and training measures in order to save 470 jobs. Furthermore, at the Italian telecommunications provider

Italtel, 90 out of 250 jobs have been saved by solidarity contracts.

In contrast to 'emergency' agreements aimed at avoiding large-scale redundancies or mitigating the social effects of redundancies, **training programmes** for temporarily unemployed or inactive workers tend to be included in company agreements on restructuring with a longer-term perspective. For instance, in the restructuring agreement at Telecom Italia the protection of workers' 'know-how' and their further training is an important element. Similarly, the job-saving agreement concluded at the German energy provider EON includes – among other things – training measures for a large part of the labour force. The agreement on 'Training and compensation during partial unemployment' at PSA Peugeot Citroen provides an incentive for workers on partial unemployment to participate in a training programme, with wages fully compensated.

Conclusions

A wide range of collective agreements concluded at various levels – national, inter-professional, multi-sectoral, industry and, most importantly, company level – are addressing the effects of the economic downturn across Europe. The role of the state has proved to be decisive in providing a framework for collective bargaining, in particular by establishing or extending legal provisions for short-time working and partial unemployment, which have to be implemented via collective agreement at company and/or sectoral level. Furthermore, the state has supported the conclusion of bipartite social partner agreements by providing financial resources to workers and employers via public unemployment funds, and has involved social partners in drafting social policy and labour market measures in tripartite structures for consultation and decision-making.

Table 3: Overview of measures included in company-level agreements dealing with the effects of the crisis

Issues/measures	Examples (instrument, country, company)
Flexible reduction of working time with partial compensation of losses in income, based on statutory short-time working or partial unemployment arrangements financed by public unemployment funds	<ul style="list-style-type: none"> - CIGO – Ordinary Wage Guarantee Funds, applicable for a maximum period of 12 months: (IT): <i>Ilva, Powertrain, Fiat</i> - CIGS – Special Wage Guarantee Funds, applicable for a period between 12 and 24 months (IT): <i>Indesit, ThyssenKrupp, New Case Holland</i> - Temporary lay-offs (SE): <i>Volvo, Scania</i> - Solidarity contracts (IT): <i>Italtel</i> - Short-time working ('Kurzarbeit') (DE): <i>Schaeffler, Daimler</i> - Work-sharing (DK): <i>Danfoss, Grundfos</i>
Flexible reduction of working time with full compensation for losses in income	<ul style="list-style-type: none"> - Short-time working (NL): <i>DAF Trucks</i> - Maintaining workers' net salaries through establishment of company 'crisis funds' at <i>Renault</i> (FR)
Internal restructuring ('Mobility procedures', 'Solidarity contracts')	<ul style="list-style-type: none"> - Mobility procedures, internal transfers of workers (IT): <i>Indesit, Telecom Italia, Powertrain, Fiat</i> - Solidarity contracts (IT): <i>Telecom Italia, Italtel</i>
Training programmes	<ul style="list-style-type: none"> - 'Restructuring agreement' at <i>Telecom Italia</i> (IT) - Agreement on 'Training and compensation during partial unemployment' at <i>PSA Peugeot Citroen</i> (FR) - Job-saving agreement at <i>EON</i> (DE)

Source: Glassner and Keune 2010

Overall, national industrial relations systems in Europe have proved to be quite capable and flexible in dealing with the challenges of the crisis. However, it is apparent that collective bargaining has been most effective in those countries where higher-level collective bargaining is predominant and sets framework conditions for company-level agreements, and where workers' participation rights at the company level are strong. Undoubtedly, the economic situation of the company strongly determines the character of the negotiated response of the micro-level social partners. However, the power relations between employers and employees within the company are also shaped by the national industrial relations setting.

Negotiated and state-supported responses to the crisis share one particular feature, however: as they depend strongly on public financial resources they are temporary measures in response to a sudden and deep economic downturn. The extensive use of opening clauses may give rise to 'disorganised' decentralisation of collective bargaining, resulting in the increased emergence of 'deviant' agreements that undercut collectively set pay rates and conditions. Against this background, it is vital for trade unions to ensure that such deviations are applied only *temporarily* in companies encountering economic difficulties. The cross-border coordination of collective bargaining policies in order to avoid competitive wage-setting and the deterioration of labour standards are of particular importance. Finally, the future state of collective bargaining systems in Europe depends, above all, on government policies to provide a supportive framework for effective and inclusive collective bargaining, strong worker representation rights and encompassing tripartite structures for the involvement of social partners in public policy-making.

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