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Introduction[1]

Until recently, EU economic and social policy included the aim of ensuring a strong role for trade unions and employers' organizations in the Member States. The EU incessantly underlined the importance of social dialogue and autonomous collective bargaining as a core element of the European social model, stressing their contribution to democracy, good governance, economic efficiency, innovation and social cohesion (European Commission, 2002, 2004). It did so, among other things, to lessen the dominance of economic integration and to strengthen the social face of the EU. The commitment of the EU to social dialogue and collective bargaining was demonstrated by the development and financing of social dialogue structures – both inter-sectoral and sectoral – at the EU level, by the creation of European Works Councils as workers' participation bodies in European multinationals and by the frequent consultation of EU-level trade unions and employers' organizations in the making of EU economic and social policy over the past 20 years. In addition, the right of workers and employers, or their respective organizations, to negotiate and conclude collective agreements is included in the Charter of Fundamental Rights of the European Union.[2] Indeed, the freedom to bargain collectively, at the levels chosen by the bargaining actors themselves, was considered a basic right within the EU. As a result, the Commission played a leading role in establishing a system of multi-level industrial relations in Europe (Keune and Marginson, 2013) in which unions and employers have influential voices and bargain autonomously on wages and working conditions.

Since the start of the crisis, however, the position of the EU has changed dramatically. Its traditional discourse is increasingly being trumped by a counter-discourse originating largely in DG Economic and Financial Affairs, as well as in the European Central Bank (ECB). It depicts collective labour relations, and in particular trade unions, as obstacles to market coordination and hence to economic and employment growth. For example, DG Economic and Financial Affair's 2012 Labour Market Developments Report (European Commission, 2012: 104) argues that the coverage of collective agreements should be decreased, collective bargaining should be decentralized, minimum wages should be reduced and the wage-setting power of trade unions should be diminished.

Far from being only a discursive shift, this view has also found its way into the policy-making process. For example, the 2011 Euro Plus Pact, signed by the heads of state of the euro countries

1 A more extensive version of this paper has just been published in Van Gyes G and Schulten T (eds) (2015) *Wage bargaining under the new European Economic Governance. Alternative strategies for inclusive growth*. Brussels: ETUI.

2 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:083:0389:0403:EN:PDF

and six other EU Member States, proposes, among other things, abandoning wage indexation mechanisms, decentralization of collective bargaining, and wage moderation in the public sector, all areas in which the EU did not interfere previously and in which it has no formal competencies under the EU Treaty. What is more, the EU countries that are in deep financial trouble and requesting assistance from the so-called troika (the EU, the ECB and the International Monetary Fund) are confronted with stringent demands in the area of industrial relations. In exchange for financial support, countries such as Greece, Portugal, Ireland and Spain have had to introduce harsh reforms. These include drastic reductions of the minimum wage, public sector wages and pensions, and legislative changes aimed at decentralization and lower coverage of collective bargaining. They allow company-level agreements to deviate downwards from multi-employer (often sectoral) agreements and have already resulted in a dramatic decline in the number of workers falling under collective agreements in these countries.

Clearly, through its shift in vision and in policy the EU is further strengthening the role of the 'market' and putting economic goals before social ones. It is also undermining the position of employers' organizations and trade unions and fostering a move towards labour markets in which collective labour relations play only a minor role, contradicting the traditional EU position on their key importance. By calling for limits to and decentralization of collective bargaining, the EU is actively undermining collective bargaining in general and multi-employer bargaining in particular. Below, we will argue that by doing so it fosters increasing inequality and the destruction of governance mechanisms that have proven their worth both before and during the crisis. We will outline the developments in collective bargaining systems in recent years (Section 2) and discuss the implications of these changes in terms of inequality and governance capacity (Section 3). Section 4 concludes.

Collective bargaining developments during the crisis

The crisis period has resulted in numerous changes in the EU's collective bargaining landscape and wage-setting mechanisms. Here we will briefly review three main changes: (i) the various ways in which decentralization of collective bargaining has occurred; (ii) the declining coverage of bargaining systems; and (iii) the one-sided imposition of wages in the public sector (Glassner and Keune, 2012; Marginson et al., 2014; Marginson and Weltz, 2014).

Where decentralization is concerned, in particular in the private sector, many countries with collective bargaining systems in which national or multi-employer bargaining are traditionally the dominant forms of collective bargaining, have experienced one or the other form of decentralization. A first, longer-term trend in western Europe has been organized decentralization, in which increasing space has been opened up for company-level negotiations within the framework of higher-level agreements that define the scope of such decentralized bargaining (Traxler, 1995). A specific form of such decentralization, commonplace in Germany in particular, are 'opening' or hardship clauses which allow companies to undercut sectorally agreed standards to safeguard jobs. While such clauses were initially meant for companies in dire economic circumstances, they have become generalized features of most sectoral agreements in Germany.

A second form of decentralization is unorganized decentralization, in which national or multi-employer agreements lose their role as a framework for decentralized bargaining. In Germany this happens as companies terminate their membership of employers' organizations as a way to avoid coverage by sectoral agreements. In Bulgaria, Greece and Cyprus, in a large number of sectors no agreements are made anymore and are in some cases – but not all – replaced by company bargaining. In Ireland, in 2009, the practice of national, cross-sectoral agreements was abandoned as a result of the crisis, also to be replaced by company-level bargaining. Disorganized decentralization has been further strengthened by the reduction of legal possibilities for extending sectoral agreements to companies not falling under the original agreement, or the reduced use in practice of such possibilities. As Marginson and Weltz (2014) show, there have been such changes in eight countries: Greece, Ireland, Portugal, Romania, Slovakia, Bulgaria, Germany and Italy.

A third form of decentralization has been the legal inversion of the favourability principle, which traditionally holds that agreements concluded at lower levels may only improve on the standards established by higher level agreements. Such inversion has taken place since 2008 in Greece, Spain and Portugal, largely as a result of pressure exerted by the EU, the ECB and the IMF. The inversion of the favourability principle undermines the role of sectoral agreements and puts the emphasis on company agreements.

Following from these three types of decentralization, the coverage of collective agreements has also declined substantially in a number of EU countries. Two particularly dramatic and abrupt cases have been Spain and Portugal. In Portugal, the number of workers covered by any type of collective agreement fell from 1,894,788 to 327,662 in the period 2008–2012 (da Paz Campos Lima and Naumann, 2014), hence by over 80 per cent. In Spain, it declined from a coverage rate of around 85 per cent of workers before the crisis to 57.8 percent in 2011.[3] In both cases, the decline is likely to have continued in recent years.

A further major change has occurred in the public sector. In most EU countries governments have responded to the crisis with severe austerity programmes, primarily targeting the public sector and taking the form of unilaterally decided cuts or freezes of the wages of public sector employees (Glassner and Keune, 2012). Governments broke the tradition of wage bargaining with the public sector unions that had previously been followed in the vast majority of EU Member States and minimized the unions' role in public sector governance. This trend has been strengthened by the budgetary 'discipline' demanded by the European economic governance framework, which has depoliticized budgetary decisions and limits the scope for public sector unions and public authorities to negotiate agreements on wages and employment, limiting their options to respond to the crisis.

Implications for governance capacity and inequality

The above-discussed changes in collective bargaining have in some Member States come as an internal response to changing conditions, while in others they have been triggered by European-level policies (such as annual country-specific recommendations under the EU's new economic governance regime) or as part of the reform programmes required by the troika. It is among this last group of countries – including Cyprus, Greece, Ireland, Portugal and Spain – that wage-setting regimes have undergone the most extensive changes. These changes have had a number of profound implications. Here we want to highlight their negative effects on governance capacity and equality.

Governance capacity

Collective bargaining can be defined as the joint and collective regulation of substantive and procedural elements of the employment relationship by trade unions and employers. It is a form of social self-determination by collective societal forces that possess unique knowledge of the needs

3 https://eurofound.europa.eu/sites/default/files/ef_files/eiro/country/spain.pdf.

of workers, enterprises, sectors and the economy and society in general. Collective bargaining as a form of governance constitutes an alternative to market governance with a number of advantages, particularly where encompassing multi-employer bargaining is concerned.

One quality of multi-employer bargaining is that, by setting common (minimum) standards for a particular sector or region, it takes elements of wages and working conditions out of competition. By limiting competition on wages and working conditions, multi-employer bargaining avoids a downward spiral of competition in labour standards. In this sense, multi-employer bargaining also acts as a ‘beneficial constraint’ (Streeck, 1997), fostering investment in human resources and a focus on quality and innovation-based economic activities, with potential positive effects on competitiveness and growth at both the micro and macro levels. Secondly, multi-employer bargaining helps to promote industrial peace and to avoid multiple efforts and conflicts at company level related to the setting of wages and working conditions. It allows management and workers at company level to focus on producing goods and services and raising productivity in an environment of social peace and stability.

Third, multi-employer bargaining has the capacity to address negative externalities generated by the market (Marginson et al., 2014). Externalities are effects generated by market processes but which are not incorporated within the resulting market transactions, such as environmental damage (Crouch, 2014). In the labour market externalities include insecurity in the lives of workers and their families arising from actual or prospective job loss and/or income reduction (Marginson et al., 2014). A core example is incorporating the unemployment effects of wage developments and the creation of labour market outsiders in collective bargaining. Where bargaining arrangements are extensive in their coverage and well-coordinated at national level, union negotiators are likely to take account of the effects of wage settlements on employment because unemployment will weaken union bargaining power (Crouch, 2012; Traxler et al., 2001).

Also, in the initial years of the crisis, collective bargaining demonstrated its capacity to deal with similar externalities particularly in manufacturing, through agreements concluded at both the sectoral and company levels aimed at maintaining employment through a combination of measures, including short-time working, freezes in basic pay, suspension of pay premia and alternatives to redundancy, such as redeployment (Glassner et al., 2011). These agreements

> served to mitigate the negative effects of a rapid deterioration in market conditions for workers, by sustaining employment, and also employers, by facilitating retention of skills and experience in anticipation of subsequent recovery. Moreover, by generating negotiated responses to the impact of the crisis, collective bargaining also helped maintain cooperative relations and therefore trust between employers and their workforces, thereby avoiding further negative externalities on workforce morale and commitment associated with unilateral management decisions. (Marginson et al., 2014: 38)

The mitigating effects of collective bargaining were much stronger in countries with multi-employer bargaining systems than in those in which company bargaining dominates, in particular because of the much higher coverage rates of multi-employer bargaining systems.

Finally, multi-employer bargaining is also of interest from a public policy perspective. It allows for coordination between social and economic policy, on the one hand, and collective bargaining on the other and can hence be instrumental in achieving national policy objectives concerning income, employment and social security. The government and the two sides of industry can agree on certain income, social security and labour market policies, and multi-employer agreements can be used to implement part of these policies. For example, multi-employer agreements have been key for the implementation of social pacts across the EU by incorporating centrally agreed wage increases and other measures defined in such pacts (Pochet et al., 2010).

Hence, collective bargaining – and in particular multi-employer collective bargaining – offers a series of governance alternatives that are not available in labour markets where the ‘market’ is the sole governance mechanism. The earlier-discussed decentralization of collective bargaining, its declining coverage and its suspension in the public sector threaten to eliminate these governance alternatives and therefore have reduced the capacity of EU countries to respond to the crisis in an effective and organized way.

Inequality

Collective bargaining also has a major effect on developments in inequality (Berg, 2015; Keune and Vandaele, 2013). Inequality has been increasing in most EU countries in recent years. This is problematic because rising inequality is more and more being identified as one of the key factors weakening countries’ social and economic performance. Collective bargaining can first have an equality effect balancing the power relations between individual workers and their employers by collectivizing the power of workers. Secondly, it can foster greater equality between workers across companies and sectors. Multi-employer bargaining systems in particular offer a conducive institutional context for an equality-oriented, solidaristic wage policy, which has two main aims (Schulten, 2002: 174): (i) equal pay for work of equal value, implying that wages should not depend on individual company circumstances alone but should be standardized in multi-employer collective agreements, while pay rises should be in line with growth of the overall economy, enabling its benefits to be shared in a socially just way between capital and labour; and (ii) a more egalitarian wage structure, reducing pay differences between higher and lower wage groups and counteracting market forces that result in increased wage differentiation. Through the common standards they set, multi-employer bargaining systems can be expected to produce much lower wage inequality than systems in which company bargaining dominates or where bargaining plays no important role at all (Keune and Vandaele, 2013).

In this way, collective bargaining can be an instrument for social justice and ensure that the rights and needs of both sides are met and that the equality effect of collective bargaining is greater where multi-employer bargaining dominates. Multi-employer collective agreements, possibly supported by extension mechanisms, can further foster inclusion and equality by extending bargaining coverage to the weaker groups in the labour market that have little bargaining power. They can also, possibly in the context of social pacts, moderate wages in favour of employment growth, again with the objective of including weaker groups affected by unemployment.

Until the crisis, some decentralization had taken place in most of the EU countries with multi-employer bargaining systems but to a large extent they maintained their high levels of bargaining coverage and a high wage coordination capacity. However, the more recent reforms in this respect mean that in a number of EU countries the institutional architecture for equality-oriented, solidaristic wage policy and policies aimed at the inclusion of weaker groups is disappearing, fostering the growth of inequality.

Conclusion

The changing position of the EU and the pressure of the troika on collective bargaining systems, as well as the related national reforms of or changes to these systems have two major negative consequences. One is that they impoverish the available range of governance mechanisms available in

EU countries by reducing the possibilities of governance through collective bargaining and in particular multi-employer bargaining, which has proven itself as an effective alternative to market governance. It can set a floor in the (sectoral) labour market and promote a focus on productivity, quality and innovation. It also encourages industrial peace, has the ability to address negative externalities and can play a key role in the implementation of consensus-based public policy. The other major negative consequence is that they undermine the equality-promoting, solidaristic and inclusive capacities of multi-employer collective bargaining and hence foster inequality and undermine social justice and social and economic progress.

Clearly, European economic governance is developing in the wrong direction and is in dire need of a new vision and a new institutional design that foster a balance between economic development and social justice. Widespread collective bargaining in general and multi-employer bargaining in particular should be part and parcel of this new design because of its unique capacity to pursue such a balance.

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