The impact of the Troika policy on wages and collective bargaining

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European Parliament

Public Hearing on „Employment and social aspects of the operations and role of the Troika in euro area programme countries“

Brussels, 9 January 2014
Troika’s approach towards wages and collective bargaining

Basic assumption: Lowering labour costs is the key to regain competitiveness (strategy of internal devaluation)

1. Direct Interventions in current wage developments (wage cuts/freezes)

2. “Structural reforms“ of collective bargaining systems in order to increase downward flexibility of wages
Public Sector Wages

<table>
<thead>
<tr>
<th>Country</th>
<th>Freeze since 2009</th>
<th>Freeze since 2010</th>
<th>Freeze since 2008</th>
<th>Freeze from 2013-2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portugal</td>
<td>Cuts up to 17% (2011-2013)</td>
<td>Cuts between 3.5% and 10% (2011)</td>
<td>Cuts between 5% and 8% (2010)</td>
<td></td>
</tr>
<tr>
<td>Cyprus</td>
<td>Suspension of annual bonuses (2012-2013)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# Minimum Wages

<table>
<thead>
<tr>
<th>Country</th>
<th>Action</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>Cut by 22%</td>
<td>(32% for young workers below 25) in 2012</td>
</tr>
<tr>
<td></td>
<td>Freeze</td>
<td>until the end of the programme period</td>
</tr>
<tr>
<td>Portugal</td>
<td>Freeze</td>
<td>since 2011</td>
</tr>
<tr>
<td></td>
<td>No increase</td>
<td>without compliance by the Troika</td>
</tr>
<tr>
<td>Cyprus</td>
<td>Cut by 1 €</td>
<td>02/2011 revoked 07/2011</td>
</tr>
<tr>
<td></td>
<td>Freeze</td>
<td>since 1997</td>
</tr>
<tr>
<td></td>
<td>Suspension of</td>
<td>automatic indexation</td>
</tr>
<tr>
<td></td>
<td>No increase</td>
<td>without compliance by the Troika</td>
</tr>
</tbody>
</table>
Troika’s approach towards wages and collective bargaining

“Employment friendly reforms” in the area of collective bargaining

❖ decrease bargaining coverage
❖ decrease extension of agreements
❖ reform the bargaining system in a less centralized way
❖ extending the possibility to derogate from higher level agreements
❖ removing or limiting the "favourability principle"
❖ overall reduction in the wage setting power of trade unions
Changes in the Greek Collective Bargaining System

Law No. 4024/2011:
- Suspension of the extension of collective agreements
- Suspension of the favourability clause, i.e. firm-level agreements prevail over sectoral agreements
- Allowing for non-union workers' representatives to negotiate firm-level agreements

Law No. 4046/2012:
- Reduction of the after-effect of expired collective agreements to 3 months

Law No. 4093/2012:
- National Minimum Wage to be determined by law (Instead of by national collective agreement)
Since 2012: 80% of company agreements introduce wage cuts !!!

Source: Greek Ministry of Labour
Changes in the Portuguese Collective Bargaining System

Law No. 23/2012:
- Allowing for non-union workers' representatives to negotiate firm-level agreements in small enterprises

Resolution No. 90/2012:
- Introduction of stricter criteria for the extension of collective agreements (50% bargaining coverage)

Memorandum of Understanding 2011:
- Government agreed to restrict extension until the adoption of a new regulation on extension

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## Collective agreements in Portugal (2008-2012)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sectoral agreements</strong></td>
<td>200</td>
<td>164</td>
<td>166</td>
<td>115</td>
<td>46</td>
</tr>
<tr>
<td><strong>Company agreements</strong></td>
<td>95</td>
<td>87</td>
<td>64</td>
<td>55</td>
<td>39</td>
</tr>
<tr>
<td><strong>Number of extensions</strong></td>
<td>137</td>
<td>102</td>
<td>116</td>
<td>17</td>
<td>12</td>
</tr>
<tr>
<td><strong>Number of employees covered by agreements</strong></td>
<td>1.9 Mil.</td>
<td>1.4 Mil.</td>
<td>1.4 Mil.</td>
<td>1.2 Mil.</td>
<td>328,000</td>
</tr>
</tbody>
</table>

Source: Portuguese Ministry of Labour
Changes in the Irish Collective Bargaining System

2009: Breakdown of the 22-years-old system of national pay bargaining

- collective bargaining remains mainly at company level

Industrial Relations (Amendment) Act 2012:

- Introduction of stricter criteria for the “Registered Employment Agreements” (REAs) and “Employment Regulation Orders” (EROs), which allow to determine minimum wages in certain sectors
Changes in the Cypriot Collective Bargaining System

Memorandum of Understanding 2013:

- Suspension of wage indexation during programme period
- Future: A move from full to partial indexation, with the rate of wage indexation being set at 50% of the rate of increase of the underlying price index over the previous year
Collective agreements in Spain (2007-2013)

Number of workers covered by registered collective agreements

* provisional data until November 2013
Source: Ministry of Labour
Development of real compensation in the EU (2010-2014, in %)*

16 out of 28 EU member states are face by a decrease in real compensation

* Nominal compensation deflated by the national HCPI

2013: provisional data;

Source: AMECO, Calculations of the WSI
Conclusion:

Troika promotes a radical shift in collective bargaining leading to …

- a systematic **weakening and dismantling** of multi-employer bargaining (at national and/or sectoral level)

- a **dramatic decline** of the bargaining coverage

- a strong **downward pressure on wages** leading to a deflationary spiral of wage competition with detrimental effects on consumer demand
Many thanks for your attention!

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