WHAT COLLECTIVE BARGAINING IN EUROPE IN 2010?

The economic crisis in which Europe has been caught up since 2008 has made collective wage bargaining particularly complicated. The decline in employment has in some cases resulted in situations where trade unions have had to cope with trade-offs between protecting jobs and accepting wage reductions. The trade unions analysed the crisis as a structural phenomenon resulting from insufficient demand that was generated by a distorted sharing of added value to the disadvantage of income from work and by an increase in wage inequalities. They therefore maintained that employees must not be obliged to pay for the crisis. In the face of several signs in 2009 of a risk of deflation (low demand, sharp decline in prices of raw materials, negative inflation in several EU states), the trade union movement defended the continuation of a positive salary dynamic.

In 2010, the problem of wage bargaining is not likely to change. That is the subject of this brochure. It briefly sums up the origins of the crisis before demonstrating how the adjustments in employment that occurred in 2009 will set the stage for collective bargaining in 2010. It then presents the outlook and the stakes of these negotiations before detailing the ETUC's strategy.

A MAJOR SHOCK FOR DEMAND

The economic crisis has affected all countries. GDP has declined everywhere. The extent of the crisis is nevertheless different from one country to the next. The recession has been stronger in Europe than in the United States, for instance (- 4.1% compared with – 2.5% in 2009 according to the European Commission's November 2009 projections). At global level, the economies of the European Union countries and Japan have been hardest hit.

The bursting of the bubble of real estate speculation and/or strong reliance on exports played a major role in most of the European countries that were hardest hit by the crisis (Lithuania -18.1% in GDP in 2009, Latvia -18%, Estonia -13.7%, Ireland -7.5%, Germany -5%, Sweden -4.6%, Denmark -4.5%). Conversely, those registering a less pronounced downturn in activity (Austria and Spain -3.7% each; Portugal -2.9%, France -2.2%) are less dependent on exports. Poland is the only EU Member State that has managed to avoid recession: its GDP expanded by 1.2% in 2009.

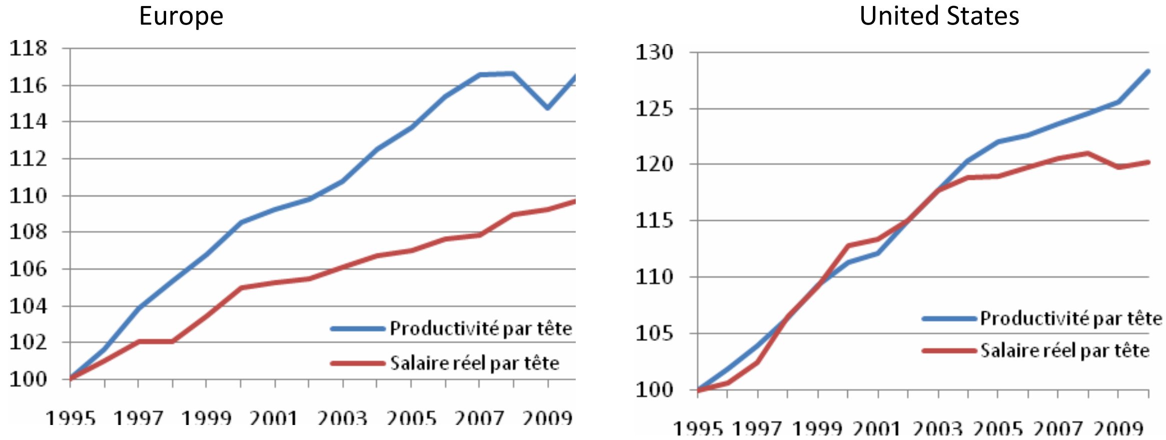
In the European Union as a whole, household consumption played a key role as a stabilizer (-1.7% in 2009 compared with -3.9% for total domestic demand, -4.1% for GDP). The evolution of purchasing power was sustained by the slowdown of inflation, a fair level of salary dynamic, measures to protect employment, social transfers and specific measures under economic recovery plans (scrapping premiums, in particular). However, these developments must not mask the collapse of the growth dynamic of household income. For the euro zone as a whole, the nominal compensation bill declined by 0.6% over one year in the third quarter of 2009 and household disposable income increased by less than 1% (compared with 4% at the start of 2008). Disposable income is also sustained in large measure by social transfers: growth gaps between salaries and household income have never been as high since the start of the 1990s[1].

The question of collective bargaining is therefore crucial in terms of exiting the crisis, because wage policy will constitute a key instrument to support consumption.

[1] European Central Bank data.

Since the start of the 1990s, however, real salaries have risen more slowly than productivity in Europe, leading to a decline in the share of salaries in value added. In the United States, this stalling of salaries did not occur until 2004.

Productivity and real salary per employee
(base 100 in 1995)



Source: European Commission, Ameco

Figures: Productivity per employee, Real salary per employee

Consequently, the share of salaries in value added has declined in Europe. The share of consumption in GDP should therefore have dropped but has remained more or less constant. In the United States, the share of salaries in value added has declined slightly, but the share of consumption has risen sharply. The gap between the share of salaries in value added and the share of consumption in GDP has thus widened in both cases.

In other words, relative consumption from wage income has declined or at best stagnated and it has been compensated for by consumption of a non-wage nature, the resources for which have been drawn by economic operators from the financial sphere: speculative bubbles in the real estate sector, growing household indebtedness, particularly in Spain, the United Kingdom and Ireland, but also in Sweden, Denmark and the Netherlands.

What impact has the crisis had on salaries? For the private sector as a whole, the trade unions have so far succeeded in defending salary inflation, as shown in the report related to the questionnaire on collective bargaining conducted by the ETUC in 2009[2]. In its resolution on the coordination of collective bargaining in 2010, the ETUC states that this resilience of collective bargaining in 2009 can be explained primarily by two factors:

– The trade unions conducted an offensive negotiation strategy: they prepared the 2009 salary negotiations with the objective of recovering some of the purchasing power lost as a result of higher oil prices and inflation in 2008.

– The pressure on salaries is not yet being fully expressed: the seriousness of the crisis and its consequences on employment were

[2] "The Coordination of Collective Bargaining in Europe (Annual Report)", annexed to the agenda of the ETUC Executive Committee, Brussels, 1-2 December 2009.

only acknowledged after the signature of most agreements.

In 2009, however, the salary negotiation process weakened and, one year after the onset of the crisis, collective bargaining felt its influence: salary increases negotiated collectively amounted to between 2 and 3% in 2009, whereas they had stood at between 3 and 4% or more in 2008.

The process of the downward adjustment of the salary dynamic is very pronounced in the Eastern European Member States.

In the countries hit hardest by the crisis (Baltic countries, Ireland) budget consolidation has very negative effects on salaries in the civil service, resulting in nominal reductions[3].

A downturn in the salary dynamic is also visible in old Member States[4]. In the United Kingdom, wage freezes were less massive than what had been announced by employers. Salary increases (excluding bonuses) showed a marked slowdown (4% in spring 2008, 2% in July 2009) but remain positive. The same trend is seen in Germany, Italy, Belgium and the Netherlands, where concessions have nevertheless been made on salaries in exchange for employment support measures.

The combination of the crisis and the decline in inflation from mid-2008 put pressure on coordinated collective bargaining systems based on automatic indexing rules at cross-industry level. This is the case in Spain. In March 2009, the social partners failed, for the first time in years, to renew the cross-industry collective agreement because employers were not willing to agree to the inflation target of 2% proposed by the unions, but only to the inflation target of 1%. The negotiations were broken off again in July 2009, since neither unions nor employers were satisfied with the government's proposals for reducing social contribution rates and making legislation on permanent contracts more flexible[5]. It is also the case, to a lesser extent, in Belgium. In a relatively rare phenomenon, salary increases were expressed in absolute terms, with a ceiling of 250 euros. In both these countries, as in Italy where indexing rules were completely revised by the framework agreement of January 2009 (strengthening of the decentralised level, planned reductions in the part negotiated at company level), the current slowdown in inflation can have negative effects on future salary growth.

[3] A 7.5% charge was imposed on civil servants in Ireland to finance pensions. Measures in Latvia include a 20% cut in salaries in 2009, 50% for teachers. In Lithuania, the planned reduction amounts to 10%.

[4] For more details on the situation in the different countries, see "The Coordination of Collective Bargaining in Europe (Annual Report)", annexed to the agenda of the ETUC Executive Committee, Brussels, 1-2 December 2009.

[5] On 21 September 2009, the trade unions proposed to accept salary increases of close to (or less than) 1% in 2010, in connection with the government's inflation projections. The agreement would be concluded for three years (until 2012), with annual salary increases close to the inflation rate foreseen by the government. At the end of the three years, a revision clause would apply based on the evolution of consumer prices. The proposals also provide for larger increases in terms of each company's productivity and profits. The unions' proposal is only valid if the paralysed collective agreements are unblocked for 2009. As a counterpart to this agreement, companies would agree to maintain jobs and reduce precarity.

Salary increases resulting from collective bargaining

Collectively bargained wages	2009	2008	2007	PM: Wage cost per hour 2009
Belgium	Lump sum of 125 euro	4.2%	3.5%	2.3%
Estonia	Wage cuts			-5.7%
France	n.a. (2.2%)	3.4%	2.9%	0.8%
Germany	3% (2.4%)	2.9%	2.2%	2.4%
Hungary	3.9%	5 to 7%	8%	1.3%
Lithuania	3%	6%	4.1%	-0.9%
Netherlands	3%	3.25%	1.8%	4.25%
Norway	4%	6%	5.4%	
Poland				5%
Portugal	2.9%	3%	3.4%	
Spain	2.7%	3.6%	4.2%	3.1%
Sweden	3%	3%	2.6%	3.5%
UK	3.1%	3.3%	3.5%	(1.5% average earnings)
Czech Republic	Many wage freezes in companies			2%
Italy	4.1% (2.6%)	3.5%	2.1%	
Switzerland	2.6%	2.2%	2%	

The figures in brackets are considered to be similar series in the Consensus Forecasts

Source: ETUC collective bargaining questionnaire, Consensus Forecasts, October 2009

ADJUSTMENTS IN EMPLOYMENT AS A BACKDROP TO COLLECTIVE BARGAINING

The economic crisis has already had devastating effects on employment, even though there has been less reactivity in Europe than in the United States. In Europe, the reactivity of employment to the decline in production was more limited than during the 1993 recession. It also differs from one country to the next[6].

In the Baltic states, Ireland and Spain, there has been a sharp decline in employment (for example, an average of -11.9% in 2009 in Latvia according to the Commission's autumn forecasts, -6.6% in Spain). The sectoral structure of employment (in particular the weight of construction), the degree of flexibility of the labour market and/or the share of temporary jobs help explain the breadth of the adjustments in these countries[7]. In Spain, for example, where employment in construction has declined by more than 30%, the destruction of jobs has in large part resulted from the non-renewal of temporary contracts, which are widely used, since they concern 35% of employees.

[6] European Commission 2009, "Employment in Europe 2009"; Michel Husson, "Le choc de la crise, le poids du chômage ", Chronique internationale de l'Ires No 121, November 2009, pp. 15-37.

[7] European Commission 2009, "Employment in Europe 2009".

In contrast, employment has reacted very little to the decline in activity in other countries (Germany, Austria and the Netherlands in particular). This situation can be explained by the massive use of working-time flexibility instruments (flexible hours and partial unemployment) and by the recruitment difficulties companies have experienced in recent years.

In spite of differences in the reactivity of employment depending on the country, two common employment adjustment practices have helped limit adjustments in employment over the short term:

– Most have reduced working time (decrease in overtime, partial unemployment, working time accounts).

– All States have used all existing internal and external flexibility systems to manage the effects of the decline in production on employment. The variety of these systems and their combination explain the differences in adjustments.

The following observation concerning the French situation seems to be applicable to all the Member States: the more numerous the internal flexibility systems for work in the broad sense – i.e. including those receiving public assistance –, the greater the protection of employees against job destruction. However, the greater the combination of internal and external flexibility systems, the greater the risk of vulnerability for employees, those with stable contracts being subject to a decrease in remuneration, those with precarious contracts suffering the dual loss of their job and their income[8].

The protection of employment has also been influenced by recovery plans[9]: the three countries (Italy, Netherlands and France) where these accounted for at most 0.7% of GDP in 2009 preserved a lower share of employment than those (Denmark, Germany, United Kingdom, Sweden) where they amounted to between 1.2 and 1.4% of GDP.

WHAT OUTLOOK FOR COLLECTIVE BARGAINING IN EUROPE?

The differences in adjustments in employment suggest a diverse collective bargaining outlook depending on the Member State, particularly since the return to growth is very mixed from one country to the next. Whichever scenario is taken into account, the forthcoming wage negotiations are likely to be an ordeal because there is expected to be downward pressure on salaries in every country:

– In those where adjustments in employment have been limited, the recession has led to a decline in productivity per employee. Since salaries continued to rise in 2009, the result was a rise in unit salary costs that eats into companies' margins. They will consequently try to restore their margins either by cutting jobs or by putting downward pressure on nominal wages. In other words, bargaining that features a trade-off between salaries and employment is likely to be a widespread development. Only in the case of a faster and stronger economic recovery would it be possible to avoid such a scenario, which is far from being a given. However, restoring margins will at least initially be achieved through a freeze on hiring. Companies are expected to make greater use of the workforce still protected from dismissals through internal flexibility mechanisms. There is also a risk that the recovery will generate more precarious jobs, which will draw collective bargaining downwards. This development seems to be taking shape in France, for example.

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[8] Centre Études & Prospective du Groupe Alpha, "Crise et pauvreté : une analyse sectorielle qualitative", Rapport pour l'Observatoire national de la pauvreté et de l'exclusion sociale (ONPES), October 2009.

[9] Michel Husson tested the effects of recovery plans on the protection of employment for the countries for which Andrew Watt's data were available. See Michel Husson, "Le choc de la crise, le poids du chômage", *art. cit.* and Andrew Watt, "A Quantum of Solace? An Assessment of Fiscal Stimulus Packages by EU Member States ", Working Paper 2009.05, ETUI, May 2009.

– In those where, on the contrary, there have been significant adjustments in employment, the resulting increase in unemployment will have an impact on collective bargaining.

Anticipated demand is not prompting enterprises to invest (see figure), particularly because they have a high level of production overcapacity. The objectives of companies – to restore their profitability, maintain cash reserves and reduce their capital-debt ratio – will also influence investment expenditure.

Productive investment and GDP in the euro zone

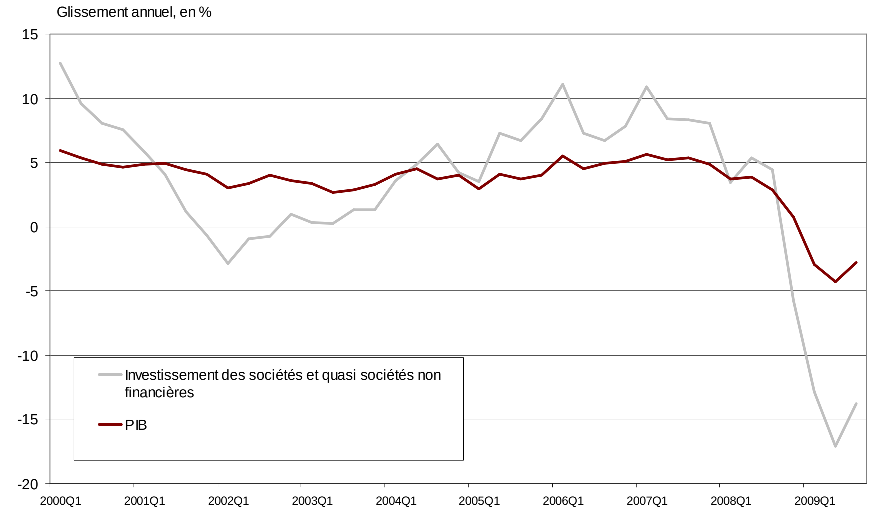

Figure: Year-over-year rate, in %
Investment by non-financial enterprises and quasi-enterprises Source: ECB.

Rate of utilisation of production capacity in the manufacturing industry (%)

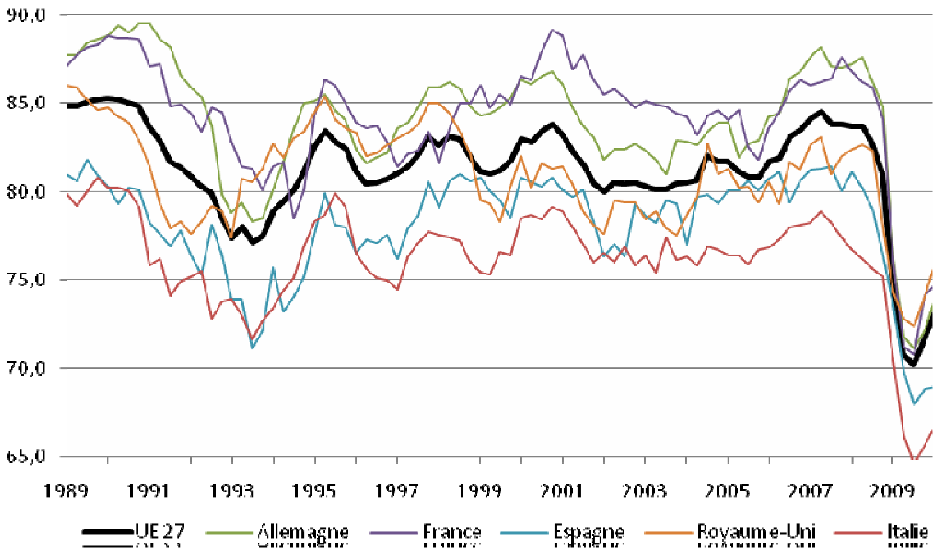

Figure: EU 27 Germany France Spain United Kingdom Italy Source: Eurostat

The forthcoming collective bargaining will take place in a context of slowdown in underlying inflation. Although there does not appear to be a risk of deflation for Europe as a whole or for most of its Member States, the situation is more ambiguous for three countries. In

Ireland, underlying inflation[10] was negative throughout 2009. It dropped to nearly -3% in third quarter 2009 and there is no sign yet of a halt to this trend. In Spain, underlying inflation declined sharply during the second half of 2009 and was null at the end of the year. Like Ireland, although to a lesser extent, the United Kingdom also experienced a constant decline in underlying inflation in 2009, but this movement seems to have stopped at the end of the year. Developments in terms of underlying inflation in these countries will complicate collective bargaining.

The ETUC has fears of a scenario in which the decline in unit labour costs sought by enterprises to restore their margins would lead to a process of deflation similar to what occurred in Europe at the end of the 1990s: unit labour costs fell by 1.5% for several years, which led to deflationary pressure that brought inflation down from 2.5% in 1996 to 1% in 1999[11]. However, if such a process occurred now, when underlying inflation is very low (1% for the euro zone), the ETUC considers that the deflationary pressure generated by the crisis could precipitate the economy from inflation to deflation.

[10] Measured on the basis of Eurostat data.
[11] "The Coordination of Collective Bargaining in Europe (Annual Report)", annexed to the agenda of the ETUC Executive Committee, Brussels, 1-2 December 2009.

Underlying inflation
(year-over-year rate, in %)

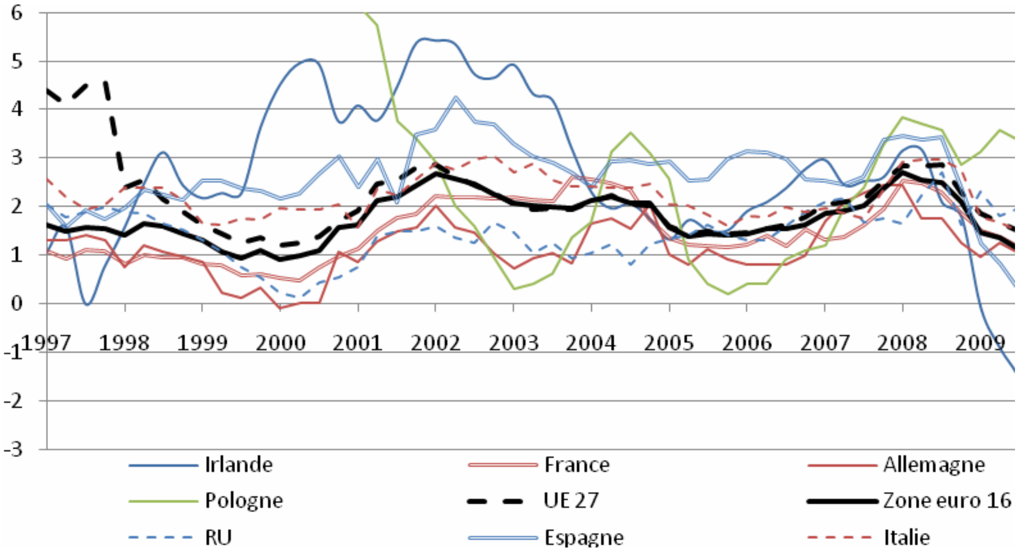

Figure: Ireland France Germany
Poland EU 27 Euro zone 16
UK Spain Italy

Source : Eurostat

Expected pressure on salaries and the absence of investment needs suggest that private demand will remain low. In these circumstances, the cessation of the recovery plans poses a problem because it will result in a decrease in public demand and in public transfers to households.

There are two choices: either continue the budget stimulus policy which finds expression in large public deficits and higher public debt, or put an end to this policy and return gradually to a more restrictive budget policy. This is the choice that has been made by the European authorities and the governments have pledged to reduce their public deficits quickly, with the aim of returning to 3% of GDP in 2013.

Monetary policy remains expansionist for the moment, although pursuit of this policy in the coming months cannot be taken for granted. The effects of this policy are ambiguous: low interest rates reduce the cost of borrowing and ease the servicing on debt that hangs over State budgets. However, low rates also facilitate the financing of public deficits by banks, which are then exposed to a risk of higher interest rates.

Low interest rates are also supposed to encourage credit. In practice, however, this is not demonstrated to be the case. Because of high levels of debt, it proves ineffective at stimulating private demand. Furthermore, abundant liquidities due to very low interest rates act as incentive to take speculative positions.

The relevance of this policy mix is therefore being called into question today. If private demand remains low, it seems dangerous to act too quickly to reduce public demand and public transfers - which sustained demand effectively in 2009 - and to pursue a monetary policy that potentially presents financial risks and does not stimulate credit due to insufficient demand.
For the ETUC, the economy is therefore more vulnerable to the effects of a shrinking of demand that would result from a downturn in

the salary dynamic[12], which justifies its collective bargaining strategy for 2010.

THE ETUC'S COLLECTIVE BARGAINING STRATEGY FOR 2010

As in 2009, collective bargaining will be under pressure due to the economic crisis. It must therefore not be approached without taking into account the causes of the crisis. The crisis is not the result of salary inflation. In Europe, for the last ten years, the salary per employee has risen less quickly than productivity, which has resulted in higher margins for enterprises. This explains why the ETUC insists that employees must not be forced to pay for the crisis through salary cuts.

However, unlike 2009, in spite of the slight recovery of the economy, the decline in productivity caused by the low reactivity of employment to the drop in production will lead companies to propose trade-offs between salaries and jobs as a means of restoring margins. The ETUC rejects such automatic adjustment because the decline in productivity is the consequence of a crisis provoked by insufficient demand. Consequently, a decrease in salaries would only aggravate this low demand. The decline in productivity is a cyclical rather than a structural phenomenon, accepted by employers who wish to keep qualified workers.

The ETUC therefore urges the unions to adopt an offensive strategy. Such a strategy must abide by a 'golden rule' that includes two dimensions:

– Supporting a salary dynamic that is positive in both nominal and real terms to prevent the economy from sinking into deflation and/or a prolonged recession.
– Guaranteeing that wage cost developments correspond to the productivity trend and to medium-term inflation.

[12] "The Coordination of Collective Bargaining in Europe (Annual Report)", annexed to the agenda of the ETUC Executive Committee, Brussels, 1-2 December 2009.

This rule, reiterated by the ETUC in its latest resolution on the coordination of collective bargaining, is rediscussed every year. It has been defended by the ETUC for several years. The rule was renewed for 2010 on the grounds that salaries are not market prices and that enterprises have sufficient margins to resist the decline in productivity, due to the fact that salaries have systematically lagged behind inflation and productivity for the last ten years. The situation is different depending on the country, however.

That is why the coordination of negotiations is important. All unions recognise this and are trying to ensure closer coordination. In its latest resolution, the ETUC announced a number of initiatives, among which improvement of the exchange of information between those involved in collective bargaining, strengthening of negotiating positions and the possible creation of a monitoring group in the Collective Bargaining Coordination Committee.

Adoption of this 'golden rule' was legitimate and justified before the crisis considering the growing gap between salary per employee and productivity per employee. It is equally justified today as the decrease in public demand looms on the horizon due to the cessation of recovery plans. In spite of the recession, this rule allowed for an increase in the wages negotiated in 2009 because it focused on the objective of allowing purchasing power to catch up with the high rate of inflation in 2008. A further shrinking of private demand was thus avoided.

In the event, however, that trade-offs between employment and salaries cannot be avoided, the ETUC and trade unions must make the defence of jobs a priority that can be achieved through agreements for the reduction of working time or public assistance for wage compensation. Each party should seek to encourage collective bargaining in the crisis. In this context, the ETUC calls for a stronger participation by workers in order to anticipate and manage restructuring and industrial redevelopment processes.

With financial support from the European Commission