# ITUC

## FRONTLINES REPORT
## APRIL 2013

Workers are in the frontlines of a war on their living and working conditions.
Ideology without economic evidence: IMF attacks on collective bargaining.

International Trade Union Confederation

"Employers don't share their wealth. If you can't bargain you can't get a decent wage. It feels like an economic dictatorship."

*Christina - Spain*

"There is no future for my generation. There are lots of tensions between us."

*Giorgos - Greece*

"We have no voice at the collective bargaining table."

*Roland - USA*

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Photograph: ITUC

## 1. Introduction

Five years since the "great recession" started, the failed policy of austerity has left a legacy of extreme levels of unemployment, rising inequality, the marginalisation of a generation of young people and the desperation of a growing informal sector where rules simply don't apply.

International institutions did not prevent the economic crisis, they are now failing to regulate the greed and destruction of speculative capital and prevent the next banking crisis. They are doing nothing to rethink the economic and trade model, which has caused unparalleled inequality.

The global economy is no more secure today than it was five years ago.

These same institutions are using the economic crisis as a pretext to attack workers' rights, wages, job security and social protection as they continue a sustained assault on the wages and conditions of workers who remain in jobs.

The ITUC Frontlines 2012 report gave a summary of global economic conditions, with a picture of the economic and social crisis in six countries: Bulgaria, Dominican Republic, Greece, Indonesia, Nepal and Zambia, as well as the stories from workers themselves on how attacks on their rights have affected their families.

ITUC Frontlines April 2013 provides an analysis of the actions of the International Monetary Fund (IMF) to weaken collective bargaining. In certain cases the IMF is supported by other institutions. In Europe the European Commission and European Central Bank are partners with the IMF, and together they are known as the 'Troika'.[1] Parts of the OECD have also provided support for the same policies.

Despite proclaiming to have no significant expertise in labour markets, the IMF nevertheless has a toolkit of conditionality, recommendations and rationale that all attack collective bargaining, trade unions and social dialogue.

Collective bargaining, a cornerstone of the relationship between a worker and employer, is threatened with elimination. A fundamental global right, set by the International Labour Organisation (ILO), is being violated. Social unrest and impoverishment are seen as mere collateral damage in this attack on workers' rights; an attack which is undertaken without economic evidence that stands up to scrutiny.

This ITUC Frontlines April 2013 report provides empirical evidence demonstrating there is no sound economic case for this attack on workers' rights, with its devastating impact on families, communities and economies.

In countries like the UK, USA, New Zealand, Australia and now Europe, there have been waves of attacks on workers' rights and collective bargaining. Each time workers and their unions have protected these rights. Once again, these rights must be preserved.

At present, this full frontal assault is most obvious in European countries where policy makers claim they are trying to cut labour costs to improve international competitiveness and help countries export their way out of deep recessions.

But this attack is not confined to the peripheral countries of Europe. Even more successful economies in Europe, and countries well beyond this region, have also been pressed to match or better these draconian reforms to maintain their own "competitive edge".


Photograph © JREBOLLO/Secretaría de Comunicación CCOO

This leaves in its wake a classic beggar-my-neighbour dilemma, with countries being encouraged to surpass each other in the denial of workers' rights, purportedly to spur exports and grow economies.

## Economic myths

Policy makers appear to forget that not all countries can have a trade surplus and rely on export driven growth.

Global economic prospects are weak and a rapid recovery is nowhere in sight. There are simply not enough buyers for the goods and services that countries want to export.

Global trade, with no floor of rights and declining collective bargaining, has left a legacy of jobless growth and massive inequality.

The post-war settlements of labour standards and social protection, which are crucial social and economic stabilizers, are squarely in the sights of policy makers who cannot or will not take on the destructive forces of greed.

We need to kick start growth, by boosting incomes and giving people the confidence to spend. Workers need money in their pockets and the confidence that their jobs are secure.

## Collective bargaining systems

The key objective of institutions is to slash labour costs by replacing multi-employer collective bargaining systems at industry or national level with enterprise level bargaining or to eliminate collective bargaining altogether.

A retreat to enterprise-level bargaining is inequitable in all circumstances. But among the countries in the vanguard of reforms, that are characterised by a very high proportion of small enterprises, a move from sector wide bargaining to enterprise agreements is demanding the impossible.

These economies are not composed of massive manufacturing plants but rather a multitude of smaller enterprises. In this context, workers are not able to be fairly represented without industry level bargaining and a national floor for labour standards.

Enterprise or individual bargaining will lead to economic instability, unfair competition and informality that withers sustainable business and decent work.

The cost of labour is thus determined not by the value of the work done, but by how much employers decide they will pay.

Enterprise level bargaining fuels destructive competition over labour costs.

- It creates a strong incentive for employers to adopt anti-union practices and disengage from collective bargaining.
- In some countries the promotion of unaccountable non-union "agents" to take over responsibility for bargaining on behalf of workers is rife.
- In other countries the legal protection provided to unions is being downgraded and criteria for "representivity" of both union and employer associations is being determined by individuals working for international institutions. This is anti-democratic in the extreme.

Where some scope for multi-employer bargaining has been retained, provisions for extensions of collective agreements have been tightened or eliminated and the scope for enterprises to opt-out of sector-wide agreements has been introduced.

Based on trends observed so far, workers fear the total elimination of collective bargaining in the private sector in some countries.

This will entail a massive increase in the power of employers to dictate conditions and control their workers. It will substantially increase wage inequality and accelerate declines in the wage share of national output that have been evident in the last two decades.

While the pressure is being felt in countries across all continents, the attacks on the social model on which Europe has been founded, a model that has delivered nearly seventy years of peace and prosperity, is undeniably the target for combined conservative forces.

Undemocratic institutions and democratically elected governments alike, appear to be accepting social decay and massive inequality. They are following an American corporate model, without a social floor or the tools of wealth distribution that social protection, minimum wages and collective bargaining represent.

The attacks on collective bargaining, the impoverishment of austerity and the undermining of democratic governments by international institutions must stop.

## Economic, social and political chaos

The combination of severe austerity and labour reforms has led to frustration and loss of faith in mainstream political parties to act in the interests of working people.

Election results in Italy revealed that the majority of voters rejected the political party that had imposed recent labour reforms and austerity measures.

Greek elections in 2012 saw strong support for extreme right-wing forces.

The ITUC global poll 2012 demonstrates that less than 13% of the world's people believe that they have any influence on the economic decisions of democratically elected governments.

The net impact of attacking people's livelihoods, their job security and their rights is a rapid downward spiral towards economic, social and political chaos.

## Illegal actions

The attacks on collective bargaining and unions also contravene international law. The ILO's Committee on Freedom of Association reconfirmed that reforms of this nature in Greece infringe on core ILO Conventions concerning collective bargaining and freedom of association.[2]

## Rebuilding economies

It is time to stop the attacks on fundamental rights and the tools of wealth distribution held in collective bargaining rights. These tools are necessary to build fair societies and bridge the widening gap between the rich and poor.

Recent discussions with the IMF have resulted in commitments from the Managing Director Christine Lagarde to respect international labour standards, the role of a minimum wage and a priority to create jobs.

Time will tell if the gulf that exists between the ITUC and the decimation of fundamental rights in IMF conditionality can be reduced.

But first we need to separate facts from fantasy.

This ITUC Frontlines April 2013 report reviews:

- the evidence concerning the relationship between different levels of trade union strength, collective bargaining systems and indicators of labour market and economic performance; and,
- evidence about the impact of union strength and collective bargaining on wage differentials and factor shares given the critical role of income inequality as a driving force behind the global economic crisis.

Frontlines April 2012 finds no compelling evidence that those countries with little or no collective bargaining, where employers unilaterally set wages, have outstanding economic records.

There is no economic justification for these labour reforms. Countries with little or no collective bargaining do not achieve faster growth, lower unemployment or better export performance than other countries.

They do have greater wage inequality.

The economic strategy being pursued by the IMF, and in crisis countries with its Troika partners, is deeply flawed.

Cuts in labour costs have completely failed to ignite growth. Wage cuts and reductions in social protection merely compound the error of fiscal austerity by further diminishing demand.

Tragically none of the authoritative institutions have considered specific national growth strategies that would drive investment into sectors and industries to grow economies.

It's time to invest in jobs and rebuild economies everywhere. This requires urgent investment and a fairer distribution of wealth.

In all regions of the world governments should be investing in infrastructure that will improve living conditions and expand the potential of our economies. Sustainable public investment in our hospitals, schools, transport and communications, as well as the green economy are urgently needed.

Equally, collective bargaining is a right and a distributive tool that works not only for workers, but for national economies too.

*Sharan Burrow, General Secretary ITUC*

# Global Economic Conditions

Income and wealth inequality is increasing at an extremely rapid and unacceptable pace. In 2013 the gaps between the very rich and the rest of society will continue to expand in nearly all countries.

Growing income inequality is one of the top global threats of 2013.

More than 200 million people will be without work; 40% of them are young people. Almost 75 million people lost their jobs in 2012 alone, and this is expected to increase this year.

Increasing numbers of workers are being forced into short-term contracts or the informal economy, with low pay, no benefits and no job security.

# 2. IMF Attacks on Collective Bargaining

## Economic predictions

Prior to joining the IMF as its current Chief Economist, Olivier Blanchard anticipated much of the pain currently being experienced in peripheral countries of the Euro area.[3] Blanchard argued that without flexibility with monetary policy and the nominal exchange rate, countries like Portugal, Italy and Spain would require significant space to adjust fiscal policy and wages to maintain competitiveness. Blanchard stated that such adjustments would only take place rapidly if:

> *"…they come out of collective bargaining at a centralised level between business and labour unions, and perhaps the state."*[4]

However, Blanchard was pessimistic that these labour market institutions would be allowed to function:

> *"….. All this – a centralized bargaining structure ready to be used in case of need, representative unions, a continuous dialogue between unions and firms, active fiscal policy – go very much against the current grain…. It is my main concern for the future."*[5]

Even if one thinks that labour costs need to adjust, the current Chief Economist at the IMF has previously argued that the best way to achieve this would be through working with trade unions and reaching consensus rather than using tear gas and riot police to impose austerity and internal devaluation.

The debate about the impact of trade union strength and different collective bargaining systems on economic performance has been raging for decades. The empirical literature on the topic dates back at least forty years. Obtaining robust results is hampered by complexities in accurately measuring aspects of different collective bargaining systems and then identifying the precise impact they have on macroeconomic trends when there are so many other variables at play.

## Collective bargaining systems

But there is absolutely no hard evidence showing that countries with highly decentralised bargaining systems and weak unions have stronger economies or lower unemployment then other countries. In fact, the evidence over the decades suggests that countries with more synchronised bargaining systems may have an edge in reducing unemployment. They certainly have a clear advantage in reducing wage inequality.[6]

The "corporatist" literature of the 1970s and 1980s first suggested that highly synchronised collective bargaining systems and national level social dialogue would have a positive economic impact.[7] The original theory suggested that as bargaining structures become more centralised, and thus more encompassing, trade unions and employers' associations were more likely to take into consideration any negative side effects that could result from rising labour costs.

For example, in highly centralised negotiations where they are bargaining on behalf of all workers in the economy, the theory says that trade unions are more likely to consider the impact of any wage increase for international competitiveness, economic growth, unemployment and inflation. These macroeconomic implications cannot be glossed over if you have to reach a deal that keeps all workers and all employers happy. According to the original theory, any economic costs are "internalised" and the union will accept a more modest wage outcome that will be best for the median worker who receives wages below the average.[8]

By contrast, in decentralised systems the parties will seek to maximise the gains for themselves, or the specific group they represent in a negotiation, while believing that any negative consequences can be passed on to third parties. The costs are borne by other consumers in the form of inflation, other workers in the form of unemployment, or by the State, which needs to support those "suffering the consequences of excessive wage adjustments".

> **In the eighteen months since the labour reforms were introduced in Romania, collective bargaining has been reduced by two-thirds.**

Put in simple terms, it is said that deals are more likely to be cut that serve the interests of the vast majority of people when a collective agreement covers the majority, or at least a large proportion, of workers.

**Within the last two years, more than 2% of the population in Portugal has left the country.**

This is clearly the best way to avoid the "insider-outsider" problems that neo-classical economists claim they are concerned about. It is also the most efficient way to rapidly handle adverse economic shocks and avoid temporary blips in unemployment becoming a permanent drag on growth and prosperity.

The literature about the economic impact of different bargaining systems has expanded and evolved over time. It is now widely accepted that the economic impact of different bargaining systems may depend on the political landscape and the legal and institutional support provided for collective bargaining. The economic impact may also depend on policies in diverse fields including monetary policy and international trade arrangements. Recent advances also suggest that the transmission mechanism between bargaining synchronisation and lower unemployment goes through the promotion of productivity rather than retarding wage growth. Finally, the focus in the literature has shifted to more dynamic considerations and the ability of countries with high bargaining synchronisation to cope better with adverse economic shocks than other systems.

It is also important to remember that many of the economists who have written about the macroeconomic impact of collective bargaining had a very narrow perspective. They were only concerned about maintaining wage restraint in the belief that this would increase employment. They ignored the potential for wage increases to boost aggregate demand, stimulate structural change and for unions to play a more constructive role in the management of economies.

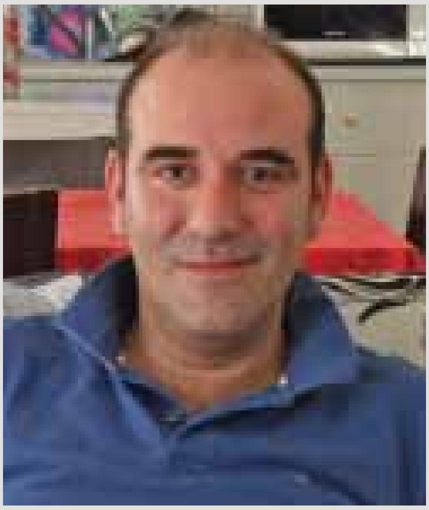
## CASE STUDY

Giorgos, Bartender, Greece

"I have been working for the last four years at the Casino Mount Parnes. There, people come to gamble, but no one should gamble with workers' rights.

Two years ago, before the real onset of the crisis, my pay was pretty good at the casino, in comparison with that of other employees in Greece.

My salary ranged from Euro 1,500 to 1,700 per month. When the crisis broke out, we were listening to the news and the talk of salary cuts. They said the measures adopted by the public sector would soon be adopted by the private as well, but I did not believe anything of this.



Photograph: Damienne Caron

I thought this was something which did not concern me.

I was informed that my sectoral agreement, which was valid until the end of 2013, had been terminated unilaterally. The employers used laws introduced by the Troika.

When I went to work in the afternoon at the Casino, I saw a notice on the wall saying:

'Dear colleagues, your collective agreement is not valid anymore, we have unilaterally terminated it, and if you want a new agreement you should sign it with a 15% cut of your base salaries, while a series of benefits will be abolished.'

In my group of friends, I am the only one who has a job. There are lots of tensions between us. This is the worst thing of all – to make a whole nation have such tensions between its people.

Ultimately, there is no future for my generation. Sectoral agreements have been abolished in many sectors. This gave us the final blow.

We are neither lazy, nor thieves. If I do not pay my taxes, I am called a thief, when the IMF steals my wages, it is called the law"

These considerations are particularly relevant today when the vast majority of advanced economies are either in recession or growing very slowly. In these circumstances internal devaluation and export-led growth cannot be viable solutions for so many countries.

### Labour reforms and economic recovery

After the implementation of massive labour cost reductions in countries like Greece, there is still no sign whatsoever of an export-led recovery. Simply pushing down wages to reduce the price of goods and services that are not in demand is not a solution to the problems of Greece or other southern European countries.

Consequently centralised negotiations with trade unions should not be about cutting nominal wages. There may be a case for discussing real wage moderation and the timing of adjustments. But the focus should be on involving workers and their representatives in decisions about broader economic and social policies. Governments can win support for other critical structural reforms or macroeconomic policies that workers may otherwise strongly resist when they are excluded from the decision making process.

It is comprehensive reforms of this nature that boost productivity, facilitate the introduction of new technology and working methods and also create new export-orientated industries that are desperately required for a sustained economic recovery. There are many examples of countries that have involved trade unions in developing comprehensive reform packages. These include: the "Social Pacts" that were common in Nordic countries and Austria in 1960s and 1970s; the Australian "Accords" which operated from 1983 to 1996; and social partnership in Ireland. There were also a number of important examples of "Social Pacts" in other European countries during the 1990s that facilitated important structural changes and boosted employment.[9]

These are just a few examples of countries transforming their economies, enhancing competitiveness and promoting employment by involving trade unions in centralised negotiations that covered wages but also broader economic and social issues. In several of these cases trade unions did agree to exercise some degree of real wage restraint, but this was complemented by improvements in the "social wage" or policies that stimulated growth and innovation.

National level agreements of this nature have often worked best when countries faced a severe economic crisis and all sections of society needed to pull together and fairly share the burden of adjustment. This is precisely the situation that has existed in several European countries for the last half decade. A concerted effort at building consensus along these lines would have been a much better economic and political strategy than aggressively forcing through reforms as we have witnessed in Greece, Spain, Italy and elsewhere.

During the current recession Iceland is the one country in Europe that has pursued elements of this consensual approach and involved trade unions in discussions about the broad economic strategy. As a result, economic recovery is underway without the threat to political stability and social cohesion that we witness in many other countries. To a degree Ireland has also used dialogue with the social partners to maintain some social cohesion and secure trade union support for very difficult adjustments in the public sector in 2010 and again in 2013.

The Troika did not have to attack workers' rights. Recent experience from several central and northern European countries provides guidance for alternative policy options.

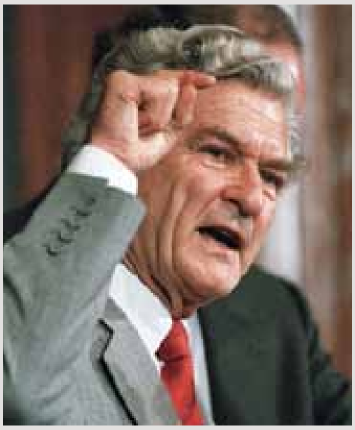
In recent decades many European countries have demonstrated that the best way to promote international competitiveness is through the coordination of collective bargaining at industry level. The Nordic countries, Austria, Belgium, Germany, the Netherlands and Switzerland are examples of countries using coordinated multi-employer bargaining systems to enhance productivity, international competitiveness and promote export-led growth.

In several of these countries, industry level bargaining in the traded goods sector sets a pattern for the rest of the economy. In Germany, for example, the metals industry has historically taken into account concerns about international competitiveness and set an informal ceiling for wage increases in other industries.[10] In responding to economic shocks in 2008/09, synchronised industry level collective bargaining in Germany facilitated rapid adjustments. As foreign demand plummeted for high quality manufacturing products, the Government and social partners reached agreement on the use of State

**Unemployment in Spain is at 26%, and the situation is ever worse for young people, of whom 56% are jobless.**

## TESTIMONY

Bob Hawke, Former Prime Minister of Australia



Photograph: ALP

WorkChoices was an attack on collective bargaining through the introduction of independent contracts.

"WorkChoices, the Howard Government attack on rights at work, was an ideological attack on workers. It was part of John Howard's political philosophy which was anti-union.

He believed unions interfered with the free play of market forces, and were against the best interests of economic growth – which of course is a complete misrepresentation of the facts of life.

We've seen what happens when market forces have free reign and no regulation.

WorkChoices represented to me a total repudiation of what I regard as the basic philosophy of a fair go. If it had been allowed to succeed and become the law of the land, the character of Australia would have changed.

We would have not have been the country which could call itself the land of the fair go.

When you have union rights so visciously circumscribed as they were under WorkChoices, the dice became loaded so much more in favour of employers against workers.

Australia was no longer going to be a country built on tradition of decades and decades of work through the industrial and political labour movement, which enshrined the concept of a fair go into legislation and industrial practices."

subsidies to boost domestic demand for the car industry and support for short-time working. As a result, firms retained their high-skilled workers until export markets rebounded and a permanent rise in unemployment was avoided. This example demonstrated the role that synchronised collective bargaining can play in reducing the persistence of unemployment.

Moreover, numerous countries, including Belgium, Finland, the Netherlands, Paraguay, Republic of Korea, and South Africa, regularly "extend" collective agreements beyond the workers directly covered to ensure collective bargaining coverage remains high. In Austria nearly all workers are covered by collective agreements because the State requires all employers to participate in the central employers' association involved in bargaining. Where State support for collective bargaining takes wages out of competition, it can provide incentives for firms to compete on the basis of product innovation, technology and improved work organisation. The end result is higher productivity and a more prosperous nation. It also ensures that wage inequality remains within reasonable bounds.

The international trade union movement argues that in the absence of adequate support, industry level bargaining can sometimes produce excessive wage restraint. This is certainly the case in Germany where real wage moderation has been pushed to extreme limits. This is partly because extension mechanisms are rarely used in Germany and downward deviations at firm level from industry agreements have become more common in the last decade.

But the basic point remains, that if the objective of the Troika was really to improve international competitiveness in countries like Greece, Portugal, Spain, Italy and France, they should have been promoting more comprehensive social dialogue over economic reforms or, at the very least, more highly coordinated industry level collective bargaining.

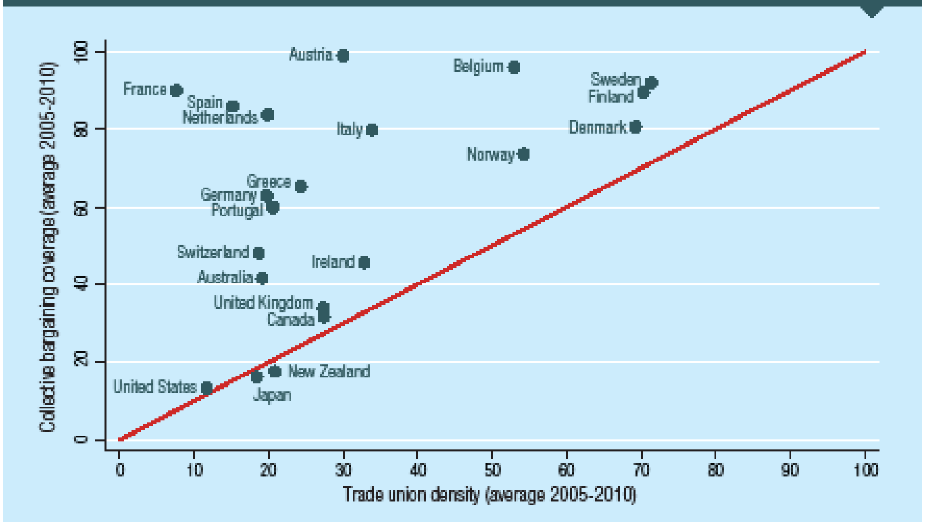
## WORKER TESTIMONY Roland, Call Centre Worker, USA

"I work at T-Mobile USA and we don't have a union. We're owned by Deutsche Telekom in Germany where workers have legal rights, guaranteed wage increases. While in the United States, we have no voice at the collective bargaining table.

We need guarantees and protections against that. Inflation keeps rising, the cost of living is going up. So not to give us raises is very detrimental."

Photograph: Anna Zivarts

**Figure 1: Collective Bargaining Coverage and Trade Union Density**




Source: Visser, J., ICTWSS Database, 2011, for collective bargaining coverage; OECD Database, 2013, for trade union density.

## American corporate model of labour relations

The reform options that governments and institutions like the IMF, European Commission, European Central Bank and the OECD had available can be seen more clearly in Figure 1. Prior to the crisis countries like Spain, Portugal, Greece and Italy had levels of trade union density and collective bargaining coverage rates that were roughly in line with those in Germany and the Netherlands. A move towards a more encompassing collective bargaining system would have moved the crisis countries towards the top right quadrant, towards the type of arrangements that prevail in Finland, Sweden or Denmark. Instead the institutions promoting reforms have taken drastic action to rapidly move collective bargaining and employment relations in the opposite direction. Countries with reasonably high collective bargaining coverage but modest to low trade union density are being forced to move towards the bottom left quadrant.

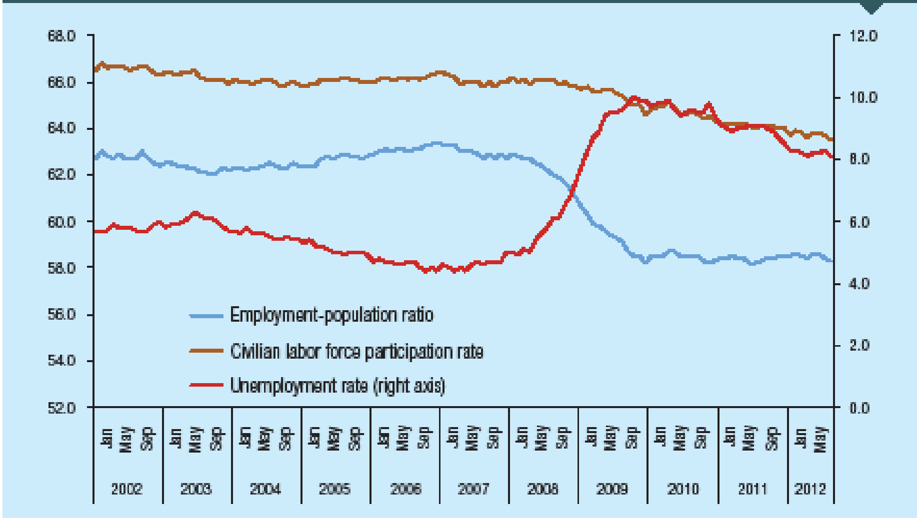
As can be seen from Figure 1, this entails the "Americanisation" of employment relations: moving towards arrangements in which there is no possibility for industry or national level collective bargaining; there is no coordination of collective bargaining; rules governing trade union recognition and obligations on employers to bargain are strongly tilted in favour of capital; and, the private sector is an extremely hostile environment to union organising activities. As we will see, this is the route followed by conservative Governments in other Anglo-Saxon countries (UK, Australia and New Zealand) in previous decades with devastating results for union density, collective bargaining coverage and income inequality.

For a decade the IMF has been using their economic models to produce highly unrealistic "estimates" of the effects on economic growth and unemployment if labour market institutions in Europe were reformed towards what they consider to be "best practice".[11] In these simulations "best practice", according to the Fund, corresponds to the weak labour institutions that can be found in the United States.[12]

But since the last recession, the highly acclaimed US labour market model has failed to impress. In fact the US experienced a massive decline in its employment rate in 2008 and 2009. Thereafter, despite the best efforts of the US Federal Reserve to use all the tools at its disposal to try and implement its mandate to "maximise employment" plus the benefits of a larger fiscal stimulus than the vast majority of European countries, the labour market remains deeply depressed. It is evident from Figure 2 that any very marginal improvement in the US unemployment rate in the last few years is mainly the result of workers becoming disillusioned and giving up looking for work. It is also evident from Figure 3 that long-term unemployment has become a prominant feature of the US labour market.

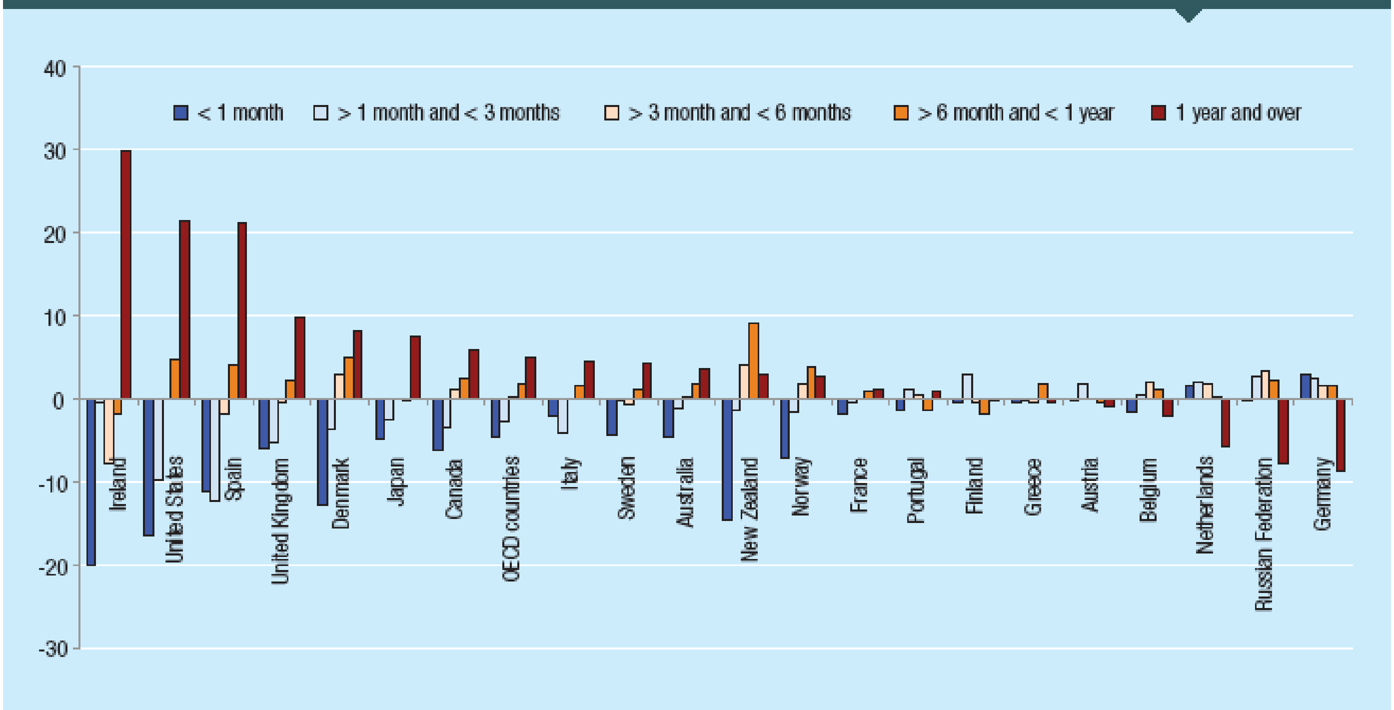
So the advanced economy that combines the lowest levels of trade union density and collective bargaining coverage plus the most hostile environment for organising workers is clearly not providing the labour market performance that could be held up as an example. When US trends in income inequality, social cohesion, crime, prison incarcerations and various other social indicators are considered, it is really no surprise that the institutions pushing reforms are reluctant to acknowledge their real objectives in southern and central European countries.

**Figure 2: Unemployment figures of the US labour market**




Source: US Bureau of Labour Statistics

**Figure 3: Change in the Percentage Share of Total Unemployment by Duration between 2007 and 2011**




Source: OECD Database, 2013.

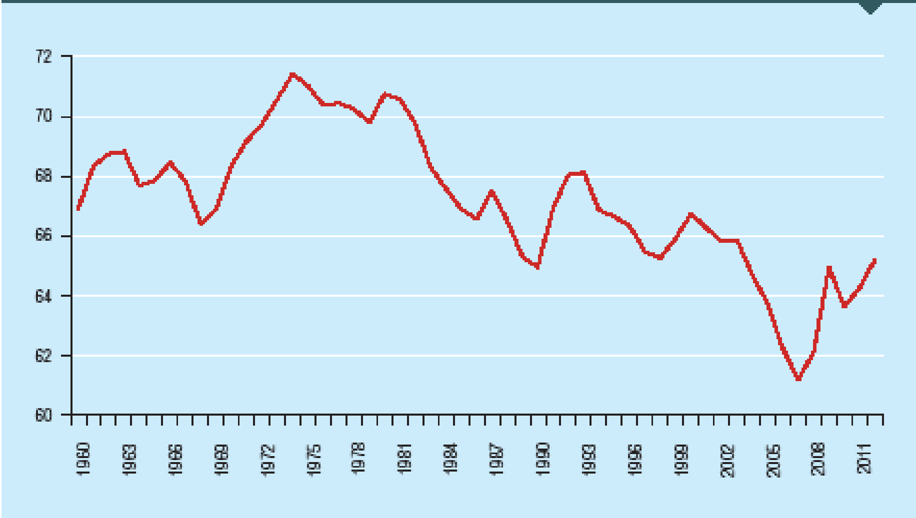
# 3. Labour Costs, Competiveness and the Economic Crisis

## Depressing real wage growth in Germany

It has been suggested that developments in European labour markets in the decade prior to the 2008 crash contributed to underlying imbalances between European countries, but this needs to be considered carefully. This story is often distorted with all the blame being levelled at the peripheral countries where wage growth outpaced productivity improvements in the period prior to 2008. This account understates the detrimental role played by several central and northern European countries that have enjoyed a large external trade surplus. In some countries, like Germany, this was achieved by depressing real wage growth well below productivity increases over a prolonged period. As can be seen from Figure 4, the wage share in Germany has been on a long-term downward trend since the 1970s.

However, the rate of decline accelerated sharply in the period between 2000 and 2007 with the wage share falling from close to 67% to a low of almost 61%. Wages were depressed in Germany through a combination of factors including: pressures unleashed by reunification; the rapid expansion of precarious jobs; the industry-level system of pattern bargaining and provisions providing additional flexibility (opt-outs) for firms facing specific difficulties; the lack of extension mechanisms to maintain high collective bargaining coverage; declining trade union density; the outsourcing of production to Eastern Europe; and, the threat of outsourcing on a far grander scale. A comparison of wage trends between industries in Germany during the 2000s reveals that even in key manufacturing sectors such as the chemicals and metal industries, average

**Figure 4: Trends in the Wage Share in Germany since 1960**




Note: The wage share refers to the total economy in percentage of GDP at current factor costs, adjusted by full-time equivalents.

real wages failed to fully keep pace with productivity improvements. But the situation for workers in the public sector, retail trade and other service sectors was far worse. In these sectors real wage growth trailed way behind national productivity improvements.

## IMF prescriptions

Despite these trends throughout the 2000s, the IMF encouraged Germany to weaken collective bargaining further and move towards greater reliance on enterprise level bargaining. According to the IMF such reforms were required to provide even greater scope for wage reductions and increased wage dispersion.[13] However, while implementing labour reforms in other areas, the German government did not alter the legislation on collective bargaining as recommended by the IMF. The Government

> “The people in Germany who keep the country running and generate its wealth deserve to get their fair share.”
>
> Michael Sommer, President, DGB and ITUC

argued there was ample wage flexibility, and events have proven them correct. In fact the German government anticipated that sustained wage moderation in Germany could eventually result in diverging labour costs in the Euro area and generate problems for monetary policy in the region.[14] Contrary to popular perception the reduction in unit labour costs in Germany did not generate a massive expansion in decent jobs. In fact, total hours worked in 2012 were a mere 0.3 percentage points higher than in 2000.[15] Over this period Germany became a pacesetter in the creation of precarious jobs while poverty among those in work increased. The Financial Times recently drew attention to the “Dickensian conditions” in this part of the German labour market. [16]

One quarter of all jobs in Germany are now precarious, and the proportion of so-called self-employed workers without employees has jumped dramatically since the early 2000s (see Figures 5 and 6). It is well known that a large proportion of those classified as self-employed are actually engaged in disguised employment relationships whereby they undertake the functions of a normal employee in a company yet are deemed to be “contractors” and thus denied the benefits and protection provided to regular employees. In addition, a large proportion of part-time workers would prefer regular full-time jobs.

**One quarter of all jobs in Germany are now precarious.**

The damage inflicted by excessive wage restraint in European countries with an external surplus has been widely recognised. For example, the respected economic journalist Martin Wolf has been a persistent supporter of higher wages in Germany and other northern European countries. According to Wolf:

> *"So how is faster adjustment to be achieved? The answer is through a buoyant euro zone economy and higher wage growth and inflation in the core economies than in the enfeebled periphery."* [17]

More recently the same author noted in respect of Germany that:

> *"The danger is that the strategy of real wage suppression and soaring external surpluses is a costly dead end."* [18]

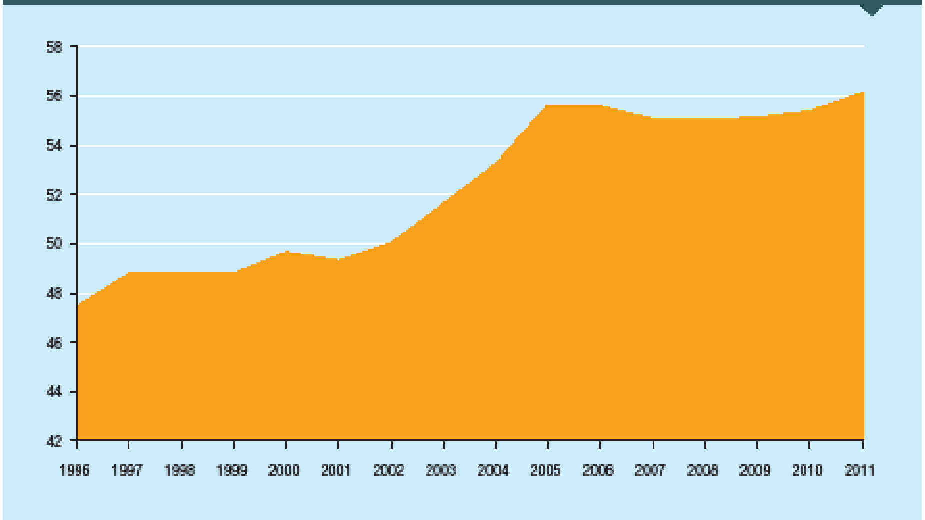
Despite this the IMF reiterated their objection to raising wages in Germany and described such suggestions as "neither analytically nor pragmatically sound".[19] But after more than a decade of strong resistance to any wage increase in Germany, the IMF appears to have softened their position slightly in 2012. [20]

## Wage restraint

On the other side of the ledger from Germany are the countries that built up large external deficits in the 2000s. In some of these countries, real wage growth outpaced productivity improvements in the period immediately prior to the 2008 recession. But these trends in the mid-2000s need to be considered in a longer time frame.

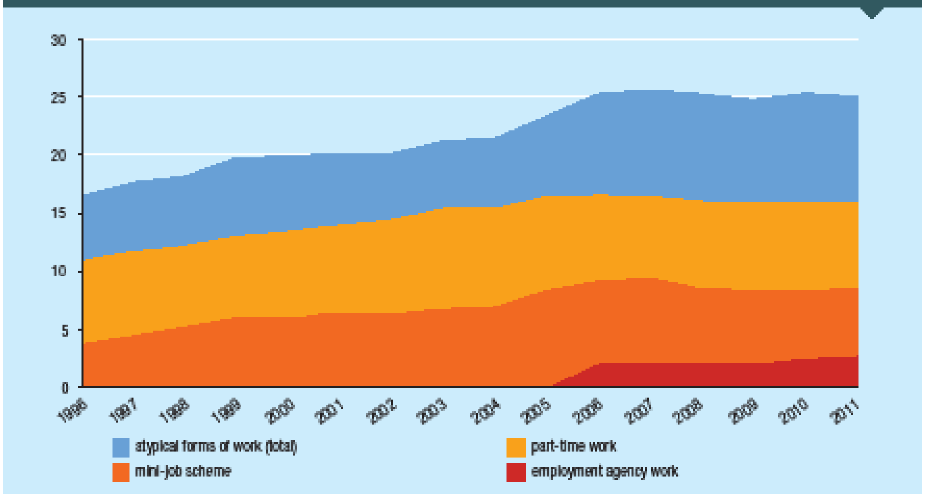
To a large degree this reflected catch-up pressures for a high degree of real wage restraint in the previous two decades. As can be seen from Figure 7, for most of the period between 1980 and the early

**Figure 5: Self-employed without Employees as Percentage of Total Self-Employment in Germany**



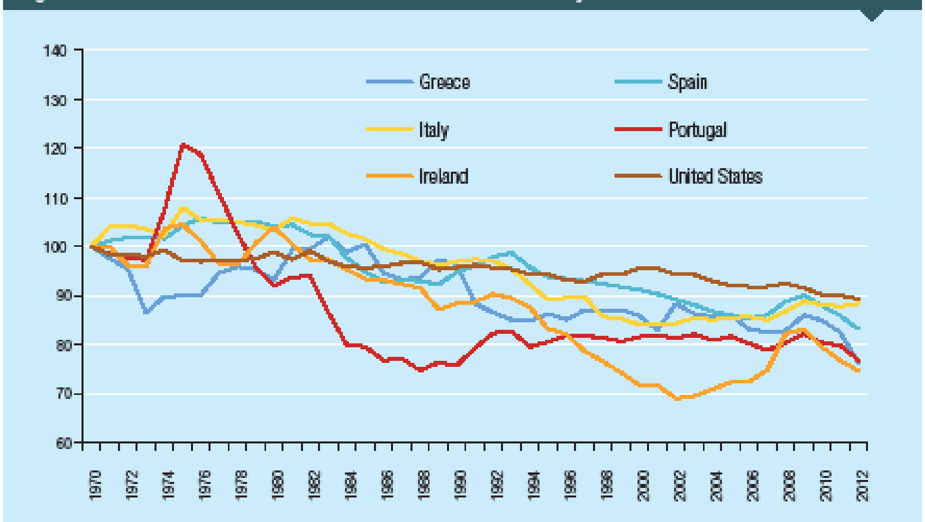

Source: Federal Statistical Office of Germany, 2013.

**Figure 6: Atypical Forms of Work and its Different Components as Percentage of Total Employees in Germany**




Source: Federal Statistical Office of Germany, 2013.

**Figure 7: Trends in Real Unit Labour Costs of the Total Economy in Selected Countries**




Note: This measure is calculated as the ratio of compensation per employee to nominal GDP per person employed; rescaled to 1970=100.
Source: EU Commission, AMECO Database, 2013.

> **"The danger (in Germany) is that the strategy of real wage suppression and soaring external surpluses is a costly dead end."**
>
> **Martin Wolf**

2000s real unit labour costs were declining in all the southern European countries and other peripheral countries like Ireland. Throughout this period workers were not receiving their fair share of productivity improvements. In fact, based on long-term trends in real unit labour costs, the peripheral countries of Europe exercised far greater wage restraint then the United States over the last few decades (see Figure 7).

Moreover, among the southern European countries, actual wage levels were historically very low by European standards. For example, in 2000 the average wage of a full-time employee in Portugal was one third that of a worker in the UK and well below half that of a German worker. Wage levels in Greece, Spain and Italy were also at the bottom of the EU-15 spectrum (see Figure 8). Consequently, during periods of robust economic growth and tighter labour markets in the mid-2000s, there was legitimate pressure in these countries for wage catch-up and convergence towards the higher wage levels prevailing in more prosperous countries to the north of the continent. After all, one of the basic European Union objectives was faster economic convergence.

## Wage imbalances

It was this combination of rising real wages in peripheral countries and the failure of real wages to increase in line with productivity in core countries like Germany that contributed to the imbalances and competitiveness problems that are a critical component of the current European problem.

## CASE STUDY

Christina, Journalist, Spain

"I was working for a state TV broadcaster in Madrid. They are cutting a lot of public services. They decided to dismiss all the workers on TV. I was dismissed one month ago.

On one side we have austerity cuts because of the crisis, the cuts in public service in community and the country. And on the other side we have ideological decisions that are made because of positions that staff held that are different to the Government. These austerity measures will not help the Spanish economy.

People need to have an income. But the government is not listening to people. Employers won't share their wealth. It feels like a dictatorship. You feel impotent when the government treats you like this.

Photograph: ITUC

There is a feeling of hopelessness, people are afraid, the median wages in Spain are very low. When you finish unemployment benefit, things get very bad, very quickly. Children go to school without having breakfast and don't get lunch.

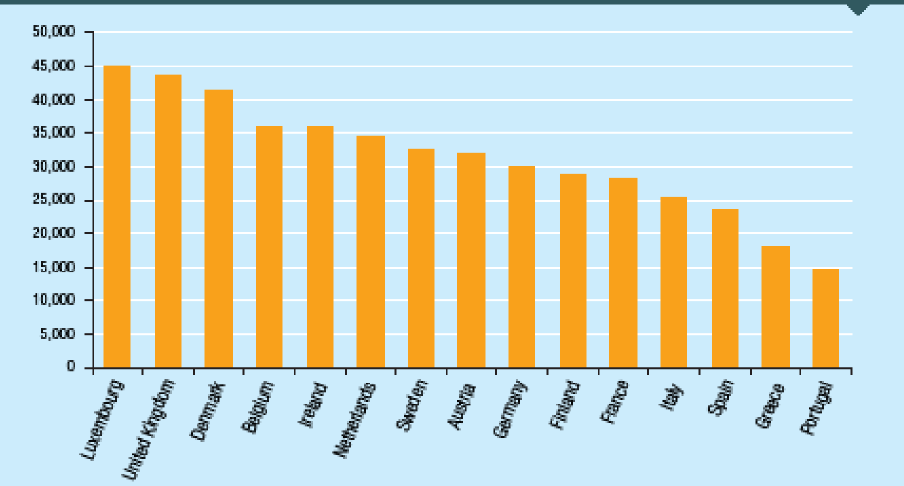
I have a one-year-old daughter, Julia. I hope when she is older things will be better. I'm very afraid that we can't guarantee a good future for our children.

People are bitter. The cuts on budgets and to our rights are coming from outside, like a dictatorship. Our Government could say no – they could choose a different path.

If you can't bargain, you can't get a decent wage. But the choice you get is between keeping your job accepting lower wages and trying to bargain collectively and being dismissed.

This is a challenge, we are in poverty and there are tough decisions to make. But we have to keep fighting."

Figure 8: Average Annual Wages per Full-Time and Full-Year Equivalent Employee in the EU 15 Countries in 2000 (in PPP USD)




Note: The original average annual values provided by the OECD in NCU were recalculated into USD at Purchase Power Parities with the according exchange rates provided by the OECD.

Source: OECD Database, 2013.

While diverging labour costs are not the only, or even the major cause, of these competitiveness problems, the trend in labour incomes and costs could have been balanced better between countries like Germany with a trade surplus and the peripheral countries. Both would be better off if average real wages had grown more closely in line with national productivity improvements over the long term.

Similar arguments apply beyond Europe. To correct global trade imbalances, there is a desperate need to boost labour incomes in a wide range of emerging and developing countries that have an external surplus. This is definitely the case throughout much of Asia, including in China, South Korea, Malaysia, Singapore and Thailand. It is widely recognised that these countries need to rebalance their economies by boosting domestic demand as Brazil and Argentina have done in the last decade.

Stronger unions, more comprehensive collective bargaining and higher minimum wages would be an important step towards this objective. Given their legitimate concerns about global economic imbalances, the international financial institutions should go beyond supporting stronger social safety nets in such countries and be at the forefront of advocating stronger labour market institutions. This would also help overcome suspicions that the attack on labour institutions in European countries is ideologically driven.

In 2000, the average wage of a full time employee in Portugal was one third of that of a worker in the UK, and well below half that of a German worker.

# 4. The Role of the IMF in "reforming" Collective Bargaining in Europe

In the last few years, the IMF has utilised its lending programmes, regular reviews of country performance and research activities to attack collective bargaining in Europe. The reforms supported by the IMF are very similar across a range of countries, and this "one size fits all approach" harks back to the much criticised structural adjustment programmes of the 1980s and 1990s. This section reviews IMF activities and recommendations concerning collective bargaining in four European countries.[21]

Table 1 summarises the main "reforms" in each of the countries this report focuses on.

**Table 1: Changes to Collective Bargaining**

| Changes to... | Romania | Spain | Greece | Portugal |
|---|---|---|---|---|
| …national collective agreements | ■ | | ■ | |
| …the regulations concerning sector-wide collective agreements | ■ | ■ | ■ | ■ |
| …that allow non-union agents to bargain | ■ | | ■ | ■ |
| …to representativity criteria to establish a union or conduct collective bargaining | ■ | | | ■ |
| …extension mechanisms | ■ | | | ■ |
| …to opt out regulations | | ■ | ■ | |

Note: In all countries marked with ■ the reforms have weakened the legislation or labour institutions referred to in the table; the change to extension mechanisms refer only to those to the scope not to the one to the timely validity.

Sources: Different national labour legislations; www.worker-participation.eu; Eurofound, 2013.

## WORKER TESTIMONY

Tika, labourer, Qatar

"Qatar is a rich country, one of the wealthiest in the world. I come from a poor background, so I went to Qatar hoping to earn some decent money. We are workers, wherever we go we live by our labour.

I hoped to earn some money, but that didn't happen. I was only paid for two months and they stopped paying my salary. It's difficult to earn a good livelihood. I survived for a month by eating only boiled potatoes."

Photograph: Ben Crowe

# 4.1 Romania

Photograph: File

Romania recorded robust growth rates (above 5% p.a.) between the early 2000s and the onset of the global economic crisis. Strong FDI inflows contributed to this performance. As a result the unemployment rate had fallen to 6% by 2008 and the labour market was so tight that employers were attempting to entice Romanian migrant workers to return home. In 2005 approximately 1.4 million labour migrants worked abroad,[22] (roughly 6.5% of total population), seeking better wages and living conditions. Romania is one of the most unequal countries in Europe.[23] Real wages did increase substantially in the 2000s but this was mainly a catch-up process after dramatic declines in real incomes during the 1990s. Up until 2006 the average real wage was still below the level it had reached in 1990. [24]

To promote economic convergence with higher income countries in Europe, Romania requires substantial investments in infrastructure, human capital and a major technology upgrade. The country needs to move towards high value-added exports rather than competing through low wages in labour intensive manufacturing sectors. Despite this the focus of economic reforms in recent years has been directed towards lowering labour costs by weakening trade unions and the collective bargaining system.

In Romania reforms introduced in early 2011 in the context of a Stand-by-Agreement with the IMF and a loan from the European Commission abolished the national collective agreement that had set the national minimum wage and basic conditions for all workers in Romania.[25] In fact the national collective agreement was negotiated at regular intervals by the nationally recognised trade unions and employers organisations. This agreement had a significant impact on the whole wage structure because wages established in lower level collective agreements (for different industries and occupations) were related to the minimum wage through a system of coefficients.

Before the reforms Romania had in place the type of highly centralised collective bargaining system that Olivier Blanchard had considered desirable in 2006 when discussing the need for wage flexibility in Europe. Through their negotiations over the national collective agreement, trade unions and employers had scope to ensure wage trends reflected macro-economic conditions, the needs of the traded goods sector and the requirements of all workers including the unemployed. There could be no question of the national agreement just pandering to the desires of an elite group of insiders.

> Romania is one of the most unequal countries in Europe.

Despite broad-based tripartite support for the collective bargaining system, reforms to the labour legislation were passed in March 2011 by Emergency Order which allowed the Government in power at that time to avoid Parliamentary debate or amendments to the draft legislation.[26] The 2011 reforms destroyed the scope that existed for the social partners to “internalise” any negative externalities of wage settlements.

The 2011 reforms also made the existing system of industry-level collective bargaining virtually redundant. The reforms introduced new representative criteria for trade unions and employers’ associations plus revised definitions of industry sectors.[27] As a result of these changes, there has not been a single industry-level collective agreement concluded in the private sector since 2011. In fact there has only been one new sector-level agreement in the public sphere (education) since the reforms.[28] The changes to the legislation also abolished the automatic extension of collective agreements at the industry level. This so-called erga omnes practice had previously been strongly supported by all the trade unions in Romania and several of the largest national employers' associations plus representatives of the Labour, Family and Social Affairs Ministry in Romania.[29] Representatives of employers and senior Government officials dealing with labour issues argued that extension mechanisms were an effective way of tackling the informal economy, tax evasion and the activities of unscrupulous employers who were exploiting workers.

In Romania, like in most countries, trade unions do not have a strong presence in the myriad of small- and medium-sized enterprises. It is estimated that 90% of enterprises in Romania have less than ten workers and 98% of enterprises have less than 20 workers.[30] In countries with a large proportion of small enterprises, low levels of trade union density and a long history of national and industry collective bargaining, a move to decentralised but highly coordinated bargaining is virtually impossible. The necessary institutional infrastructure is not in place and trade unions and workers cannot adapt rapidly enough, particularly not in the context of an economic recession and massive job losses. Any attempt to expand trade union membership among small firms, which would be necessary for effective firm level bargaining, is easily rebuffed.

Moreover, in Romania the reforms established a minimum threshold of 15 members within a single enterprise for a union to be representative (and have the right to strike) and 21 workers to conclude a collective agreement. These extremely high thresholds made the process of establishing collective bargaining at the firm level absolutely impossible. But even if these thresholds were reduced, the barriers to firm level bargaining remain prohibitive because the union movement would require massive staff and resources to organise and represent workers spread across the plethora of micro enterprises.

Consequently, the reforms did not result in a move from national- and industry-level bargaining to firm-level bargaining. Rather, it simply wiped out bargaining and has produced a dramatic decline in trade union membership.[31] In the eighteen months since the labour reforms were introduced, collective bargaining coverage has been reduced by two-thirds.[32] If these reforms are not revised, it is likely that collective bargaining in the private sector will be eliminated in the next few years.

This has significantly altered the balance of power at the workplace. The reforms have placed the employer in a highly dominant position. Given that, prior to the reforms, workers in Romania had to survive on wage levels that were among the lowest in the European Union and a mere fraction of those existing in other EU countries; the real reasons behind this attack on worker rights warrants investigation. In recent discussions on the impact of the reforms, representatives of all nationally recognised trade unions and the participating employers' associations supported the reintroduction of the national collective agreement.[33]

In the case of Romania, the IMF had been advocating greater labour market flexibility for over a decade. In fact the IMF had strongly opposed the introduction of the Labour Code in March 2003 that strengthened worker rights as a quid pro quo for other structural reforms. The IMF argued that:

**In the eighteen months since the labour reforms were introduced, collective bargaining coverage has been reduced by two-thirds.**

*"Labor markets need to be made more flexible. The new labor code, approved in March 2003, is seen by the business community as overly restrictive in many areas. Particularly at issue are provisions on hiring and firing, the collective contracts, and a new wage-guarantee fund for bankrupt companies."* [34]

In fact the IMF fought a long but unsuccessful battle to have the World Bank redraft the Labour Code and reduce the protection provided to workers. But when the recent global economic crisis hit Romania, the IMF and the European Commission seized this opportunity to force through reforms that successive governments had previously shunned for sound economic and social reasons.[35] In their decade long campaign against the 2003 Labour Code in Romania, the IMF relied upon information from the highly discredited Doing Business Report from the World Bank but provided absolutely no evidence that the collective bargaining system was a barrier to rapid growth or a tight labour market.

On the contrary, Romania enjoyed rapid economic growth and a very tight labour market between 2003 and 2008 with employers regularly complaining about labour shortages. The IMF even had to acknowledge that wage increases during this boom period had not adversely impacted on the competitiveness of Romanian exports. On the eve of the global economic crisis in 2008, IMF staff noted in their Article IV Report that:

*"Romania's export market shares have steadily increased for all major export destinations. While nominal unit labour costs in manufacturing have risen particularly sharply, profitability remains intact, and Romania's euro-dominated wages are still among the lowest in the EU; foreign-investor interest in re-locating production to Romania remains also strong."*[36]

It is evident therefore that the reforms supported by the IMF had little to do with economics. So what was driving the IMF to interfere in the details of labour legislation on which the Fund had little expertise and no mandate?

In seeking answers to this question, it is notable that the arguments and recommendations for labour reforms advanced by the IMF throughout the 2000s coincided closely with positions advanced by the American Chamber of Commerce (ACC) and the Foreign Investors Council (FIC) in Romania. Foreign investors in Romania mainly produce for the export market and compete against low cost producers in Asia while gaining the benefits of operating within the European Union. For the most part these foreign investors have decided not to join national employers' associations in Romania and operate outside the well organised system of social dialogue that exists for negotiations on economic and social issues.

In fact, the majority of the domestic employers' organisations in Romania took a very different view about the labour reforms to the ACC and FIC. This was the reason why the bulk of the domestic employers joined forces with the trade union movement to resist reforms that would destroy the centralised and coordinated collective bargaining system, as mentioned earlier. Despite this the interests of foreign investors prevailed, and the reforms followed the blueprint advanced by them.

**There has not been a single industry level collective bargaining agreement in the private sector since 2011.**

Recently, following a change of Government, new legislation has been drafted which would wind back some of the reforms. It would reinstate the national collective agreement, make industry level collective bargaining more feasible and reintroduce the possibility to extend multi-employer collective agreements.[37] However, the IMF and the European Commission have intervened in this process again and in their written comments in late 2012 strongly resisted many of the proposed changes.[38] Aspects they opposed in their written comments included: the reintroduction of a national collective agreement; the new criteria that would make multi-employer collective agreements and branch-level agreements feasible again; provisions that would protect the right to strike; issues related to the protection of union representatives and the finances of unions and employers associations.[39]

Further interference by the IMF and the European Commission in the details of laws that go to the very core of the right to freedom of association and the right to collective bargaining is of grave concern to the ITUC. The international trade union movement has previously discussed with the IMF their role in the adoption of Laws 62/2011 and 40/2011 and senior Fund staff seemed to acknowledge some concern that such matters were beyond the mandate or expertise of the IMF. But in the latter part of 2012 Fund staff again intervened to try and prevent the new Romanian Government from correcting the worst flaws in these laws.

## 4.2 Greece

According to the IMF the introduction of firm-level collective agreements in Greece led to nominal wage cuts in the range of 10% to 40% in 2012, and the introduction of individual contracts had cut nominal wages by an average 23% in the first half of 2012.[40] Moreover, the IMF claim that *"the most recently-signed contracts and survey indicators suggest that this trend is continuing."* [41]

Despite these massive cuts in nominal wages, the Greek economy remains in free fall. In 2012 real GDP declined by an estimated 6%, and a further fall in excess of 4% is expected in 2013. This will be the sixth straight year that output has declined. Moreover, despite massive reductions in labour costs there is still no sign of an export led recovery as exports, which plummeted by 19.4% in 2009, declined again in 2012 by 2% and are not expected to rebound strongly in the next years.[42] In fact, there are no reasons for optimism about the impact of austerity and labour reforms in Greece. The differential in income per capita between Greece and the EU15 has returned to the level that existed in 2000.[43] Meanwhile unemployment has increased dramatically from 7.7% in 2008 to around 25% in 2012 and is expected to reach 27% in 2013.[44]

The Greek Constitution explicitly provides for collective labour agreements which are to be reached through "free" collective bargaining. The Constitution also protects the right of trade unions to regulate the terms and conditions of employment and the right to strike.[45] However, these fundamental rights have been breached in the last few years.

Photograph: Damienne Caron

Since March 2010 far-reaching reforms have been implemented in Greece that systematically dismantled the collective bargaining system.[46] The Greek reforms have been found to breach core ILO Conventions. The ILO Committee on Freedom of Association recently passed judgement on the Greek reforms concluding that:

> *"The suspension or derogation by decree – without the agreement of the parties – of collective agreements freely entered into by the parties violates the principle of free and voluntary collective bargaining established by Article 4 of Convention No 98."* [47]

In light of these conclusions the Committee recommend:

> *"..that the Government promote and strengthen the institutional framework for collective bargaining and social dialogue and urges… with the aim of developing a comprehensive common vision for labour relations in full conformity with the principles of freedom of association and the effective recognition of collective bargaining and the relevant ratified ILO Conventions."* [48]

The Greek Government has made clear that all reforms that were found to be in breach of core international labour standards were introduced in response to conditions imposed by the Troika through the loan negotiations. For example, the initial loan agreement with the ECB and European Commission as well as the first Stand-by-Agreement with the IMF encouraged opting out of industry level collective agreements. The General Confederation of Greek Workers, the largest trade union in Greece, firmly believes that the objective of the institutions supporting reforms was to completely abolish collective bargaining and impose a system of individual contracts.[49] The Memorandum of Understanding between the Troika and the Government stated:

> *"Allow local territorial pacts to set wage growth below sectoral agreements and introduce variable pay to link wages to productivity at the firm level."* [50]

This condition resulted in legislation that enabled the creation of "special enterprise agreements" that could deviate from sector-wide collective agreements.[51] The relevant legislation stated that special enterprise agreements were to be concluded with a view to improving competitiveness and adaptability to market conditions and creating or preserving jobs in enterprises facing difficulties.

However, Greece has an economic structure similar to Romania with a large proportion of small enterprises. In fact micro enterprises (with less than 10 employees) comprise 96.6% of all enterprises and they account for 57.1% of total employment (compared to 29.6% in the EU27).[52] On the other hand, only 18% of workers in the private sector are union members.[53] Collective bargaining can only be effective in such circumstances if there is strong reliance on national level bargaining or industry-level bargaining with recourse to extension mechanisms.

When the above mentioned reforms failed to deliver a rapid expansion in firm-level collective agreements, further reforms were introduced which allowed "associations of persons" to negotiate at the enterprise level in the absence of trade unions.[54] This provision confirmed suspicions that the real purpose of the reforms was the erosion of trade unions' influence in Greece.

These conditions were amended and elaborated upon in regular reviews by the Troika. In respect of collective bargaining after the fifth review in late 2011, they indicated that:

*"As to structural reforms... a reinvigoration of reforms remains the overarching challenge facing the authorities. In this regard, the decision to suspend the mandatory extension of sector-level collective agreements to the firm level is a major step forward, as it will help ensure the flexibility in the labour market needed to boost growth and prevent high unemployment from getting entrenched."* [55]

At no stage did the Troika produce any convincing evidence to show that a move from a more centralised collective bargaining system in Greece to firm level or individual bargaining would generate the effects on growth and employment that were asserted. Now several years on, it is obvious that the faith they placed in weakening collective bargaining was totally misplaced.

Despite massive reductions in the incomes and living standards of ordinary workers and the failure of these policies to generate growth, the Troika continue to insist on even further wage cuts in Greece through removing any role for the social partners in setting the minimum wage.[56] In fact the IMF would appear to have now decided that they have the authority in Greece to determine which trade unions and employers associations are representative, claiming that those that had previously been involved with the Government in setting the minimum wage were "nonrepresentative".[57]

The failure of the reforms in Greece is hardly surprising given that the key players dictating the changes to the collective bargaining system had little or no experience in industrial relations. In fact, it would appear that the economists within the Troika designing these reforms had a very distorted picture about the consequences of labour reforms implemented elsewhere in previous decades. In August 2009 an IMF report concerning Greece stated that:

*"It is often touted that times of crisis are best to implement bold reforms. Indeed as international experience suggests, a number of countries embarked on ambitious reforms in times of crisis. These reforms led to improved labour market outcomes and to subsequent rapid growth, even as they came with short-run costs."* [58]

This 2009 report reiterated information that had originally been published in various editions of the World Economic Outlook.[59] The report reviewed and supported as relevant to Greece various examples of the most extreme and bitterly opposed labour reforms that had been implemented in the last 30 years. This included the highly controversial reforms implemented after 1979 in the United Kingdom. Aspects of the Thatcher Government reforms highlighted included the following:

*"The government introduced a series of legislative reforms, including extending the grounds for refusing to join a union, introducing limits on picketing, prohibiting actions that force contracts with union employers, and weakening the closed shop and union immunities."* [60]

The IMF paper on Greece also highlighted labour market reforms introduced by the National Party Government in New Zealand in the early 1990s.[61] The Employment Contracts Act of 1991 removed virtually all protections for trade unions and measures to promote collective bargaining. The New Zealand reforms involved a decisive move away from collective bargaining towards individual contracts.

The IMF also warmly praised actions taken by the Howard Government in Australia. In regard to the latter the IMF stated:

*"... in 1996, the Coalition Government furthered the decentralisation process by introducing the possibility of individual contracts through the Australian Workplace Agreements (the powers of the Australian Industrial Relations Commission were also reduced). These steps, together with other reforms and ongoing structural changes of industrialised economies around the world, contributed to the secular decline in the unionization rate. As a result of these consecutive reforms, Australia stands out among OECD countries as a country with a flexible labour market characterized by a low level of corporatism, a decentralised wage bargaining system, and a flexible employment protection legislation"* [62]

The clear intention of reforms in Australia, the United Kingdom and New Zealand that the IMF reviewed were a massive weakening of the trade union movement and the destruction of collective bargaining. The fact that the IMF highlighted these notorious examples as relevant to Greece from the outset of the reform process was a sign of the aggressive attitude and the intention to weaken unions and the collective bargaining system.

Photograph © JREBOLLO/Secretaría de Comunicación CCOO

## 4.3 Spain

Austerity and labour reforms in Spain have also failed to ignite an export-led recovery. Conditions in the labour market have reached depression-like levels. Employment levels fell by 6.5% in 2009, 2.5% in 2010 and 1.5% in 2011. Latest data for January 2013 indicate there is no sign of a turnaround with the unemployment rate reaching 26.2% and the youth unemployment rate passing the half century mark (55.5%). The social consequences of reforms in Spain are particularly severe. 27.0% of population were at risk of poverty in 2011 (compared to 22.9% in 2008). The share of working poor increased to 12.3% in 2011.[63] On-going protests and demonstrations reflect the despair of citizens. A report carried out by Intermón Oxfam estimates that Spain will need 20 years to return to the level of living standards before the crisis if the current austerity policies continue.[64]

The IMF has made detailed recommendations for reform of the collective bargaining system in Spain despite the fact that it currently has no lending programme in the country. In its 2011 Article IV Report on Spain, the IMF called for *"boldly strengthening labour market reforms"*.[65] The Report noted that far reaching labour market reforms were implemented in 2010. These included reforms to the collective bargaining system to allow firms to opt out of industry-level collective agreements and to significantly cut severance payments. The IMF also noted that:

*"In June 2011, collective bargaining was further reformed toward greater firm-level flexibility through: (1) establishing the prevalence of firm-level agreements, especially over provincial ones; (2) reducing the possibility of indefinite extension of previous agreements when social partners cannot agree on a new agreement; (3) further easing opt-outs of collective agreements; and (4) giving firms more internal flexibility."* [66]

This was followed by the assertion that:

*"Most interlocutors including social partners, the International Labour Organisation (ILO), and academics broadly agreed the labour market reforms to date were in the right direction. Nevertheless, as many of the interlocutors also underscored, the reforms were incomplete and remain a work in progress..... For example, ... they leave open the possibility to make sectoral agreements prevail over firm-level agreements if social partners agree to do so."* [67]

Contrary to the claims made by the IMF, senior officials from the ILO when questioned about this IMF assertion claimed no knowledge of any support for the reforms. Moreover, the claim that the social partners supported the labour reforms is also wrong. In fact the main trade unions in Spain (UGT and CCOO) have spearheaded the campaign against these reforms and have organised several general strikes against the reforms.[68]

As the IMF is well aware, the empirical evidence supporting the reforms to collective bargaining advocated in Spain and elsewhere is very weak. In reviewing the existing literature on labour market institutions in their own detailed examination of the Spanish labour market, IMF staff stated:

*"The literature is less conclusive on the unemployment effects of EPL, union density and the structure of collective bargaining. ... Econometric estimates do not yield conclusive evidence, and in general effects are small.....the empirical evidence remains relatively inconclusive...."* [69]

In fact the empirical study done by the IMF staff, and cited in the above mention paper, demonstrated that unemployment in Spain would be lower if the country moved to a more highly coordinated collective bargaining system rather than the decentralised system that the IMF advocated.[70]


Photograph: ITUC

## 4.4 Portugal

The IMF programme with Portugal included limits on minimum wage increases and restrictions on negotiating collective agreements with a sector-wide application. In explaining these reforms the IMF stated:

> *"Over the program period, any increase in the minimum wage will take place only if justified by economic conditions and agreed in the context of regular program reviews. In addition, commitments under the program will ensure clear criteria for the extension of collective wage bargaining agreements. These criteria will take into account the competitive position of firms."* [71]

The IMF programme explicitly sought not only to decentralise collective bargaining from the sector to the enterprise level, but also to weaken the role of trade unions. A June 2011 report published by the IMF included a specific commitment by the Portuguese government:

> *"[to] promote the inclusion in sectoral collective agreements of conditions under which work councils can conclude firm-level agreements without the delegation of unions."* [72]

In addition, Portugal was required to abolish automatic (erga omnes) extensions of collective agreements to entire sectors.[73] The new conditions dictated that *"a collective agreement subscribed by employers' associations representing less than 50 per cent of workers in a sector cannot be extended."* [74] The revision of the labour law limiting the extension of collective agreements was duly approved by the Council of Ministers on 10 October 2012. In spite of the measures already taken, in January 2013 the IMF pushed for further labour market deregulation, including a reduction of severance payments:

> *"The mission has reached understandings on steps to further enhance labor market flexibility. Significant measures have already been adopted over the past year to improve the functioning of the labor market, including the recent reform of wage bargaining to ensure wages better reflect heterogeneous firm-level conditions. The government agreed to further lower severance payments to 12 days per year of service… Labor market reforms would help reduce structural unemployment."* [75]

**The claimed ultimate objective of the programme in Portugal – job creation – did not materialise.**

Employment conditions were further eroded with the adoption of Law 23/2012 which excluded the regulation of working hours and overtime pay from collective bargaining for the next two years.[76]

However, the claimed ultimate objective of the programme – job creation – did not materialise. Even as Portugal applied its austerity measures, including reductions in unemployment benefits and inequality-inducing labour market flexibility reforms, unemployment continued to increase. As in all of the other programme countries in Europe, the economic contraction exceeded IMF and EU expectations. By January 2013 the IMF confirmed that GDP had fallen by 1.6 per cent in 2011 and predicted that it would decline by 3 per cent in 2012 and a further 1 per cent in 2013.[77] The unemployment rate reached 15.9% in 2012, roughly 5 percentage points above EU 15 average.[78] Unemployment would be even higher except that an increasing number of workers are looking for job opportunities abroad – in EU countries but also in former colonies like Angola, Mozambique and Brazil. Within the last two years, more than 2% of population have left the country.[79]

# 5. Trade Unions, Collective Bargaining and Economic Performance

All advanced economies have labour market institutions and regulations that aim to facilitate fairness and efficiency in the workplace. This framework normally recognises that the labour market has important characteristics that differentiate it from product markets including the need to compensate for the power inequality between the employer and employee inherent in the employment relationship. The social partners are therefore usually exempted from regulations concerned with anti-competitive behaviour. But this legal and institutional framework is not consistent across countries. In some places the protection provided to the worker battling against the might of the multinational is minimal.

Legislation regulating the establishment and activities of trade unions and employers' associations is a critical component of this framework. For example, laws governing union recognition, union security and the right to strike can exert significant influence on membership levels and the power of unions. Legislation concerning the obligation to bargain, the levels at which bargaining can take place or the extension of collective bargaining agreements can have a profound impact on the extent to which fairness and efficiency is achieved in practice.

The nuts and bolts of this legislation and the way governments support labour institutions differ substantially from country to country. As we will see, alterations to this legislation dramatically transformed industrial relations in various Anglo-Saxon countries in previous decades, and there is no doubt that similar objectives are now being pursued by the Troika in the peripheral countries of Europe.

In assessing these reforms this section focuses on two issues.

First, given the concerted attack on worker rights in the countries mentioned in the previous section, we try to assess if there is something distinct and undesirable about trade unions and the collective bargaining systems in these countries. For example, are trade unions in Spain so much more powerful and "destructive" than unions in Germany that this could somehow explain the current differences in their unemployment rates? Or is the collective bargaining system in Portugal so vastly different from that which operates in the Netherlands or Austria that it can explain the current differences in employment rates between these countries?

Second, if this attack on workers' rights is really about economics, rather than ideology, it should be easy to produce hard evidence that countries that strongly discourage workers from organising themselves in trade unions enjoy substantial economic advantages over countries that encourage strong trade unions. There should also be stark evidence that countries that set wages through individual contracts or uncoordinated firm-level collective bargaining achieve better labour market performance, higher investment and better export performance then countries with more encompassing bargaining structures.

On the flip side there should be unambiguous evidence demonstrating that countries that use multi-employer bargaining at industry or national level and extension mechanisms are uncompetitive, have lower growth and systematically have worse labour market outcomes than other nations.

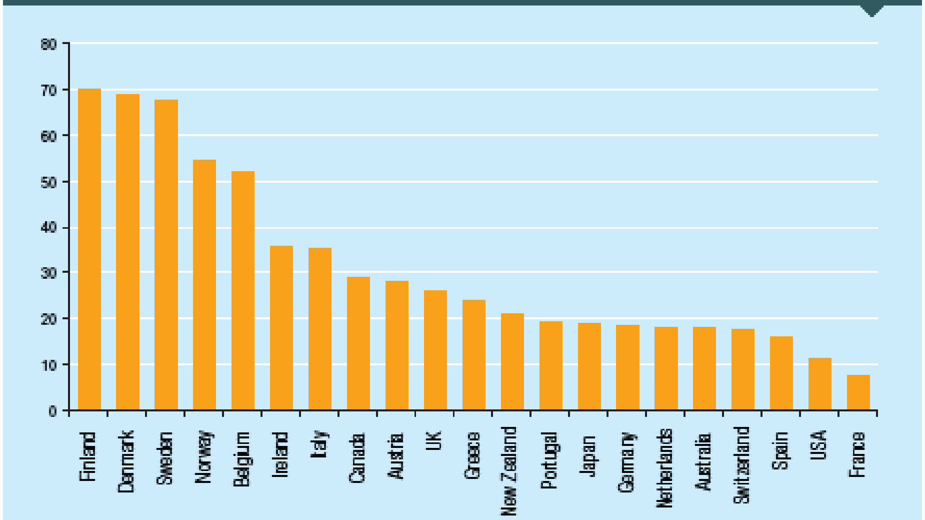
Let us see what the evidence actually shows.

## 5.1 Trade unions and economic outcomes

Trade unions are the most important labour institution when it comes to promoting and protecting the rights of workers. But it is difficult to quantify the industrial and political strength of trade unions. One very basic, but highly imperfect, indicator that is often used for this purpose is information related to trade union membership levels.

Figure 9 shows the most recently available data on trade union density (wage and salary earners who are members of a trade union as a proportion of all wage and salary earners) for 21 advanced economies. It is immediately apparent that trade union membership varies dramatically across this group of countries. The Nordic countries and Belgium are at one end of the spectrum with density levels of between 50% and 70%. At the other extreme are France and the US with density rates around or somewhat below 10%.

Figure 9: Latest Data Available for Trade Union Density (2008-2011)

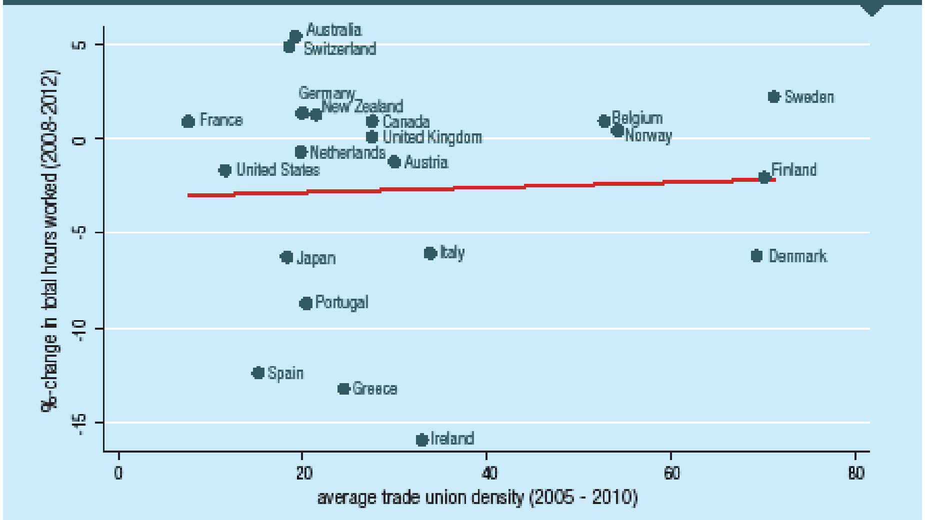



Source: OECD Database, 2013.

Several of the countries at the centre of the current European economic crisis including Spain, Portugal and Greece had density rates between 15% and 25% prior to the recent reforms. Italy is somewhat higher, but none of the southern European countries have trade union density rates that are out of kilter with the norms across continental European countries, and they are substantially below all the northern European countries.

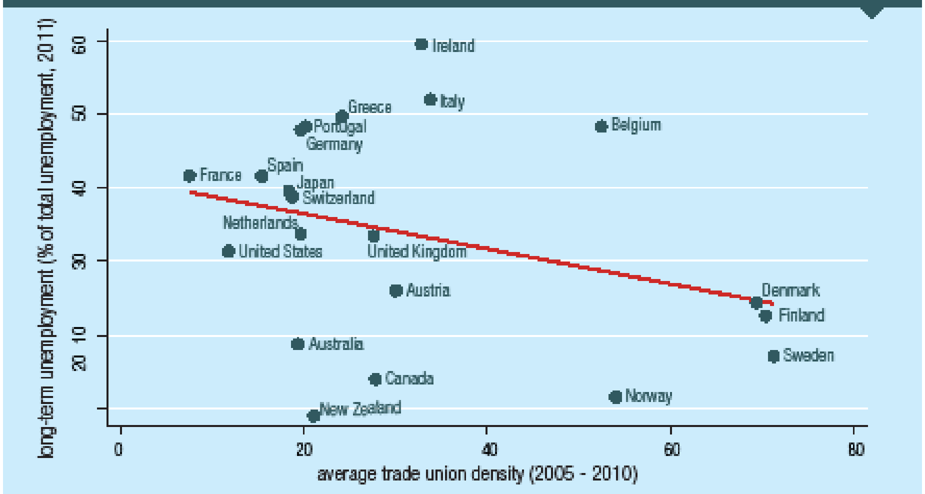
Figure 10 is a simple scatter plot showing the average trade union density over the period 2005 to 2010 on the horizontal axis and changes in total average hours worked between 2008 and 2012.[80] This scatter plot would suggest there is no clear relationship between trade union strength and labour market performance since the onset of the recession. For example, it is immediately apparent that there is a concentration of countries with trade union density in the 20% to 40% range. But this includes countries with the best labour market performance in the last few years (Australia and Switzerland) as well as those that are among the worst performers (Ireland and Greece) in addition to many countries between these two poles.

**Figure 10: Trade Union Density (2005-2010 average) and Labour Market Performance in the Recession**




Source: The Conference Board, Total Economy Database, 2013 and OECD Database, 2013.

**Figure 11: Trade Union Density (2005-2010 average) against Percentage Share of Long-Term Unemployment in 2011**




Source: OECD Database, 2013.

The relatively strong performance of Australia can, in part, be attributed to rising commodity prices and a buoyant export market in China that has spurred investment in the resources sector plus a well regulated financial sector that avoided the extreme risks witnessed in other advanced economies. But this outcome also occurred during a period when the Labor Party returned to power and reintroduced a reasonable industrial relations policy that respected worker rights, provided a "floor" for minimum wages and employment conditions in each industry and encouraged collective bargaining.

If we focus on the highly unionised countries (Sweden, Finland and Denmark), it is evident that labour market performance across these three countries has varied in the last few years with Sweden performing relatively well. But Denmark, the country that won much praise in some circles for its so-called flexi-security approach, has recorded a decline in average hours worked equal to Italy between 2008 and 2012.

At the other end of the scale the three countries with the lowest trade union density (France, USA and Spain) have either performed modestly or very poorly. Looking at this from another perspective France, Canada, Belgium, Germany, New Zealand, Norway, Sweden and the United Kingdom all had roughly equal labour market performance since 2008. All these countries either managed to avoid a significant decline in hours worked or have recovered what ground they lost at the peak of the recession. Yet these countries differ substantially in terms of trade union density.

While such simple analysis has limitations, it clearly does not support the view that countries with strong trade unions and respect for freedom of association have systematically underperformed since the onset of the latest global recession. If we were to use other indicators of labour market performance, such as employment rates or unemployment rates, similar patterns emerge.

Given that the IMF and other conservative forces claim that one objective of the labour reforms is to avoid the emergence of structural unemployment problems that will inhibit recovery from this recession, it is worth examining the relationship between trade union density and long-term unemployment that has emerged in the last few years. From Figure 11 it is apparent that there is no clear association between higher union density and higher levels of long-term unemployment. If anything Figure 11 gives very much the opposite impression.

To expand our understanding of how trade union strength might influence macroeconomic outcomes, it is necessary to examine longer-term trends. Table 2 shows trends in trade union density over the last 50 years across our group of advanced economies. The data is presented in five year averages, and countries are grouped by sub-region. It is evident that between the early 1960s the late 1970s/early 1980s, trade union density levels were either increasing or at least static in the majority of countries. In fact the Nordic countries and Belgium recorded impressive increases in union density over this time span.

However, over the last 25 to 30 years several factors have made organising workers more difficult in all the advanced economies. This includes the impact of trade and financial market deregulation that increased competition in product markers. Also at play are changes in the structure of the economy including the diminishing influence of large manufacturing establishments and the expansion of small private enterprises in the service sector plus the explosion in precarious forms of work.

Thus, in the period between 1980-84 and 2005-10, trade union density has declined significantly in 18 of the 21 countries for which we present data. In several Anglo-Saxon countries the decline in unionisation was dramatic. For example, in New Zealand trade union density fell from around 65% in the late 1980s to around 20% in the last decade, while in the United Kingdom and Australia density rates were roughly halved over a similar period. In the US, union density was always relatively low but nevertheless declined from almost 30% in 1970 to just 10% in the early to mid-2000s.

Reforms to labour legislation by conservative Governments in the UK, Australia and New Zealand that the IMF praised in reviewing the labour market in Greece contributed to these record declines in union density. In the UK reforms in the early 1980s removed statutory requirements for union recognition. In New Zealand the 1991 Employment Contracts Act removed the duty on employers to bargaining with trade unions and gave equal weight to non-union bargaining agents. Similar reforms were introduced in Australia in 1996 by the Howard Government.

Reforms in Greece, Romania and other parts of Europe are now emulating this experience by combining moves from industry to enterprise bargaining with either tougher rules for union recognition or the promotion of non-union bargaining agents. More progressive Governments in the three Anglo-Saxon countries eventually rescinded at least

## Table 2: The Country Structure of Trade Union Density

| | | 1960-1964 | 1965-1969 | 1970-1974 | 1975-1979 | 1980-1984 | 1985-1989 | 1990-1994 | 1995-1999 | 2000-2004 | 2005-2010 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Anglo-Saxons + Japan | Australia | 49.3 | 45.6 | 46.4 | 49.9 | 47.7 | 42.3 | 37.8 | 28.9 | 23.2 | 19.2 |
| | Canada | 27.6 | 28.8 | 32.0 | 34.8 | 35.3 | 34.1 | 35.1 | 30.6 | 28.3 | 27.5 |
| | Ireland | 45.0 | 46.8 | 50.8 | 53.9 | 54.0 | 49.1 | 47.9 | 42.3 | 37.0 | 33.0 |
| | Japan | 34.2 | 34.8 | 34.3 | 33.1 | 30.3 | 27.6 | 24.6 | 23.0 | 20.3 | 18.4 |
| | New Zealand | .. | .. | 57.5 | 63.9 | 64.8 | 52.3 | 38.3 | 23.8 | 21.8 | 21.0 |
| | United Kingdom | 38.7 | 38.9 | 43.8 | 46.1 | 48.9 | 42.6 | 37.3 | 31.3 | 29.6 | 27.5 |
| | United States | 29.3 | 27.9 | 26.4 | 23.9 | 20.2 | 16.6 | 15.2 | 13.7 | 12.6 | 11.7 |
| Southern Europe | Italy | 25.5 | 28.1 | 41.6 | 49.7 | 47.0 | 40.4 | 38.9 | 36.5 | 34.1 | 33.9 |
| | Greece | .. | .. | .. | 37.2 | 38.6 | 36.6 | 35.3 | 29.1 | 25.5 | 24.4 |
| | Portugal | .. | .. | .. | 60.4 | 50.7 | 38.3 | 26.8 | 24.4 | 21.5 | 20.5 |
| | Spain | .. | .. | .. | .. | 9.6 | 10.6 | 15.9 | 16.1 | 16.0 | 15.2 |
| Nordics | Denmark | 57.9 | 58.2 | 62.3 | 74.2 | 79.7 | 76.0 | 76.3 | 76.1 | 73.9 | 69.3 |
| | Finland | 34.6 | 41.4 | 58.6 | 66.8 | 68.8 | 71.0 | 77.5 | 78.9 | 73.8 | 70.2 |
| | Norway | 60.0 | 57.9 | 54.1 | 53.9 | 58.2 | 56.9 | 58.1 | 55.9 | 54.6 | 54.2 |
| | Sweden | 70.0 | 67.2 | 71.0 | 75.7 | 79.1 | 81.7 | 82.1 | 82.0 | 78.2 | 71.3 |
| Central Europe | Austria | 67.1 | 64.4 | 60.9 | 58.2 | 54.5 | 49.7 | 44.3 | 39.2 | 35.2 | 30.0 |
| | Belgium | 40.0 | 41.1 | 46.0 | 53.3 | 52.7 | 51.9 | 54.5 | 54.4 | 51.0 | 52.8 |
| | France | 19.8 | 20.0 | 21.7 | 20.9 | 16.8 | 12.0 | 9.5 | 8.4 | 8.0 | 7.7 |
| | Germany | 33.8 | 32.4 | 32.5 | 35.2 | 35.0 | 33.5 | 32.7 | 27.0 | 23.4 | 19.8 |
| | Netherlands | 39.0 | 37.5 | 36.7 | 37.1 | 32.0 | 25.7 | 24.8 | 25.0 | 21.8 | 19.8 |
| | Switzerland | 34.5 | 31.4 | 28.9 | 32.7 | 26.8 | 23.8 | 22.8 | 21.8 | 20.1 | 18.6 |

Source: OECD Database, 2013, and Visser, J., ICTWSS Database, 2011.

some of these reforms, and this has helped moderate the pace of decline in membership levels. But, as we will see in the next section, the decisive move to enterprise-level bargaining across all Anglo-Saxon countries has been maintained with highly detrimental effects on income inequality.

Union density trends across the ten countries of southern and central Europe provide an interesting comparison. In all but two of these countries (Belgium and Spain) union density declined sharply after the late 1970s. But as we will see in the next section, most of these countries (except Germany) have maintained very high collective bargaining coverage rates.

When we look for a possible relationship between trade union density levels and labour market performance across countries over this fifty-year time horizon, there does not appear to be a lot of evidence supporting the Troika stance. Figure 12 plots trade union density against various measures of labour market performance including unemployment rates, employment rates and a measure of vulnerable employment. In fact, the opposite appears to be the case with a suggestion that higher unionisation may be associated with improving labour market performance.

If we examine labour market trends more thoroughly over a long-term horizon across our group of advanced economies, doubts about the efficacy of the Troika attack on unions intensify. Over the last thirty years there have been periods of time when countries such as the United States, with low trade union density, performed relatively well compared to European countries with much higher union density rates. But the trends are definitely not stable over time. It emerges that the vast majority of European countries were able to substantially improve their labour market performance after the mid-1990s without changing the degree of State support for trade unions or destroying collective bargaining.

**Strong trade unions help produce a wage distribution that is more compatible with social cohesion and stable democracies.**

The bar charts in Figure 13 for the period 1987 to 1994 suggest that labour markets in several European countries underperformed prior to the mid-1990s. In fact, total annual working hours for the EU-15 as a whole were stagnant in this period, but there were diverging patterns across countries. Several northern European countries such as Finland, Denmark, Austria, Germany, and Norway recorded significant declines in average annual total hours worked during this period. But to a large degree this was the result of shorter working hours for employees in regular full time jobs. Workers were choosing to receive the benefits of higher productivity growth in the form of shorter working hours rather than larger pay increases. This was a desirable development and stands in stark contrast to more recent periods when stagnant or slow growth in average working hours has resulted from job losses, an expansion of involuntary part-time work and increased use of temporary and other precarious forms of work.

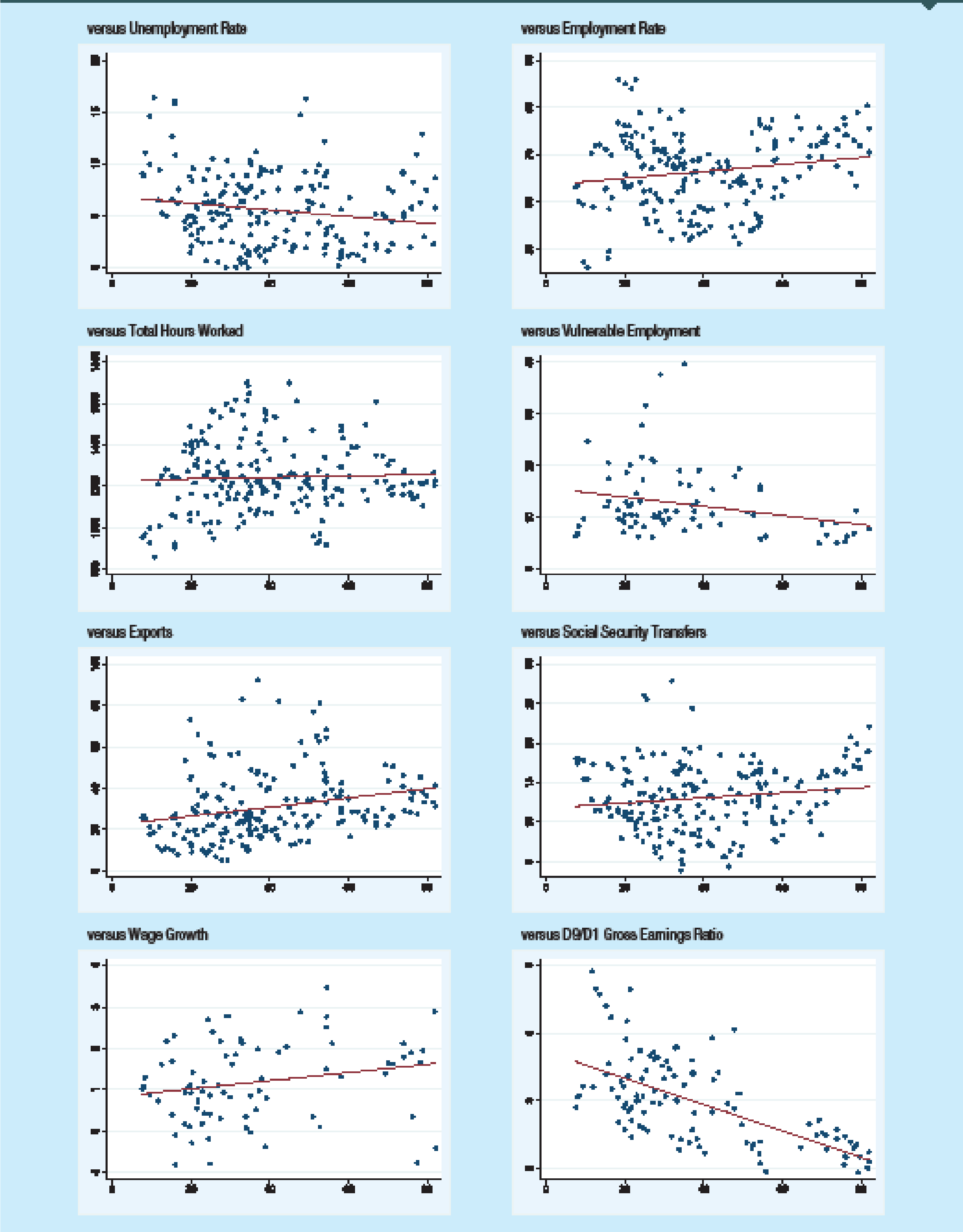
By comparison some of the countries that are today the centre of concern – such as Portugal, Greece, Spain and Ireland – experienced moderate growth in total hours worked in the late 1980s and early 1990s. In fact, on this measure, the growth in labour utilisation in some of these peripheral European countries was more or less comparable with the USA in the period 1987 to 1995. They also outperformed several of the other Anglo-Saxon countries such as the United Kingdom and New Zealand.

Interestingly the country with the best labour market performance among the advanced economies throughout most of the 1980s and early 1990s was again Australia, which had relatively high trade union density during this period compared to more recently. More importantly, trade union influence over economic and social policy in Australia was significant between 1983 and 1996 thanks to a series of "Accords" under which the Government consulted closely with the unions on most areas of economic policy and implemented far-reaching structural reforms.[81]

But from the mid-1990s there are some notable changes in the trends mentioned above. For example, the annual growth in total working hours accelerated significantly in virtually all the "old" EU countries. In fact, over the entire period 1995 to 2007 average annual growth in total hours worked in the EU-15 as a whole and the US were roughly equal. This expansion in labour utilisation was very noticeable in the highly unionised European countries (Finland, Denmark, Norway and Belgium).

But it is also evident from the bar charts in Figure 13 that the pick-up in labour utilisation was particularly pronounced in some of the peripheral European countries. For example, Ireland and Spain achieved remarkable increases in annual average working hours (of around 4%) over the full period 1995-2007. In Ireland during this period there were many similarities with the earlier period in Australia, as Irish trade unions worked closely with their Government to implement a wide range of structural reforms which encouraged foreign investment and enhanced international competitiveness.

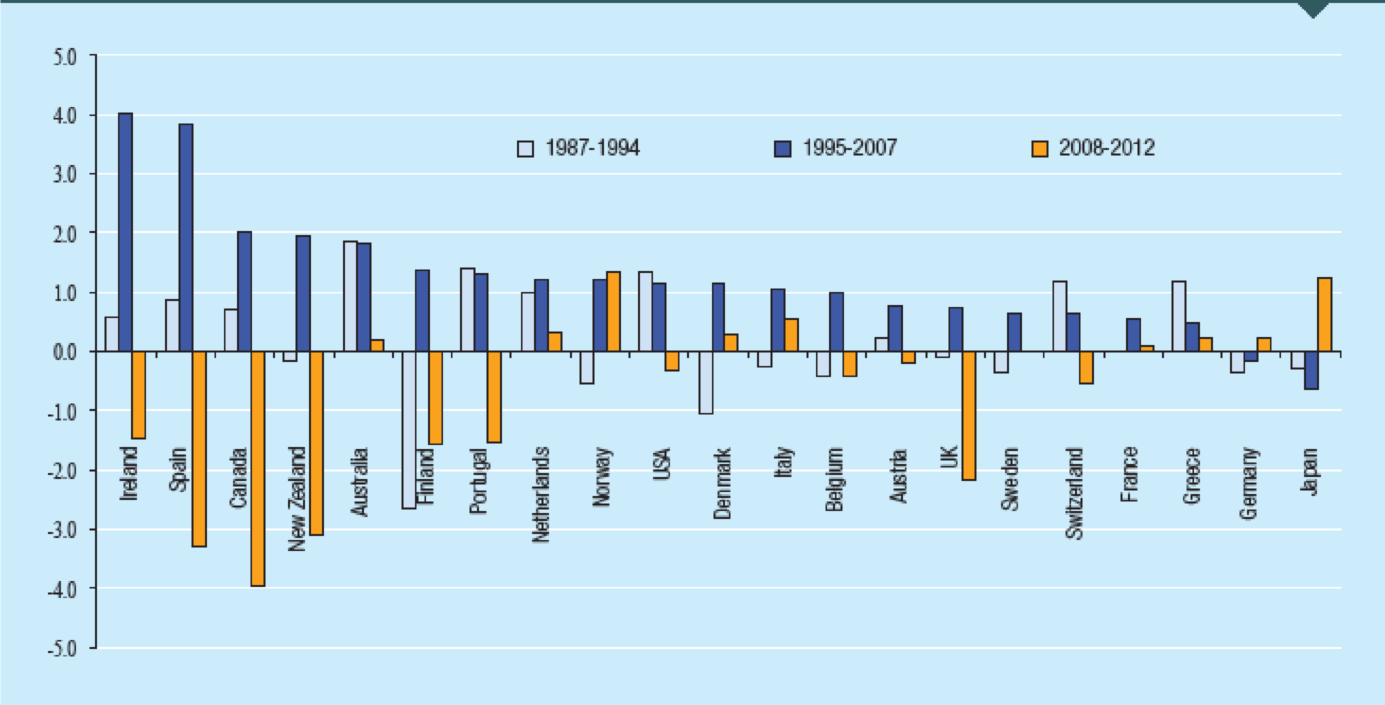
Figure 12: Trade Union Density (x-axis)




[illegible]

[illegible]

Figure 13: Average Annual Growth Rate of Total Annual Hours Worked




Source: The Conference Board, Total Economy Database, 2013.

By comparison the growth of labour utilisation in the low-unionised US labour market was on a par with that in Portugal and Italy: expanding at about one-quarter of the pace experienced in Ireland and Spain through this twelve-year period. In fact, in terms of the growth in average annual hours worked, these two peripheral European countries completely outperform all the other Anglo-Saxon countries, including Australia, which by this time had moved from centralised bargaining to a highly deregulated industrial relations system.

Another notable outcome of this period was the performance of the German labour market. As can be seen from Figure 13, Germany is the only EU-15 country that failed to record any growth in average annual total hours worked over the entire period 1995 to 2007. On this measure the German labour market performed significantly worse than Portugal, Italy or Greece in this period. In fact during most years between 2000 and 2007 total hours worked in Germany were declining at an alarming rate. In part this was a lasting legacy of unification a decade earlier that led to a sustained upward trend in unemployment, peaking at 13% in 2005. But as we noted in Section 2, this also reflected a dramatic expansion in precarious forms of work including what the Germans refer to as "mini jobs", fixed-term contracts and agency work which replaced regular and much better paid full-time jobs. This period of disappointing labour market outcomes in Germany followed a pronounced decline in trade union density that commenced immediately after unification in the early 1990s.[82] Between 1991 and the early 2000s trade unions in Germany lost roughly one third of their members, and this predated the Hartz reforms but produced no improvements in labour market performance.

The rapid expansion in employment and total hours worked in countries like Spain and Ireland in the early and mid-2000s was closely related to the rapid expansion in private debt and bubbles in their construction sectors plus foreign direct investment into other parts of the non-traded goods sectors. Although this growth pattern was highly unbalanced and therefore unsustainable, it also seems that their labour institutions were at least compatible with rapid job creation. This does not mean that the labour market outcomes or the labour institutions in a country like Spain were necessarily ideal. But once again the Spanish and Irish experience through this period does raise the issue of whether trade unions and the collective bargaining system are now being used as scapegoats to deflect attention away from other more critical faults in the financial system and the model of economic development that was pursued in the pre-recession period.

Advocates of labour market reforms tend to downplay this evidence about rapid increases in labour utilisation among the peripheral European countries in the decades prior to the 2008 recession. Instead they focus on the fact that, despite this progress, absolute employment rates and participation rates in southern European countries lagged behind targets set in the Lisbon strategy and the rates achieved in other advanced economies in northern Europe or the USA. While this point about overall participation and employment rates is valid, it is also interesting to observe that these rapid improvements in labour utilisation were achieved with the type of labour market institutions that are criticised and the subject of reform today.

As noted previously, one of the central concerns of the IMF and their partners is that of the imbalances between EU countries and the declining international competitiveness of peripheral countries that led to large trade deficits. The Troika have argued that the labour reforms they support will enhance export-led growth in the countries that have suffered from large external deficits. It therefore seems reasonable to investigate the possible relationship between trade union strength and trade performance. The scatter plot in Figure 12 concerning trade union density and the level of exports offers no support to the reformers and if anything suggests that countries with higher union density may have an advantage.

Figure 12 also considers the possible relationship between trade union density and a key area of social spending (public expenditure on social security transfers). The suggested relationship is not particularly strong, but there is an indication that countries with strong trade unions also devote more resources to the social floor.

Finally, it is important to consider the relationship between trade union density, wage growth and wage inequality. This is an area of the literature on which there is considerable consensus. It being widely recognised that trade unions tend to achieve a wage premium for their members and that this is associated with a fairer distribution of incomes. Given the overwhelming evidence about widening income inequality across all countries and the role this played in increasing private debt and the risky loan behaviour that caused the recession, this evidence warrants attention. The scatter plot in Figure 12 concerning trade union density and real wage growth tends to support the accepted view that strong trade unions are associated with better wages.

The final scatter plot in Figure 12 concerns the potential relationship between trade union density and wage inequality (measured as the differential between the gross earning of those in the top and bottom 10% of the earnings distribution). This scatter plot also supports the widely accepted belief that strong trade unions help produce a wage distribution that is more compatible with social cohesion and stable democracies. Boosting trade union density would therefore be one way to help offset disturbing trends in income distribution that have characterised most advanced economies over the last two decades.

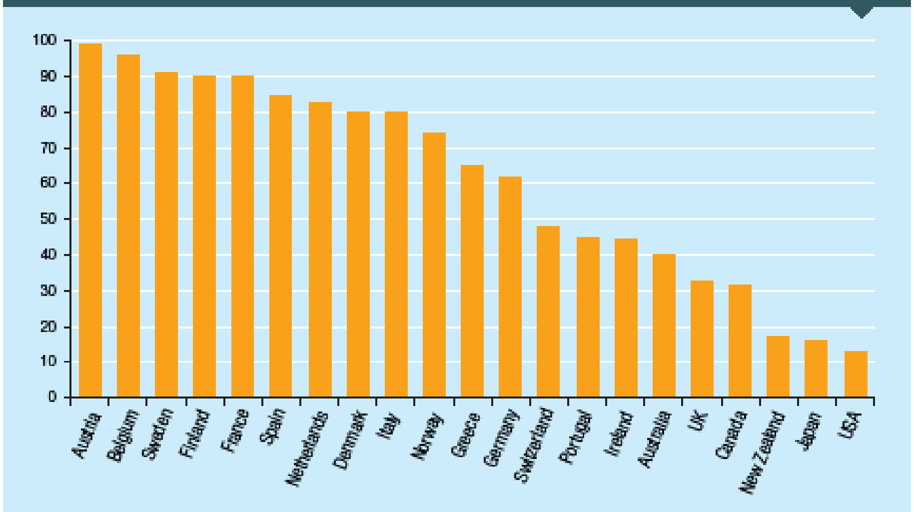
## 5.2 Collective bargaining coverage and economic performance

Collective bargaining systems vary significantly across countries and reflect country specific historical, ideological and legislative developments.[83] It is difficult to find indicators that adequately capture the differences between national collective bargaining systems. The most basic indicator concerning the importance of collective bargaining relates to the proportion of workers covered by collective agreements. Figure 14 shows the most recently available data on collective bargaining coverage. The proportion of workers covered by collective agreements varies from nearly 100% in Austria to 12% in the US.

The next section of this paper will discuss the centralisation and coordination of collective bargaining in some depth. But it is worth noting that the level at which bargaining takes place (i.e., the degree of centralisation) can have a profound impact on the coverage of collective bargaining. In more decentralised bargaining systems where bargaining takes place at the firm or plant level, the degree of bargaining coverage will depend decisively on trade union density, as only firms that are organised will have a collective agreement.

For example, most of the Anglo-Saxon countries today combine very low levels of trade union density with a strong focus on individual contracts or decentralised collective bargaining at the plant or firm level (single-employer bargaining). This combination of factors places these countries clearly at the bottom end of the scale when it comes to collective bargaining coverage (see Figure 14). Moreover, collective bargaining within the Anglo-Saxon countries is predominantly

Figure 14: Latest Data Available for Collective Bargaining Coverage (2007-2010)




Note: Collective bargaining coverage refers to the adjusted coverage, which is the share of employees covered by wage bargaining agreements as a proportion of all wage and salary earners in employment with the right to bargain (rather than all wage and salary earners).

Source: Visser, J., ICTWSS Database, 2011.

in the public sector with much of the private sector being union-free zones with wages and working conditions determined unilaterally by management. By contrast most countries in continental Europe have traditionally relied on multi-employer bargaining structures which tend to lead to higher coverage rates.

In virtually all advanced economies, collective bargaining coverage rates exceed union density rates (see Figure 15). For example, in France this ratio exceeds 10:1 but it is also reasonably high in Spain, Netherlands, Austria and Germany. Once again it is evident that the situation in Greece, Portugal and Italy is not out of line with that in other parts of central Europe. In fact, these three countries have a ratio of collective bargaining coverage to trade union density that is identical to Switzerland, which is by far the strongest economy in Europe.

The fact that collective bargaining coverage exceeds trade union density in most countries is the result of several factors.

First, there are so-called "extension mechanisms", and these take two forms. There are automatic extensions whereby employers voluntarily extend the terms of a collective agreement for their unionised workers to all workers in the enterprise(s) covered by the agreement.

> **"Increasing economic equality and tackling vested interests are key policies to follow the great recession, just as they were after the great depression and WWII"**
>
> **John Evans, ITUC Chief Economist**

This is the norm throughout advanced economies, as employers usually do not want to apply different wages and conditions to their unionised and non-unionised workforce. To do so would probably encourage workers to join the union.[84] Thus, even in the United States collective bargaining coverage slightly exceeds trade union density.

In addition a considerable number of advanced countries operate a system of legal or administrative extension mechanisms. Under these arrangements an independent authority (such as the Minister of Labour) often has the power to extend the coverage of a collective agreement beyond the membership of the employers' organisation(s) who signed the original agreement. Once extended the collective agreement may cover all enterprises in an industry, sector or sometimes region (or in some cases all workers in a particular occupation). Often the decision to make a collective agreement "generally binding" throughout a sector or industry is contingent on the original agreement meeting particular thresholds such as covering a minimum proportion of the workforce in the industry. Table 3 provides details on the application of administrative extension mechanisms in the advanced economies.

Belgium, France, Finland and the Netherlands are examples of countries that have extensively used such mechanisms to maintain very high bargaining coverage. Italy and Ireland have arrangements that produce similar effects through their labour courts. Also for long periods prior to the attacks on collective bargaining Australia and New Zealand utilised their unique conciliation and arbitration systems to produce similar effects. Recently, the Labor Government in Australia has re-introduced scope for an independent authority (Fair Work Australia) to establish "modern awards", which can set minimum wages and conditions of work across an entire industry or occupation.[85] The Republic of Korea, South Africa and Paraguay are examples of countries in other regions that regularly use extension mechanisms.

The use of extension mechanisms has also been a feature of collective bargaining in Greece, Portugal, Spain and Romania. Many of the recent reforms in the latter group of countries are aimed at eliminating the use of such extension mechanisms and confining collective bargaining to firm level agreements or individual bargaining.

In a few other European countries, including Germany, the possibility for extension also exits in the legislation but is used less frequently. In Germany the peak employer body has used their influence to block the use of this mechanism. Austria is another country that rarely uses the legal provisions that exist for extension, but the State has found alternative ways to support comprehensive collective bargaining:

**Figure 15: Ratio of Collective Bargaining Coverage and Trade Union Density**


Source: Visser, J., ICTWSS Database, 2011, and OECD Database, 2013.

## Table 3: Extension Mechanisms of Collective Agreements

| Country | Existence | Extension requirements | Use in practice |
|---|---|---|---|
| Australia | Yes | Fair Work Commission can decide on awards applicable to all workers and employers in the sector. | Frequently |
| Belgium | | Ministry of Labour (MoL) decides on erga omnes application to all employers in the sector on request of sectoral joint committee or by one organisation represented in the committee. | Frequently |
| Finland | | Public commission decides on erga omnes application after evaluation based on statistics that measure the general applicability of collective agreements, the established practices of agreements in the field and the organisation rate of the negotiating parties. | Frequently |
| France | | MoL can extend agreements to workers and employers in similar sectors. | Frequently |
| Greece | | MoL decides to extend a collective to all workers in a certain sector of economic activity if the agreement is already binding to employers employing 51 per cent of the sector's or profession's workers. | Frequently |
| Netherlands | | MoL decides on extension based on 1937 Act on Administrative Extension and non-Extension of Collective Labour Agreements; minimum requirement for extension is that the agreement must cover at least 55 per cent of relevant employees. | Frequently |
| Spain | | Automatic extension to all employers and workers at the bargaining level. | Frequently |
| Norway | | Act 58 of 1993 permits extension to foreign workers if it becomes evident that foreign workers are subject to wage and working conditions that are inferior to normal conditions in the relevant agreement. | Increasingly |
| Portugal | | MoL can extend an agreement if subscribed by employers' associations representing at least 50 per cent of workers in a sector. | Frequently (before 2012) |
| Germany | | MoL can decide on extension if: both employers and workers request an extension; employers bound by the collective agreement employ at least 50 per cent workers; extension is in public interest. MoL can exceptionally extend by ministerial decree. | Rarely |
| Austria | | Federal Arbitration Board may extend agreements to include employment relationships of essentially the same nature. | Rarely |
| Ireland | | Labour Court may extend agreement to all workers in the sector at request of both parties. | Rarely |
| Switzerland | | MoL may extend agreement to whole sector or occupation at the request of all parties if agreement covers at least 50 per cent of employers and 50 per cent of workers and if it is in the public interest. | Rarely |
| Japan | | | Not used |
| Italy | No | | |
| Denmark | | | |
| Sweden | | | |
| UK | | | |
| New Zealand | | | |
| US | | | |
| Canada | | | |

Source: Eurofound, 2013 and national labour legislations (Switzerland, Norway, Austria, Germany, Australia and Portugal).

companies are legally obliged to join the Austrian Economic Chamber, and the resulting high density of the employers' organisation guarantees that the coverage of collective bargaining is extremely high.

There are a few European countries which make no provision for extension, including Denmark, Sweden and the United Kingdom. But, in the Nordic countries governments have historically supported trade unions and collective bargaining through other means such as the Ghent system whereby the unions play a major role in administration of the unemployment benefit system. This has helped ensured that trade union density rates remain high, which in turn means that the coverage of collective agreements remains substantial.

Second, in multi-employer bargaining systems the collective bargaining coverage rate will depend to a large extent on whether employers decide to join employers' associations that sign collective agreements. These decisions are heavily influenced by public policy. In particular, legislation governing employers' associations and laws concerning collective bargaining influence such decisions. As noted previously, the reforms in Romania, which have drastically altered the procedures for administrative extensions, have created a major incentive for employers to disaffiliate from their associations. Previously with automatic extensions of both national- and industry-level collective agreements, employers had a strong incentive to join an employers' association and participate in the bargaining process. Under the revised laws, however, by disaffiliating from their employers' associations, management can increase the probability that collective agreements will not meet the new requirements for administrative extension. In this situation they will be able to unilaterally set wages and conditions for their workforce.

More generally, single employer bargaining strengthens low-wage competition between firms within an industry, which in turn creates strong incentives for employers to implement anti-union policies and also try to replace collective bargaining with individual contracts. Moves from multi-employer bargaining to enterprise bargaining in Anglo-Saxon countries have had very detrimental impacts on employer attitudes to unions and collective bargaining. In such circumstances trust between unions and employers is also adversely affected.

By comparison, as noted above, in Austria the regulations virtually compel employers to participate in employers' associations, and this is the main reason why the collective bargaining coverage rate approaches 100%. Given that Austria has consistently had a strong labour market and been among the best performing advanced economies over several decades, this system seems to work well.

Table 4 shows long-run trends in collective bargaining coverage. This confirms the point made previously about several countries in continental Europe maintaining high collective bargaining coverage over a very long time span despite declining trade union density. In fact, it is evident from Table 4 that the Nordic countries, Belgium, France

**After strengthening their collective bargaining systems Austria, Belgium, France, the Netherlands and the Nordics performed better from the mid -1990s to the onset of the crisis.**

and to a lesser degree Austria and the Netherlands increased their collective bargaining coverage in the 1980s and/or 1990s.[86] This is particularly important as these eight countries from continental Europe expanded their collective bargaining coverage in the period prior to, or during, the period when their labour market performance improved significantly. In the previous section we noted that all these countries had labour markets that underperformed relative to the US in the late 1980s and early 1990s. However, after strengthening their

## Table 4: Trends in Collective Bargaining Coverage

| | | 1960-1964 | 1965-1969 | 1970-1974 | 1975-1979 | 1980-1984 | 1985-1989 | 1990-1994 | 1995-1999 | 2000-2004 | 2005-2010 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Anglo-Saxons + Japan | Australia | 90.0 | 90.0 | 89.0 | 86.5 | 85.0 | 83.0 | 76.7 | 58.3 | 48.0 | 41.7 |
| | Canada | 30.1 | 31.4 | 34.9 | 37.9 | 38.1 | 36.9 | 38.4 | 34.3 | 32.1 | 31.7 |
| | Ireland | 51.7 | 55.8 | 60.1 | 62.3 | 62.2 | 60.1 | 60.0 | 58.1 | 53.5 | 45.6 |
| | Japan | 31.3 | 31.7 | 31.3 | 30.1 | 27.3 | 24.7 | 22.2 | 20.3 | 17.9 | 16.2 |
| | New Zealand | .. | .. | 70.0 | 70.0 | 65.9 | 55.8 | 50.5 | 32.1 | 19.0 | 17.3 |
| | United Kingdom | 67.0 | 67.4 | 69.6 | 71.5 | 67.9 | 60.0 | 47.0 | 36.1 | 35.5 | 33.8 |
| | United States | 33.2 | 31.2 | 28.5 | 26.3 | 23.7 | 19.4 | 17.9 | 15.8 | 14.4 | 13.5 |
| Southern Europe | Italy | 90.4 | 90.0 | 87.2 | 85.0 | 85.0 | 84.0 | 82.4 | 81.2 | 80.0 | 80.0 |
| | Greece | .. | .. | .. | .. | 70.0 | 70.0 | 68.0 | 65.0 | 65.0 | 65.0 |
| | Portugal | .. | .. | .. | .. | 72.0 | 76.6 | 75.0 | 80.6 | 60.5 | 60.0 |
| | Spain | .. | .. | .. | 50.7 | 79.9 | 82.0 | 84.4 | 89.8 | 89.5 | 85.8 |
| Nordics | Denmark | 79.4 | 80.0 | 80.4 | 81.4 | 82.4 | 83.4 | 84.0 | 83.8 | 82.6 | 80.6 |
| | Finland | 64.2 | 68.8 | 74.6 | 77.0 | 77.0 | 78.5 | 81.6 | 93.3 | 90.0 | 90.0 |
| | Norway | 65.0 | 65.0 | 65.0 | 66.6 | 70.0 | 70.0 | 71.0 | 72.0 | 72.5 | 73.5 |
| | Sweden | 83.0 | 83.4 | 84.0 | 84.4 | 85.0 | 85.5 | 88.7 | 94.0 | 94.0 | 92.1 |
| Central Europe | Austria | 95.0 | 95.0 | 95.0 | 95.0 | 95.0 | 96.2 | 98.0 | 98.3 | 98.8 | 99.0 |
| | Belgium | 80.0 | 82.0 | 87.0 | 92.8 | 96.6 | 96.0 | 96.0 | 96.0 | 96.0 | 96.0 |
| | France | 70.0 | 70.0 | 72.4 | 79.6 | 87.0 | 90.8 | 91.6 | 90.6 | 90.0 | 90.0 |
| | Germany | 80.0 | 79.2 | 78.0 | 78.0 | 76.8 | 73.8 | 71.2 | 69.8 | 66.0 | 62.8 |
| | Netherlands | 82.4 | 82.2 | 82.6 | 85.0 | 85.0 | 83.8 | 83.7 | 86.5 | 85.6 | 83.7 |
| | Switzerland | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 | 49.3 | 48.1 | 47.4 | 47.8 | 48.0 |

Source: OECD Database, 2013, and Visser, J., ICTWSS Database, 2011.

collective bargaining systems and expanding coverage, these eight countries performed significantly better from the mid-1990s up until the onset of the global economic crisis.

Among the central European countries, Germany stands out as one country with a significant long-term decline in collective bargaining coverage: falling from just below 80% in the 1970s to around 70% by the mid- to late-1990s. The decline then accelerates in the early to mid-2000s. The steep decline in trade union density and the absence of extension mechanisms are the main factors explaining the decline in collective bargaining coverage in Germany. As we saw in the previous section, Germany was the only country in Europe not to witness a sharp improvement in average annual hours worked after the mid-1990s.

Among the four southern European countries, it can be seen that collective bargaining coverage was relatively high (ranging from 60% in Portugal to 86% in Spain) prior to the reforms now being implemented (see Table 4). But coverage rates of this magnitude were well in line with the comparable rates in the ten countries that comprise the central European and Nordic groups. In fact, among these ten countries only Switzerland had coverage rates lower then Portugal. But the reforms now being implemented in these countries will drastically alter this picture. They will prevent the use of administrative extension mechanisms and strongly discourage multi-employer agreements at the branch or industry level. Within a very short period, these countries will almost certainly end up with collective bargaining coverage rates that are comparable to those in the USA.

From Table 4 it can be seen that some of the Anglo-Saxon countries experienced a dramatic decline in collective bargaining coverage after the mid-1970s. For example, in the United Kingdom coverage fell from over 70% in the late 1970s to about 36% in the mid- to late-1990s. This can be attributed to a combination of factors including: a move from multi-employer bargaining to single employer bargaining; the Thatcher reforms which included more strenuous barriers to collective bargaining and trade union organising; the absence of extension mechanisms; the growth of the services sector; and, the explosion in precarious forms of work.

Australia and New Zealand also had very high collective bargaining coverage rates for much of their history. In New Zealand, coverage rates were up around the 70% range until the mid-1980s while in Australia coverage rates were in the 80% to 90% range until the early 1990s. In both countries this was thanks to legislation and institutions that supported trade unions and collective bargaining. In both countries an independent authority (the Conciliation and Arbitration Commission in the case of Australia) established minimum wage levels through a system of "awards". In this quasi-judicial process, the Commission would set minimum wages and employment conditions after considering detailed submissions from employers, unions and on many occasions both National and State level Governments. In both New Zealand and Australia, this system had an impact similar to a national collective agreement that adjusted all wages levels simultaneously and/or a comprehensive system of industry or occupational collective agreements with automatic extension provisions.

**In the UK wage inequality jumped substantially in the decade after the Thatcher reforms.**

In Australia, reforms to this highly centralised system of collective bargaining were gradually phased in starting in the late 1980s. But, as noted previously, "big bang" reforms were introduced by the conservative Howard Government after coming to power in 1996. These reforms dramatically weakened the role of the Conciliation and Arbitration Commission and moved collective bargaining decisively towards a US model whereby protections provided to trade unions were significantly curtailed and the promotion of collective bargaining was replaced by a system that encouraged individual agreements between a worker and the employer. This produced a dramatic 20-percentage-point decline in coverage rates in a very short period and a more steady decline thereafter. By the time of the global economic crisis, collective bargaining coverage in Australia was down to 40% from a high water mark of 90%.

In the three Anglo-Saxon countries following these industrial relations reforms and the decline in collective bargaining coverage, there was a marked increase in wage inequality. As can be seen from Table 5, in the United Kingdom the ratio of gross earnings of full-time workers in the top 10% of wage earners compared to those in the bottom 10% of the earnings distribution jumped substantially in the decade after the Thatcher reforms of 1980. Thereafter wage inequality in the United Kingdom edged up further until the mid-2000s. In Australia there was a similar sharp jump in wage inequality after reforms in the 1990s and a consistent upward trend since that time. In New Zealand wage differentials have been kept within more reasonable bounds, but the trend is nevertheless towards greater inequality.

## Table 5: Trends in Wage Differentials (Ratio of D9 to D1)

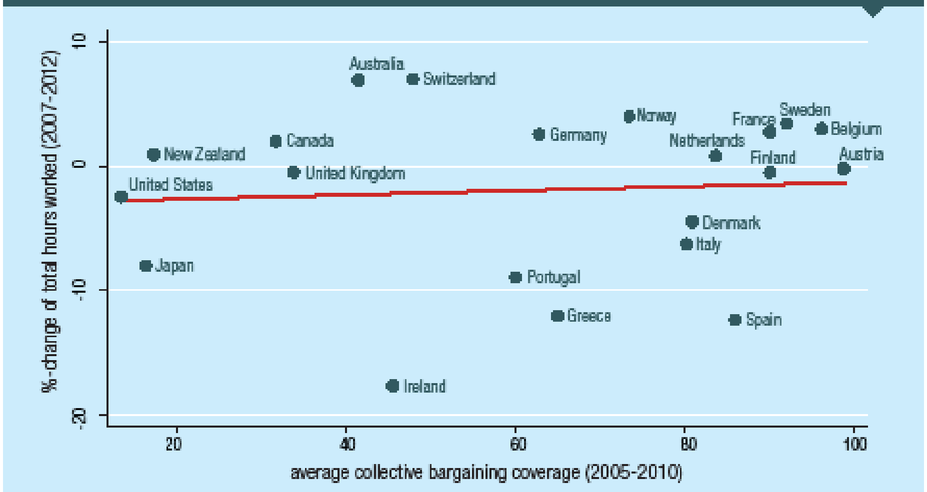
| | | 1980 | 1985 | 1990 | 1995 | 2000 | 2005 | 2010 |
|---|---|---|---|---|---|---|---|---|
| Anglo-Saxons + Japan | Australia | 2.83 | 2.72 | 2.80 | 2.91 | 3.01 | 3.12 | 3.33 |
| | Canada | .. | .. | .. | .. | 3.61 | 3.74 | 3.71 |
| | Ireland | .. | .. | .. | 4.06* | 3.27 | 3.73 | 3.63 |
| | Japan | 3.00 | 3.12 | 3.16 | 3.01 | 2.98 | 3.12 | 2.96 |
| | New Zealand | .. | 2.3* | 2.43 | 2.42 | 2.63 | 2.77 | 2.83 |
| | United Kingdom | 2.99 | 3.20 | 3.43 | 3.49 | 3.46 | 3.60 | 3.58 |
| | United States | 3.83 | 4.13 | 4.34 | 4.59 | 4.49 | 4.86 | 5.01 |
| Southern Europe | Italy | .. | 2.22* | 2.23* | 2.33 | 2.22 | 2.36* | 2.22 |
| | Greece | .. | .. | .. | .. | .. | 3.36 | 3.24 |
| | Portugal | .. | .. | .. | .. | .. | 4.31 | 3.69 |
| | Spain | .. | .. | .. | .. | .. | 3.47 | 3.30 |
| Nordics | Denmark | 2.13 | 2.17 | 2.16 | 2.49* | 2.51 | 2.64 | 2.80 |
| | Finland | 2.47 | 2.48* | 2.49 | 2.34 | 2.41 | 2.49 | 2.52 |
| | Norway | .. | .. | .. | .. | 2.00 | 2.12 | 2.30 |
| | Sweden | 1.95 | 1.98 | 1.99 | 2.21 | 2.35 | 2.23 | 2.23 |
| Central Europe | Austria | .. | .. | .. | .. | .. | 3.26 | 3.39 |
| | Belgium | .. | .. | .. | .. | 2.37 | 2.49 | 2.38 |
| | France | 3.25 | 3.12 | 3.26 | 3.08 | 3.10 | 2.91 | 2.88* |
| | Germany | .. | .. | 4.18* | 2.93 | 3.05 | 3.18 | 3.20 |
| | Netherlands | 2.54 | 2.50 | 2.62 | 2.77 | 2.90 | 2.91 | .. |
| | Switzerland | .. | .. | .. | 2.40* | 2.56 | .. | 2.70 |

* Data for France refer to 2009 instead of 2010; for New Zealand to 1984 instead of 1985; for Denmark to 1996 instead of 1995; for Finland to 1986 instead of 1985; in Germany to 1991 instead of 1990; for Ireland to 1994 instead of 1995; for Italy to 1986 instead of 1985 and 1991 instead of 1990 and to 2006 instead of 2005; for Switzerland to 1996 instead of 1995.

Note: This ratio of the ninth to first decile is the distribution of gross earnings by full-time dependent employees.

Source: OECD Database, 2013.

**Figure 16: Collective Bargaining Coverage (2005-2010 average) and Percentage Change in Total Hours Worked**




Source: The Conference Board, Total Economy Database, 2013, and Visser, J., ICTWSS Database, 2011.

From Table 5 it is also possible to observe the staggering differences in wage inequality between the United States and most European countries. By 2010 in the United States average gross earnings among full-time workers in the top 10% of the wage distribution were five times higher than those for workers in the bottom 10% of the distribution. The corresponding wage differential was roughly half this in European countries with high trade union density and collective bargaining coverage (Denmark, Finland, Norway, Sweden and Belgium). It is also clear that wage inequality in several of the southern European countries (Greece, Portugal and Spain) was significantly higher than in all the Nordic countries and most central European countries even prior to the recent reforms. A further substantial expansion in wage differentials in these southern European countries can now be expected.

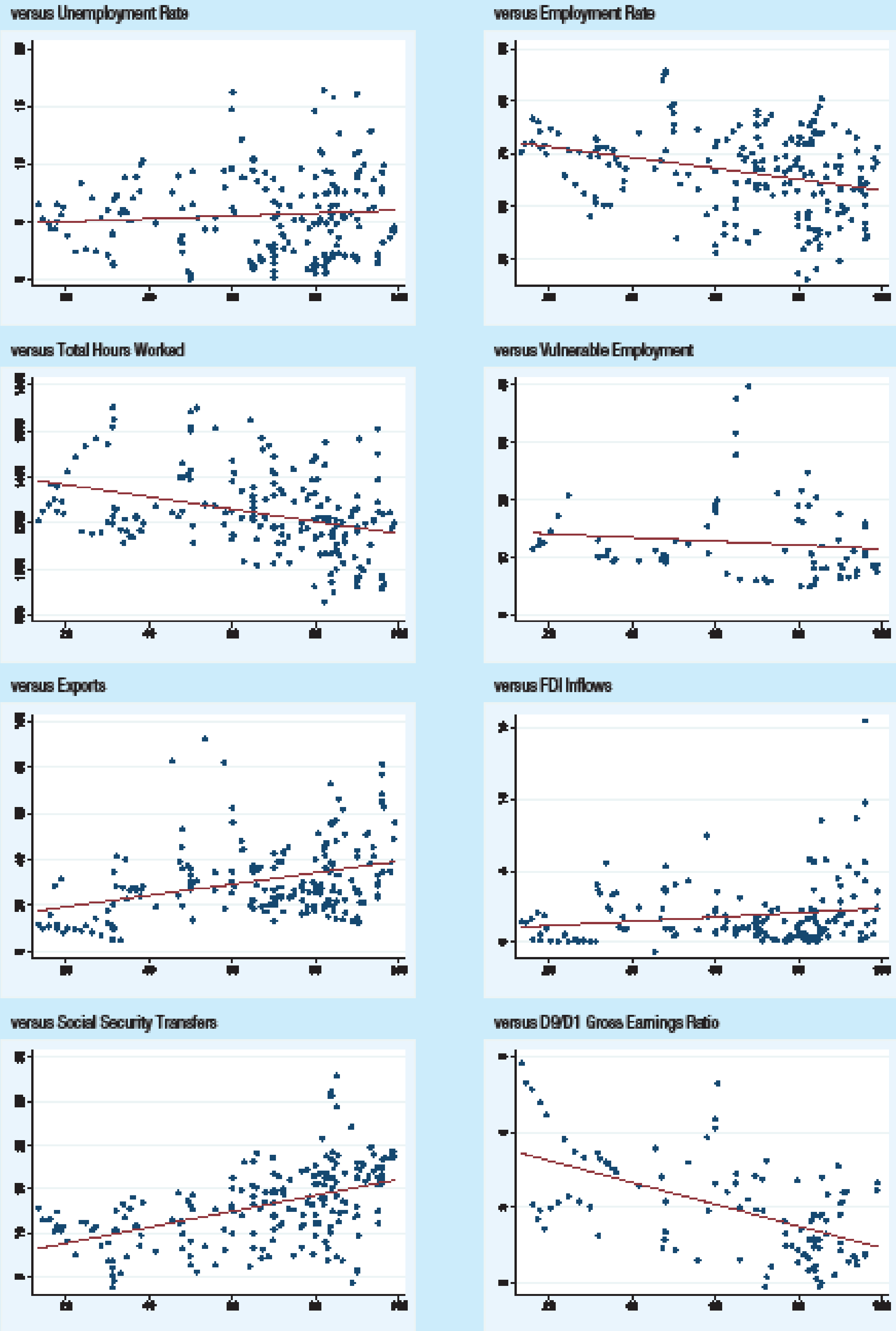
But what, if anything, can we learn about the relationship between the coverage of collective bargaining and economic performance?

Figure 16 is another simple scatter plot diagram with the change in total annual hours worked between 2008 and 20012 on one axis and the level of collective bargaining coverage on the other axis. Once again there is no evidence of a negative relationship between collective bargaining coverage and the ability of countries to preserve work during the recent recession. On the contrary, if anything there appears to be a slight positive relationship.

Figure 17 shows the relationship between collective bargaining coverage and a number of other labour market indicators (unemployment rate, employment rate, average hours worked and venerable employment) over a much longer time period (1960 to 2010). These simple scatter plots suggest that higher levels of collective bargaining coverage may be associated with less positive labour market outcomes. But the suggested relationship is very weak. Moreover, as we will see in the next section, coordinated or synchronised bargaining systems help boost productivity and produce very desirable labour market outcomes.

Figure 17 also considers the relationship between collective bargaining coverage rates and a number of other variables (level of exports as a proportion of GDP; FDI inflows; the share of social security expenditure in GDP; and the D9/D1 gross earnings differential for full-time workers). These scatter plots would suggest that rising levels of collective bargaining coverage should be no barrier to an export-led growth strategy nor a deterrent to foreign direct investment.

Figure 17: Collective Bargaining Coverage (x-axis)



They also lend some support to the notion that higher levels of collective bargaining coverage go hand in hand with a greater role for the State in providing social welfare. Finally, the scatter plots are consistent with previous studies that found a very robust relationship between higher collective bargaining coverage and lower wage differentials. This would support the observations made in respect of Table 5.

## 5.3 Synchronisation of collective bargaining and economic outcomes

### 5.3.1 The existing literature

Much of the literature on the economic impact of collective bargaining relates to the centralisation and coordination of wage bargaining or what several authors referred to as "corporatism" in a previous era. In this section we will use the term synchronisation of bargaining to convey a related concept that includes the centralisation and coordination of bargaining plus indicators of union concentration and authority at different levels.

Economists have long been interested in this subject because of the potential for unions and employers in more synchronised bargaining systems to take into account the wider implications of agreements they reach and avoid any detrimental economic impact. The original literature in this field had suggested a monotonic relationship with macroeconomic performance improving consistently as the degree of "corporatism" (or bargaining synchronisation) increased. However, the divergence in labour market trends across advanced economies that commenced after the oil shocks of the 1970s represented a challenge to corporatist thinking.

A paper by Calmfors and Driffill in 1988 provided a plausible explanation for these trends and subsequently exerted significant influence on policy.[87] The authors provided both theory and evidence supporting a "hump shaped" relationship between the centralisation of collective bargaining and economic performance. In other words economic performance (measured in terms of unemployment) would be better in countries where collective bargaining took place at the national level or alternatively at the enterprise level. According to this explanation, intermediate bargaining systems, such as industry-level collective bargaining, performed poorly.

In explaining their logic the authors asserted that "wage increases would be restrained if market forces were allowed to play a larger role", which according to them was the case in a decentralised system and that "centralization is seen as a guarantee that wage setters will recognize broader interests".[88] The authors assumed that in the highly decentralised model there was no concentration of power and the labour market operated as if there was perfect competition. While in situations where industry-level bargaining was dominant, there existed cartel-type arrangements that allowed employers and unions to reach agreements for higher wages, but they would "externalise" the impact of higher labour costs to those outside the cartel in the form of higher unemployment and prices.

The "hump-shaped" hypothesis subsequently acquired considerable authority among orthodox economists. For example, the suggestion that industry-level collective bargaining had undesirable economic implications clearly influenced the OECD Jobs Study in 1994, which recommended:

> *"Refocusing sectoral collective bargaining to framework agreements which leave enterprises free to respond flexibly to market trends, provided they adhere to overall standards. The practice of administrative extension of agreements which impose inflexible conditions should be phased out and "introducing 'opening clauses', which allow higher-level collective agreements to be renegotiated at a lower-level"* [89]

**Co-ordinated collective bargaining systems reduce wage inequality and achieve better economic outcomes particularly in respect of unemployment.**

The "hump-shaped" hypothesis has also heavily influenced the policy recommendations of the IMF over the last few years in the peripheral countries of Europe. Underpinning their analysis is the belief that collective bargaining in countries like Greece, Spain, Portugal, Italy and Romania fall into the undesirable intermediate category and macroeconomic outcomes would be improved if these countries moved to a highly decentralised model of bargaining.

However, in the twenty five years since the original Calmfors and Driffill paper was first published, researchers have failed to reconfirm their original results. In fact, even from the outset there were doubts about their conclusions. For example, Olivier Blanchard provided interesting comments on their paper when it first appeared. He is quoted as arguing that:

> *"In a decentralized context, there is no obvious reason why the textile union should care about unemployed steel workers. It is, therefore, much more likely that the interests of unemployed workers are represented in centralised bargaining. Hence, it is likely that unemployed would be less persistent in centralised economies."* [90]

Several authors had questioned the focus on just the centralisation in the Calmfors and Driffill study and called for greater attention to the coordination of bargaining.[91] Other authors have demonstrated that the impact of collective bargaining systems on macro outcomes is highly contingent on other factors including the stance of monetary policy.[92] The relationship between trade liberalisation and the impact of collective bargaining systems has also attracted attention. Several authors have shown that in a globalised economy, with intense competition in product markets, it would be unrealistic to expect cartels to successfully operate in intermediate bargaining systems.[93]

The OECD also subsequently acknowledged that its recommendations in the 1994 Jobs Study on collective bargaining were largely ignored because governments were not convinced they would generate the promised employment impact and they were concerned about their consequences for income distribution and social cohesion.[94] Various groups in the OECD have revisited these issues over the last twenty years and have reached the conclusion that there are no "robust associations between differences in bargaining organisation and differences in macroeconomic performance".[95] Indeed most of the evidence discussed by the OECD pointed towards intermediate and centralised bargaining systems out performing decentralised systems.[96]

In fact, the hump shaped hypothesis found very limited support in most empirical investigations over the last thirty years.[97] A comprehensive review of empirical studies undertaken by the World Bank failed to verify the conclusion that intermediate bargaining systems were systematically inferior to either centralised or decentralised system.[98] The same authors reiterated these results in a more recent review of the literature arguing that "the evidence in favour of the hump hypothesis is weak and what evidence is there mainly comes from the first generation of studies that relied on simple correlation tests and thus failed to control for other determinants of economic performance."[99] The same authors found strong evidence that coordinated bargaining systems reduce wage inequality and, on average, achieve better economic outcomes particularly in respect of unemployment.[100]

In contrast to orthodox theory, this comprehensive review of empirical studies suggested that the beneficial impact of coordination on unemployment did not flow through the channel of lower wages.[101] Other transmission mechanisms must be involved. Earlier studies by Rowthorn had reached similar conclusions demonstrating that coordinated bargaining can improve both the quantity and quality of jobs.[102] These findings support the notion that coordinated bargaining systems compress the wage structure and this helps take wages out of competition. It therefore encourages employers to seek competitive advantages

## Table 6: Use of Peace Clauses in Collective Agreements

<table>
<tr><th>Country</th><th>Use of peace clause</th><th>Scope</th><th>Note</th></tr>
<tr><td>Australia<br>Canada<br>New Zealand<br>Denmark<br>Norway<br>Switzerland</td><td rowspan="2">Yes</td><td>Absolute</td><td>Peace clause is included in General Agreement.<br><br>Employers usually ask for absolute peace clauses.</td></tr>
<tr><td>Japan<br>United States<br>Italy<br>Greece<br>Portugal<br>Finland<br>Sweden<br>Austria<br>Germany<br>Netherlands<br>Romania</td><td>Relative</td><td></td></tr>
<tr><td>France</td><td colspan="2" rowspan="5">No</td><td>Right to strike regarded as constitutional right that cannot be abridged.</td></tr>
<tr><td>Belgium</td><td>Peace clauses exist but rely on trust. Unions are not held liable for violation of peace obligation.</td></tr>
<tr><td>Spain</td><td>Peace clauses exist but rely on trust. Unions are not held liable for violation of peace obligation.</td></tr>
<tr><td>UK</td><td>Peace clauses exist but rely on trust. Collective agreements are not binding.</td></tr>
<tr><td>Ireland</td><td>Peace clauses exist but rely on trust. Collective agreements are not binding.</td></tr>
</table>

Note: Absolute = no industrial action; Relative= no industrial action in relation to the issues covered by the agreement.

Sources: ETUC: Strikes in the EU 27 and beyond; national laws; worker-participation.eu; Eurofound.

through other avenues including product innovation, advances in technology and better work practices. In addition, the involvement of peak union and employer organisations in regular dialogue provides a platform for wider reforms across the industry or even the total economy that enhance macroeconomic performance. This is consistent with the conclusion that it is the dynamic benefits of coordination, rather than the ability to moderate wage growth, that really matters.

While the notion that both highly decentralised and centralised bargaining systems would outperform intermediate systems has been strongly challenged, the benefits of highly coordinated or synchronised bargaining systems has been reconfirmed. In 2006 Driffill published a re-evaluation of his original paper with Calmfors. He acknowledged that the empirical results published in the meantime delivered no clear-cut results concerning the shape of relationship but the benefits of highly coordinated or centralised bargaining stood the test of time.[103]

**The benefits of synchronised collective bargaining is most clear in countries where the State provides a legal framework enhancing trust between unions and employers.**

It has been suggested that the benefits of synchronised bargaining systems are most clear-cut in countries where the State provides a legal framework that enhances trust between unions and employers and deters wage drift.[104] Ensuring that collective agreements are legally binding, that enforcement mechanisms are in place including well resourced labour inspection and labour courts plus the existance of "peace clauses" that prohibit additional claims or interests disputes while a collective agreement is in force are examples of institutions that appear important to improve the "governability" of highly sychronised bargaining systems. Table 6 provides summary information on the operation of "peace clauses" in various countries.

There is a another body of academic literature that examines the impact of a much broader set of labour institutions on labour market performance. The normal list includes: legislation governing redundancies and levels of severance payments; the generosity of unemployment benefits systems; taxes on employment (the so-called tax wedge); expenditure on active labour market policies; variations in the coverage or centralisation of collective bargaining systems; and trade union strength.[105] The validity of these empirical exercises was heavily contested from the outset with questions being raised about the robustness of the results and their sensitivity to small changes in the specification of the equations being tested. Critics with flare described the results from these studies as "more sawdust then hard wood"[106] while others pointed to "a yawning gap between the confidence with which the case for labour market deregulation has been asserted and the evidence that the regulating institutions are the culprits."[107] But in any case these exercises in cross-country regressions failed to find any compelling evidence that decentralised collective bargaining reduced unemployment. On the contrary even these studies suggested that centralised or coordinated collective bargaining may help reduce unemployment.

Another strand in this literature examines the relationship between economic shocks (such as the oil shocks in the 1970s or the productivity slowdown in the 1980s), the set of labour market institutions mentioned above and labour market performance.[108] The hypothesis being tested is that what matters is the interaction between shocks and labour institution, with different sets of institutions determining how quickly a country can return to low unemployment after an upward jolt. A key paper in this field by Blanchard and Wolfers suggested that higher levels of collective bargaining coordination can significantly reduce the persistence of unemployment.[109] In fact, they suggested that a shock that pushes up unemployment by one percentage point in a country with an average degree of bargaining coordination will only increase unemployment by 0.4 percentage points in a country that has very high bargaining coordination.

This conclusion is particularly relevant to the situation that the southern European countries have faced in the last five years. These countries needed to adapt rapidly to shocks caused by the global economic crisis and prevent a sustained rise in unemployment. The study by Blanchard and Wolfers would suggest that the sharp increase in unemployment in countries like Greece, Spain, Portugal and Italy during 2009 and 2010 could have been better contained if these countries had a highly coordinated bargaining system in place.

### 5.3.2 Re-investigating the relationship between synchronisation of collective bargaining and economic outcomes

Re-investigating the relationship between bargaining systems and economic outcomes remains problematic, as some important measurement issues remain unresolved. But compared to most of the studies cited above we now have a decade or more of additional data and some important new indicators about various aspects of collective bargaining.[110] Several academics (mainly from the industrial relations field) have invested considerable time in coding legislation and quantifying institutional features of different bargaining systems.[111]

## Table 7: Prevailing Level at which Wage Bargaining Takes Place (centralisation)

| | | 1960-1964 | 1965-1969 | 1970-1974 | 1975-1979 | 1980-1984 | 1985-1989 | 1990-1994 | 1995-1999 | 2000-2004 | 2005-2010 | Change (highest to most recent value) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Anglo-Saxons + Japan | Australia | 2.0 | 2.6 | 3.0 | 3.0 | 3.4 | 4.0 | 2.8 | 2.0 | 2.0 | 1.7 | -2.3 |
| | Canada | 1.0 | 1.0 | 1.8 | 2.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | -1 |
| | Ireland | 1.0 | 1.0 | 2.8 | 2.8 | 1.6 | 3.4 | 4.8 | 4.0 | 4.0 | 3.0 | -1.8 |
| | Japan | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 0 |
| | New Zealand | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 2.8 | 1.0 | 1.0 | 1.0 | 1.0 | -3 |
| | United Kingdom | 2.0 | 2.0 | 2.0 | 3.6 | 1.8 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | -2.6 |
| | United States | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 0 |
| Southern Europe | Italy | 3.8 | 3.0 | 2.0 | 3.2 | 2.8 | 2.0 | 3.0 | 3.0 | 3.0 | 2.7 | -1.1 |
| | Greece | .. | .. | .. | 4.0 | 4.0 | 4.0 | 3.6 | 3.4 | 3.6 | 3.4 | -0.6 |
| | Portugal | .. | .. | .. | 2.0 | 2.0 | 2.4 | 2.8 | 3.2 | 3.0 | 2.5 | -0.7 |
| | Spain | .. | .. | .. | 4.0 | 4.6 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | -1.6 |
| Nordics | Denmark | 3.4 | 3.6 | 3.4 | 3.2 | 3.0 | 3.0 | 3.0 | 2.8 | 2.6 | 2.3 | -1.3 |
| | Finland | 3.0 | 3.6 | 4.6 | 4.4 | 4.0 | 3.8 | 4.2 | 4.2 | 4.2 | 3.2 | -1.4 |
| | Norway | 4.6 | 4.4 | 4.6 | 4.4 | 3.6 | 4.0 | 4.2 | 4.4 | 3.4 | 3.7 | -0.9 |
| | Sweden | 5.0 | 5.0 | 5.0 | 5.0 | 4.4 | 3.6 | 3.6 | 3.0 | 2.8 | 2.7 | -2.3 |
| Central Europe | Austria | 4.0 | 4.0 | 4.0 | 4.0 | 3.6 | 3.0 | 3.0 | 2.8 | 2.4 | 2.5 | -1.5 |
| | Belgium | 4.0 | 4.0 | 4.0 | 3.4 | 3.4 | 3.4 | 3.6 | 3.2 | 3.4 | 3.5 | -0.5 |
| | France | 2.0 | 2.2 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | -0.2 |
| | Germany | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 2.8 | 2.7 | -0.3 |
| | Netherlands | 4.6 | 4.0 | 4.0 | 4.0 | 3.6 | 3.0 | 3.4 | 3.0 | 3.6 | 2.8 | -1.8 |
| | Switzerland | 3.0 | 3.0 | 3.0 | 3.0 | 2.4 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | -1 |

Note: The measure corresponds to the variable LEVEL, whereby 1 = local or company bargaining; 2 = sectoral or industry level, with additional local or company bargaining; 3 = sectoral or industry level; 4 = national or central level, with additional sectoral/local or company bargaining; 5 = national or central level.

Source: Visser, J., ICTWSS Database, 2011.

Despite these advances the most basic dimension in any measure of bargaining synchronisation remains the level at which bargaining takes place. In most of the literature this feature is termed the centralisation of bargaining. This was the variable that Calmfors and Driffill originally focused on. Traditionally three levels of bargaining have been identified: enterprise, industry and national. But even this concept is not straight forward because in most systems bargaining is possible at multiple levels and measures of centralisation usually involve some judgement about scope and importance of bargaining at different levels.

Table 7 provides long-term trends in an indicator of centralisation compiled by Visser that cover the period 1960 to 2010.[112] Taking into account the possibility for bargaining to take place at multiple levels, the data is presented on a five-point scale (rather than a three-point scale) with higher scores indicating a greater degree of centralisation. The overwhelming trend is towards decentralisation. Comparing scores for the latest period (2005-2010) with the end of the 1970s it is evident that no country made a decisive and enduring move towards more centralised bargaining. On the other hand a number of continental European countries (Austria, Belgium, Netherlands and Sweden) moved from relatively centralised bargaining systems in the 1960s and 1970s towards more intermediate bargaining arrangements in the last three decades.[113]

The data would suggest a convergence in recent years around intermediate level bargaining arrangements across Europe and highly decentralised bargaining in the non-European countries. It is notable that based on this data Greece, Portugal, Spain and Italy conform to the bargaining pattern prevailing in central and northern European countries with a predominance of industry-level bargaining supplemented by bargaining at lower levels. In fact, for the most recent period (2005- 2010), the four southern European countries recorded scores very similar to those in Austria, Germany and the Netherlands.

Therefore the simplistic notion that the bargaining systems in these southern European countries are significantly out of step with arrangements in central and northern Europe receives no support from this data. In fact, if one were repeating the Calmfors and Driffill study today, it is doubtful that any country would strictly qualify for the highly centralised group. But purely on a relative ranking among countries, the more centralised group would consist of Norway, Greece, Finland, Belgium, Spain and Ireland. Meanwhile Denmark and Sweden would be alongside Italy and Portugal and the rest of the European countries in the intermediate group.

However, these indicators of centralisation can mask important differences between countries, and some authors make an important distinction between an organised and disorganised move towards decentralisation.[114] Most continental European countries fit in the organised category, as bargaining remains embedded in a two-tier bargaining system at industry and enterprise levels. The fact that unions have retained a monopoly on bargaining at these two levels means that union bargaining power remains significant despite decentralisation.

This process has been more complicated in Germany. The existence of dual representation, with both trade unions and works councils, creates significant challenges for trade unions as the importance of enterprise bargaining increases. In addition, the trend towards decentralisation in Germany has been enhanced since the mid-1990s by more frequent use of "opening clauses" or "opt out" clauses. These are provisions that allow enterprises, in specific circumstances, to apply wages or employment standards below those agreed in an industry agreement.

Table 8 provides a summary of laws and practice related to these provisions. As can be seen, all the southern European countries have recently introduced scope for opening clauses and the Troika are promoting their use. It is still too early to assess their effect in the southern European countries, but in Germany their impact is heavily disputed. On the one hand such provisions may help to safeguard jobs in firms facing a serious but temporary economic crisis. On the other hand, the dual system of representation in Germany means that unions can be undermined and if opening clauses are used excessively, they will erode wages and employment standards and eventually weaken the incentive for managers to improve products and productivity. The introduction of opening clauses in southern European countries, when combined with scope for bargaining by "non-union agents" and other measures designed to weaken unions and collective bargaining, will be highly problematic.

Measures of bargaining synchronisation must go well beyond centralisation, which just captures the vertical dimension of coordination. Indicators that focus on the horizontal dimension are also required. Measures that capture informal coordination and evidence of "pattern bargaining" whereby wage adjustments in one industry or

## Table 8: Opt-out Regulations from Industry Level Collective Bargaining Agreements

| Country | Opt-out allowed by law | Mechanism | Use/Relevance in practice |
|---|---|---|---|
| Australia | No | Law prohibits opt-outs | Not used |
| France | Yes | Opt-outs at enterprise level possible if sectoral agreement does not provide for explicit prohibition | Rarely used – social partners often agree on prohibition |
| Belgium | No | Social partners can agree in sectoral agreement on opt-outs | Rarely used |
| Austria | | | |
| Finland | | | |
| Netherlands | | | |
| Sweden | | | |
| Germany | | | Frequently used |
| Poland | | | Frequently used (even without consent of unions in violation of law) |
| Ireland | Yes | Permission under certain conditions | Use not identifiable yet; change in 2011 |
| Greece | | | Use not identifiable yet; change in 2010 |
| Spain | | | Use not identifiable yet; change in 2010, 2011 and 2012 |
| Italy | | | Use not identifiable yet; change in 2011 |
| Japan | | | Not relevant – no sectoral bargaining |
| New Zealand | No | Law does not regulate opt-out framework at all | Not relevant – sectoral bargaining is very limited |
| US | | | Not relevant – no sectoral bargaining |
| Canada | | | |
| UK | Yes | Collective agreements are not binding which makes opt-outs possible | Not relevant – no sectoral bargaining (except in public sector) |

Source: ETUI, "The crisis and national labour law reforms: a mapping exercise", 2012; Eurofound, 2013; www.worker-participation.eu/; different national labour legislations.

sector establish a standard that is followed elsewhere in the economy are necessary. As noted previously, this has long been a critical feature of bargaining in several European countries like Germany, Austria and Switzerland, but is also a feature of bargaining in Japan.

When considering the scope for a bargaining system to avoid undesirable economic consequences, it is highly possible that this horizontal dimension can be as important, or even more important, than the level at which bargaining takes place. Thus, for example, bargaining may take place at an intermediate level (i.e., at industry level), but if pattern bargaining results in a high degree of synchronisation across trade union federations and employer associations, the process and economic impact may resemble that which emanates from a national collective agreement in a highly centralised system.

Ideally therefore we want an indicator that combines these vertical and horizontal aspects. The left panel of Table 9 provides trends on an indicator termed "Centralisation and Coordination of Bargaining" (also from the Visser, J., ICTWSS Database, 2011) that attempts to do just that and take into account both the level at which bargaining takes place and the extent of pattern bargaining or other informal coordination mechanisms.

This indicator helps to highlight the point made previously about differences between an organised and disorganised trend towards bargaining decentralisation. Previously we saw there was a fairly uniform move away from centralised bargaining towards a more intermediate level bargaining across Europe. But our indicator of Centralisation/Coordination would suggest that despite this, the bargaining process remains relatively synchronised in Austria, Belgium, Germany and the Netherlands because horizontal coordination has helped compensate for any decline in the level at which bargaining takes place. Similar patterns are apparent in the southern European countries where a movement to bargaining at lower levels is being mitigated by greater horizontal coordination.

The indicators concerning Coordination/Centralisation therefore help confirm the impression that the southern European countries are very much in the mainstream of European collective bargaining practices, rather than some sort of outliers that require reform. In fact, as can be seen from the left panel of Table 9, the scores for Italy, Greece and Spain in the period 2005-2010 are more or less identical with those for Austria, Germany and the Netherlands. Moreover, it would seem the southern European countries now have slightly more coordinated/centralised bargaining systems then most of the Nordic countries.

**Countries with high levels of bargaining synchronisation have consistently been the best performers in terms of unemployment since the 1970s.**

But, as mentioned previously, collective bargaining can take place at a combination of levels, and at each level there may be multiple trade union organisations and employer associations. Given this, any overall measure of bargaining synchronisation should also take into account the ability of trade union confederations, federations and lower-level unions to coordinate their bargaining strategy. This in turn will be influenced by the degree of union concentration and the power of higher-level union organisations to limit "wage drift" at lower levels. Similar considerations apply on the employer side.

Table 9 also contains long-term trends in an indicator that attempts to summarise information available on Union Authority and Concentration.[115] On this measure Austria stands out. The national union confederation would appear to exercise a significant influence over the bargaining activities of its affiliates. The Netherlands, Norway and Sweden also score relatively high. This indicator would suggest that some of the Anglo-Saxon countries like Australia, Ireland and New Zealand had periods when the authority of their national union confederations was significant. These periods coincide with the implementation of social pacts or highly centralised wage fixing systems.

If one were strenuously searching for an indicator that distinguishes the bargaining systems in the southern European countries from those in central and northern European countries, one might focus on this indicator. In the latest period for which data is available (2005-2010), the four southern European countries recorded scores on Union Authority and Concentration that are below all the Nordic countries and most of the central European countries. One factor influencing this result is the existence of multiple national trade union confederations in the southern European countries. Nevertheless, even on this measure the southern European countries recorded scores well above France and Switzerland and not far below Finland.

Table 9 combines the indicators on Coordination/Centralisation and Union Authority and Concentration to form a composite index that we have termed "Collective Bargaining Synchronisation" for the purpose of this paper. This composite index tries to provide an overall measure of the encompassing nature of collective bargaining systems by taking into account the centralisation, coordination plus characteristics of the union structure in different countries. The scores

## Table 9: Indicators of Collective Bargaining Synchronisation

| | | Coordination/Centralisation[1] | | | | | | | | | | Union Authority and Concentration[1] | | | | | | | | | | Collective Bargaining Synchronisation[2] | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1960-1964 | 1965-1969 | 1970-1974 | 1975-1979 | 1980-1984 | 1985-1989 | 1990-1994 | 1995-1999 | 2000-2004 | 2005-2010 | 1960-1964 | 1965-1969 | 1970-1974 | 1975-1979 | 1980-1984 | 1985-1989 | 1990-1994 | 1995-1999 | 2000-2004 | 2005-2010 | 1960-1964 | 1965-1969 | 1970-1974 | 1975-1979 | 1980-1984 | 1985-1989 | 1990-1994 | 1995-1999 | 2000-2004 | 2005-2010 |
| Anglo-Saxons + Japan | Australia | 50 | 50 | 50 | 50 | 50 | 75 | 45 | 25 | 25 | 15 | 41.7 | 47.7 | 45.2 | 47.6 | 60.2 | 66.2 | 59.3 | 54.7 | 44.0 | 35.9 | 45.8 | 48.8 | 47.6 | 48.8 | 55.1 | 70.6 | 52.1 | 39.9 | 34.5 | 25.4 |
| | Canada | 0 | 0 | 0 | 60 | 0 | 0 | 0 | 0 | 0 | 0 | 28.5 | 29.5 | 28.6 | 27.5 | 24.9 | 24.5 | 25.9 | 28.2 | 29.6 | 30.0 | 14.2 | 14.7 | 14.3 | 43.7 | 12.5 | 12.2 | 13.0 | 14.1 | 14.8 | 15.0 |
| | Ireland | 0 | 0 | 45 | 60 | 15 | 45 | 80 | 100 | 100 | 85 | 30.0 | 36.9 | 36.1 | 35.7 | 35.3 | 39.4 | 45.3 | 51.0 | 52.3 | 51.3 | 15.0 | 18.5 | 40.6 | 47.9 | 25.2 | 42.2 | 62.7 | 75.5 | 76.2 | 68.1 |
| | Japan | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 70 | 50 | 50 | 18.4 | 17.0 | 17.0 | 17.6 | 17.8 | 24.8 | 28.6 | 21.6 | 29.7 | 30.8 | 46.7 | 46.0 | 46.0 | 46.3 | 46.4 | 49.9 | 51.8 | 45.8 | 39.8 | 40.4 |
| | New Zealand | 75 | 75 | 95 | 100 | 95 | 60 | 10 | 0 | 0 | 25 | .. | .. | 33.7 | 26.7 | 27.6 | 41.3 | 16.7 | 9.2 | 29.6 | 31.1 | .. | .. | 64.4 | 63.4 | 61.3 | 50.6 | 13.3 | 4.6 | 14.8 | 28.1 |
| | United Kingdom | 0 | 80 | 40 | 85 | 0 | 0 | 0 | 0 | 0 | 0 | 30.6 | 37.7 | 40.2 | 40.1 | 9.5 | 9.8 | 9.1 | 9.7 | 10.2 | 11.6 | 15.3 | 58.8 | 40.1 | 62.6 | 4.7 | 4.9 | 4.5 | 4.8 | 5.1 | 5.8 |
| | United States | 0 | 0 | 40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 11.9 | 11.7 | 11.4 | 12.2 | 11.7 | 12.5 | 13.2 | 14.7 | 18.1 | 18.0 | 6.0 | 5.9 | 25.7 | 6.1 | 5.9 | 6.3 | 6.6 | 7.4 | 9.1 | 9.0 |
| Southern Europe | Italy | 25 | 25 | 25 | 45 | 55 | 25 | 55 | 75 | 75 | 75 | 31.5 | 30.6 | 28.0 | 33.3 | 32.0 | 27.4 | 32.5 | 37.5 | 34.8 | 34.2 | 28.3 | 27.8 | 26.5 | 39.2 | 43.5 | 26.2 | 43.8 | 56.3 | 54.9 | 54.6 |
| | Greece | .. | .. | .. | 75 | 75 | 75 | 75 | 75 | 75 | 75 | .. | .. | .. | .. | 34.3 | 31.6 | 32.1 | 34.2 | 33.6 | 33.4 | .. | .. | .. | .. | 54.7 | 53.3 | 53.5 | 54.6 | 54.3 | 54.2 |
| | Portugal | .. | .. | .. | 100 | 25 | 50 | 60 | 60 | 30 | 50 | .. | .. | .. | 28.8 | 23.7 | 29.2 | 32.9 | 33.6 | 33.8 | 34.3 | .. | .. | .. | 64.4 | 24.4 | 39.6 | 46.5 | 46.8 | 31.9 | 42.2 |
| | Spain | .. | .. | .. | 100 | 70 | 60 | 50 | 50 | 65 | 70 | .. | .. | .. | 27.1 | 30.3 | 30.7 | 33.0 | 34.0 | 34.8 | 37.4 | .. | .. | .. | 63.6 | 50.2 | 45.3 | 41.5 | 42.0 | 49.9 | 53.7 |
| Nordics | Denmark | 100 | 100 | 100 | 100 | 70 | 70 | 50 | 60 | 60 | 55 | 59.9 | 60.1 | 57.9 | 56.0 | 52.6 | 51.6 | 50.8 | 50.6 | 48.0 | 44.7 | 79.9 | 80.0 | 79.0 | 78.0 | 61.3 | 60.8 | 50.4 | 55.3 | 54.0 | 49.8 |
| | Finland | 90 | 100 | 75 | 85 | 65 | 65 | 65 | 70 | 70 | 60 | 31.1 | 36.0 | 42.9 | 40.7 | 39.9 | 39.2 | 38.5 | 39.1 | 39.2 | 40.1 | 60.5 | 68.0 | 59.0 | 62.9 | 52.5 | 52.1 | 51.8 | 54.5 | 54.6 | 50.0 |
| | Norway | 100 | 85 | 85 | 90 | 65 | 70 | 85 | 90 | 75 | 75 | 65.0 | 64.9 | 62.0 | 59.5 | 56.7 | 56.2 | 56.8 | 53.6 | 50.4 | 51.5 | 82.5 | 74.9 | 73.5 | 74.7 | 60.8 | 63.1 | 70.9 | 71.8 | 62.7 | 63.2 |
| | Sweden | 100 | 100 | 100 | 100 | 85 | 65 | 75 | 50 | 50 | 50 | 59.6 | 57.7 | 56.8 | 56.1 | 53.9 | 51.4 | 51.5 | 52.1 | 51.8 | 51.0 | 79.8 | 78.8 | 78.4 | 78.1 | 69.5 | 58.2 | 63.3 | 51.1 | 50.9 | 50.5 |
| Central Europe | Austria | 100 | 100 | 100 | 100 | 90 | 75 | 75 | 75 | 75 | 75 | 93.2 | 97.5 | 97.6 | 97.7 | 97.7 | 97.7 | 97.8 | 96.5 | 87.7 | 92.8 | 96.6 | 98.8 | 98.8 | 98.8 | 93.9 | 86.4 | 86.4 | 85.8 | 81.4 | 83.9 |
| | Belgium | 75 | 75 | 75 | 65 | 90 | 85 | 80 | 95 | 75 | 85 | 47.9 | 47.9 | 47.3 | 46.3 | 46.0 | 45.1 | 44.9 | 45.0 | 45.5 | 45.9 | 61.4 | 61.5 | 61.2 | 55.7 | 68.0 | 65.1 | 62.5 | 70.0 | 60.3 | 65.5 |
| | France | 35 | 25 | 25 | 40 | 40 | 25 | 25 | 25 | 25 | 25 | 22.3 | 21.2 | 19.6 | 19.9 | 21.0 | 20.1 | 20.3 | 20.4 | 20.6 | 20.7 | 28.6 | 23.1 | 22.3 | 30.0 | 30.5 | 22.5 | 22.7 | 22.7 | 22.8 | 22.9 |
| | Germany | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 41.4 | 45.2 | 47.8 | 43.7 | 41.4 | 41.8 | 41.3 | 43.2 | 49.1 | 47.7 | 58.2 | 60.1 | 61.4 | 59.3 | 58.2 | 58.4 | 58.2 | 59.1 | 62.1 | 61.4 |
| | Netherlands | 90 | 75 | 75 | 65 | 90 | 75 | 75 | 75 | 75 | 75 | 56.1 | 56.5 | 49.7 | 46.5 | 53.1 | 54.5 | 53.0 | 54.4 | 57.8 | 57.2 | 73.0 | 65.7 | 62.4 | 55.7 | 71.5 | 64.8 | 64.0 | 64.7 | 66.4 | 66.1 |
| | Switzerland | 75 | 75 | 75 | 75 | 75 | 75 | 75 | 55 | 50 | 50 | 35.0 | 34.7 | 34.8 | 34.5 | 34.4 | 34.9 | 29.2 | 27.7 | 26.5 | 27.6 | 55.0 | 54.9 | 54.9 | 54.7 | 54.7 | 54.9 | 52.1 | 41.4 | 38.3 | 38.8 |

1 The index for Coordination /Centralisation = Wcoord in the Visser (2011) ICTWSS Database and ranges from 1 (low) to 5 (high): 1 was subtracted from the value and the result multiplied by 25 in order to make them comparable; the index for Union Authority and Concentration = CENT in the Visser (2011) ICTWSS Database and ranges from 0 (low) to 1 (high); it was multiplied by 100; Both measures range from 0 (low) to 100 (high) and are presented in five-year averages.

2 The Index of Collective Bargaining Synchronisation was created by dividing Coordination/Centralisation as well as Union Authority and Concentration by2 and adding them; the new index ranges then again from 0 (low) to 100 (high); ten-year average is above 60 (high); ten-year average is between 40 and 60 (intermediate); ten-year average is below 40 (low). We chose the thresholds to make the groups (high, intermediate and low) roughly the same size.

Source: Visser, J., ICTWSS Database, 2011.

on this index are colour coded to make comparisons over time and across countries more apparent. Figures presented in light blue reflect situations where the data suggest the bargaining system had a relatively high degree of centralisation and coordination and in addition the trade union structure was relatively cohesive. At the other end of the spectrum are situations, with a violet colour code, where collective bargaining was relatively decentralised, uncoordinated and the trade union structure was fragmented. In between these two extremes is an intermediate range with a blue colour code.

From Table 9 the general trend towards less synchronised bargaining systems is once again apparent. In particular three Nordic countries (Denmark, Finland and Sweden) have moved over time from the category with high synchronisation to the intermediate category. In addition several countries that were at one time in the high or intermediate category (Australia, New Zealand, Portugal and Switzerland) have moved to the low category. Based on this measure the countries that would be classified as having a relatively high degree of bargaining synchronisation in the most recent period (2005-2010) are Ireland, Norway, Austria, Belgium, Germany and the Netherland. Most of the southern European countries are now classified in the intermediate group. The low synchronisation group contains all the Anglo-Saxon countries plus Portugal, France and Switzerland.

If the reforms being pursued by the IMF are backed by hard facts, we should be able to identify a clear economic advantage across countries and over time for those countries that fall into the low synchronisation category. This is the category that the United States and Canada have been in throughout the last 50 years. It is also the category that Australia, New Zealand and the United Kingdom have been in for the last few decades.

Table 10 uses this composite index to examine how countries with different bargaining systems have performed with respect to various economic indicators in each decade since the 1960s. Again we use colour coding to assist with the visual presentation. The bargaining system with the best outcome is presented in green, and the worst outcome is presented in red while yellow signals a middle ranking.

The labour market indicators we focus on are the unemployment rate, the employment rate, total hours worked per working age population and a measure of vulnerable employment. The results concerning unemployment are unambiguous. The countries with high levels of bargaining synchronisation have consistently been the best performers in terms of unemployment since the 1970s. For four out of the last five decades countries with low synchronisation had the worst unemployment record. Moreover throughout this half century the margin in unemployment rates between the high and low synchronisation countries is very significant.

Countries with high levels of bargaining synchronisation also appear to have significantly lower levels of vulnerable employment than other countries. The data for this indicator is only available for the last two decades, but in the last 15 years countries with highly centralised and/or coordinated bargaining and a cohesive trade union structure achieved the lowest levels of vulnerable employment.

The picture that emerges regarding the employment rate is less straight forward. In the 1960s and 1970s it would appear that countries in the intermediate category were performing relatively well, but in the 1980s it was the countries with high synchronisation that had the highest employment rates. Then those in the low category came to the fore in the 1990s. Over the last decade it is more or less a dead-heat between countries at the two ends of the bargaining spectrum. Finally, if one uses a measure of average hours worked to gauge the strength of the labour market, it would appear that the countries with intermediate collective bargaining systems have consistently been the best performers.

These results are broadly consistent with previous empirical studies which have suggest there is a relatively robust negative relationship between synchronisation (or coordination) and unemployment while the relationship with some other labour market indicators is more ambiguous.

Next we look at a range of other important economic variables and how these stack up against our composite indicator of bargaining synchronisation. First it is evident that countries with relatively high levels of synchronisation have achieved faster economic growth (real GDP growth) for much of the period under investigation. Second, they also tend to be open economies and consistently have a very high ratio of exports to GDP. Moreover, the differential between high synchronisation countries and other countries on this measure has been expanding rapidly over time. In the last decade it would appear that countries with high synchronisation had an export sector roughly double the size of other advanced economies. These simple trends certainly do not prove any causal relationship. There are obviously many other important factors explaining why these countries have such open economies. But given that the Troika are going to great lengths to promote an export-led growth strategy in the southern European countries, some further reflection on these results may be warranted.

The high synchronisation countries also appear relatively successful at attracting FDI inflows, particularly in the last twenty years. Again the difference between countries with high synchronisation and other countries on this indicator is far from marginal. Next we consider the relationship with investment (gross fixed capital formation), and it would appear there is very little variation across different bargaining systems on this front. But there is certainly no suggestion that high synchronisation is inhibiting investment.

## Table 10: Correlations between Collective Bargaining Synchronisation and Different Economic Variables

| | | High Synchronisation | | | | Intermediate Synchronisation | | | | Low Synchronisation | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Average | Std. Dev. | Min | Max | Average | Std. Dev. | Min | Max | Average | Std. Dev. | Min | Max |
| **LABOUR MARKET INDICATORS** | | | | | | | | | | | | | |
| **Unemployment rate** | 1960s | 1.3 | 0.7 | 0.1 | 2.2 | 1.0 | 0.7 | 0.0 | 1.7 | 3.6 | 2.0 | 0.1 | 5.3 |
| | 1970s | 2.8 | 1.6 | 0.4 | 6.7 | 3.2 | 2.4 | 0.2 | 7.5 | 5.2 | 1.6 | 1.9 | 6.7 |
| | 1980s | 5.6 | 2.5 | 2.6 | 9.5 | 7.0 | 4.8 | 0.5 | 15.4 | 8.7 | 0.9 | 7.3 | 9.5 |
| | 1990s | 7.0 | 2.6 | 3.9 | 12.0 | 8.3 | 4.0 | 2.9 | 15.9 | 8.4 | 1.6 | 5.7 | 10.5 |
| | 2000s | 5.7 | 2.0 | 3.5 | 8.7 | 7.3 | 2.5 | 3.5 | 11.8 | 6.3 | 1.3 | 4.9 | 8.9 |
| **Employment rate** | 1960s | 67.1 | 6.1 | 58.4 | 76.2 | 72.1 | 4.9 | 65.0 | 78.5 | 63.7 | 6.0 | 57.9 | 76.2 |
| | 1970s | 66.0 | 7.7 | 53.9 | 77.7 | 66.8 | 6.9 | 54.9 | 76.8 | 60.2 | 3.8 | 54.9 | 63.4 |
| | 1980s | 65.9 | 8.9 | 53.8 | 79.6 | 63.1 | 10.6 | 46.7 | 77.2 | 65.0 | 3.0 | 60.0 | 67.9 |
| | 1990s | 65.5 | 6.8 | 55.5 | 73.5 | 65.3 | 11.2 | 48.7 | 84.9 | 67.2 | 4.0 | 59.8 | 71.7 |
| | 2000s | 70.2 | 5.2 | 61.3 | 76.8 | 69.6 | 8.9 | 57.1 | 85.4 | 70.6 | 3.5 | 63.3 | 74.0 |
| **Total hours worked** (divided by working age population) | 1960s | 1404 | 131 | 1214 | 1591 | 1469 | 197 | 1214 | 1676 | 1361 | 171 | 1186 | 1653 |
| | 1970s | 1236 | 102 | 1076 | 1411 | 1422 | 116 | 1229 | 1580 | 1206 | 89 | 1130 | 1411 |
| | 1980s | 1131 | 118 | 930 | 1244 | 1240 | 183 | 892 | 1550 | 1178 | 62 | 1076 | 1238 |
| | 1990s | 1098 | 105 | 919 | 1217 | 1214 | 163 | 914 | 1455 | 1173 | 99 | 984 | 1266 |
| | 2000s | 1109 | 101 | 967 | 1261 | 1247 | 115 | 1055 | 1400 | 1190 | 117 | 959 | 1298 |
| **Vulnerable employment** (% of total employment) | 1990-1994 | 12.8 | 4.4 | 8.2 | 18.0 | 18.0 | 9.8 | 6.4 | 39.6 | 10.8 | 1.5 | 9.8 | 12.9 |
| | 1995-1999 | 9.6 | 3.7 | 6.1 | 15.4 | 16.1 | 8.9 | 5.4 | 37.5 | 10.6 | 1.8 | 8.3 | 13.1 |
| | 2000-2004 | 8.5 | 2.4 | 5.9 | 12.3 | 13.9 | 7.7 | 5.0 | 31.5 | 9.9 | 1.9 | 6.9 | 12.6 |
| | 2005-2010 | 8.8 | 1.8 | 6.0 | 11.3 | 13.3 | 6.9 | 5.1 | 27.8 | 9.7 | 1.9 | 6.4 | 12.0 |
| **MACROECONOMIC AND SOCIAL INDICATORS** | | | | | | | | | | | | | |
| **GDP growth** (%) | 1960s | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| | 1970s | 4.36 | 0.00 | 4.36 | 4.36 | 2.96 | 0.40 | 2.57 | 3.35 | 3.77 | 0.34 | 3.26 | 4.15 |
| | 1980s | 3.63 | 0.61 | 2.79 | 4.42 | 1.70 | 0.90 | 0.48 | 2.55 | 2.74 | 0.29 | 2.29 | 3.05 |
| | 1990s | 2.85 | 0.74 | 1.42 | 3.58 | 2.18 | 1.19 | 0.79 | 4.33 | 2.52 | 0.42 | 1.87 | 3.18 |
| | 2000s | 1.76 | 0.48 | 1.19 | 2.76 | 1.57 | 0.64 | 0.69 | 2.41 | 2.18 | 0.56 | 1.35 | 3.10 |
| **Exports** (% of GDP) | 1960s | 31.0 | 9.2 | 19.9 | 44.0 | 17.5 | 7.1 | 9.9 | 27.9 | 16.8 | 9.2 | 5.2 | 32.6 |
| | 1970s | 29.9 | 11.2 | 13.7 | 51.3 | 23.7 | 10.5 | 11.7 | 39.6 | 17.1 | 5.6 | 7.5 | 23.3 |
| | 1980s | 37.4 | 15.1 | 14.7 | 63.8 | 26.9 | 11.0 | 12.7 | 52.0 | 20.8 | 7.5 | 8.5 | 27.0 |
| | 1990s | 47.8 | 16.5 | 25.4 | 72.1 | 25.0 | 9.2 | 9.9 | 38.2 | 24.6 | 8.0 | 10.5 | 34.2 |
| | 2000s | 62.1 | 17.8 | 40.0 | 87.3 | 34.0 | 12.6 | 13.6 | 49.3 | 25.3 | 8.6 | 10.7 | 38.0 |
| **FDI inflows** (% of GDP) | 1960s | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| | 1970s | 0.72 | 0.50 | 0.13 | 1.58 | 0.96 | 0.52 | 0.03 | 1.40 | 0.75 | 0.70 | 0.18 | 1.99 |
| | 1980s | 0.79 | 0.61 | 0.16 | 1.72 | 0.72 | 0.41 | 0.02 | 1.25 | 0.96 | 0.39 | 0.51 | 1.56 |
| | 1990s | 3.17 | 1.85 | 0.57 | 5.15 | 1.44 | 0.80 | 0.06 | 2.56 | 2.16 | 0.96 | 1.10 | 3.83 |
| | 2000s | 4.74 | 4.35 | 0.79 | 13.33 | 2.84 | 1.63 | 0.20 | 5.06 | 2.91 | 1.02 | 1.43 | 4.44 |
| **Investment** (% of GDP) | 1960s | 26.1 | 1.8 | 24.5 | 28.8 | 27.8 | 5.5 | 18.6 | 32.2 | 21.9 | 2.9 | 18.3 | 25.3 |
| | 1970s | 25.5 | 2.5 | 22.0 | 31.1 | 26.2 | 4.3 | 19.8 | 33.3 | 23.0 | 2.3 | 19.2 | 25.6 |
| | 1980s | 22.3 | 2.6 | 19.2 | 26.6 | 24.5 | 2.9 | 20.8 | 29.3 | 20.0 | 1.3 | 18.4 | 21.7 |
| | 1990s | 20.8 | 2.1 | 17.5 | 24.0 | 22.2 | 3.1 | 18.7 | 28.7 | 18.6 | 1.0 | 17.2 | 19.8 |
| | 2000s | 20.6 | 1.6 | 18.6 | 23.2 | 21.7 | 2.7 | 18.1 | 27.7 | 20.4 | 2.5 | 16.7 | 24.5 |
| **GDP per hour worked** (in PPP USD) | 1960s | 17.6 | 3.5 | 11.4 | 23.9 | 19.1 | 6.1 | 8.5 | 24.0 | 19.0 | 6.8 | 8.5 | 28.0 |
| | 1970s | 26.2 | 5.1 | 14.7 | 31.9 | 22.8 | 7.0 | 14.1 | 32.6 | 28.2 | 4.9 | 18.1 | 34.4 |
| | 1980s | 36.2 | 4.3 | 31.8 | 43.6 | 26.5 | 6.3 | 18.0 | 37.2 | 34.9 | 3.4 | 29.6 | 39.0 |
| | 1990s | 44.1 | 8.2 | 31.1 | 57.6 | 34.6 | 7.2 | 21.7 | 41.9 | 39.7 | 6.0 | 29.5 | 45.7 |
| | 2000s | 55.3 | 8.2 | 45.9 | 71.0 | 40.4 | 7.6 | 23.9 | 48.2 | 48.3 | 7.3 | 34.0 | 56.1 |
| **Social security transfers** (% of GDP) | 1960s | 10.3 | 1.8 | 6.8 | 12.6 | 6.1 | 1.3 | 4.2 | 7.7 | 9.0 | 3.9 | 5.8 | 15.7 |
| | 1970s | 13.7 | 3.3 | 8.3 | 21.5 | 8.9 | 2.2 | 5.6 | 11.1 | 11.9 | 3.3 | 8.0 | 15.8 |
| | 1980s | 16.7 | 5.2 | 7.1 | 26.7 | 13.5 | 1.6 | 10.8 | 15.5 | 12.9 | 2.7 | 10.3 | 17.0 |
| | 1990s | 17.2 | 2.9 | 11.5 | 20.5 | 13.8 | 4.1 | 8.2 | 20.3 | 14.0 | 2.1 | 12.0 | 17.9 |
| | 2000s | 14.7 | 3.5 | 10.0 | 18.9 | 14.6 | 2.4 | 11.2 | 17.1 | 11.9 | 3.0 | 8.1 | 17.6 |

| WAGE GROWTH, LABOUR COSTS AND WAGE DISTRIBUTION INDICATORS | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Wage growth (%) | 1990-1994 | 1.77 | 1.22 | -0.40 | 3.47 | 0.59 | 0.97 | -0.77 | 2.31 | 0.56 | 0.41 | -0.03 | 0.97 |
| | 1995-1999 | 1.36 | 1.10 | -0.79 | 2.89 | 1.38 | 1.03 | -0.10 | 2.78 | 1.74 | 0.34 | 1.29 | 2.19 |
| | 2000-2004 | 1.24 | 0.88 | 0.36 | 2.77 | 0.93 | 1.08 | -0.81 | 2.40 | 1.51 | 0.68 | 0.93 | 2.78 |
| | 2005-2010 | 1.13 | 0.93 | 0.11 | 2.51 | 1.00 | 0.68 | -0.18 | 1.69 | 1.06 | 0.62 | 0.32 | 2.17 |
| Real unit labour cost growth (labour income share) | 1960s | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| | 1970s | 0.88 | 1.04 | -0.18 | 4.40 | 0.18 | 0.77 | -0.44 | 1.47 | -0.12 | 0.38 | -0.68 | 0.36 |
| | 1980s | -0.80 | 0.42 | -1.68 | -0.31 | -0.52 | 0.83 | -1.36 | 1.08 | -0.27 | 0.53 | -1.16 | 0.15 |
| | 1990s | -0.40 | 0.58 | -1.24 | 0.37 | -0.14 | 0.58 | -1.21 | 0.52 | -0.31 | 0.20 | -0.68 | -0.13 |
| | 2000s | -0.27 | 0.40 | -0.76 | 0.45 | -0.09 | 0.41 | -0.86 | 0.59 | -0.16 | 0.48 | -0.86 | 0.49 |
| D9/D1 earnings ratio | 1960s | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| | 1970s | 2.42 | 0.27 | 2.01 | 2.65 | 2.94 | 0.23 | 2.64 | 3.19 | 3.59 | 0.13 | 3.47 | 3.73 |
| | 1980s | 2.38 | 0.34 | 1.97 | 2.86 | 2.53 | 0.35 | 2.22 | 3.11 | 3.49 | 0.42 | 3.19 | 4.07 |
| | 1990s | 2.73 | 0.69 | 1.95 | 3.99 | 2.58 | 0.27 | 2.35 | 3.03 | 3.44 | 0.64 | 2.55 | 4.48 |
| | 2000s | 2.93 | 0.54 | 2.16 | 3.73 | 2.94 | 0.61 | 2.29 | 4.25 | 3.50 | 0.66 | 2.79 | 4.79 |

Note: This table presents the mean value of ten-year-average values across countries divided by different synchronisation groups. The colours indicate the ranking of the ten-year-average values across the different groups from ■ (positive) to ■ orange (intermediate) and ■ (negative). We consider the following as positive development: unemployment (low), employment (high), total hours worked (high), vulnerable employment (low), GDP growth (high), exports (high), FDI inflows (high), investment (high), GDP per hour worked (high), social security transfers (high), wage growth (high), real unit labour costs growth (low), D9/D1 earnings ratio (low).

To make it best presentable, we use ten-year-averages for most of the variables; when data are not available over a very long period, which is the case for vulnerable employment and wage increase, we use five-year-averages.

Total hours worked refers to the real worked annual hours; vulnerable employment is the percentage of unpaid family workers and own-account workers of total employment; exports include goods and services; investment refers to gross fixed capital formation and includes land improvements, plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial building ;GDP per hour worked is the real GDP per hour worked in 2010 USD prices and EKS purchase power parities; social security transfers include social assistance grants and welfare benefits paid by general government (benefits for sickness, old-age, family allowances, etc.); wage growth refer to the annual real percentage change of wages per full-time and full-year equivalent employee in the total economy; real unit labour cost growth is the growth of the annual labour income share which is calculated as total labour costs divided by nominal output ; the division of total labour costs by nominal is equivalent to a deflated unit labour cost; D9/D1 gross earnings ratio refer to the ninth to first decile limits of gross earnings of full-time dependent employee.

Sources: Unemployment rate and employment rate: EU Commission, AMECO Database, 2013; total hours worked divided by working age population: The Conference Board, Total Economy Database, 2013, for working hours and EU Commission, AMECO Database, 2013 for working age population; vulnerable employment: World Bank, World Development Indicators, 2012.

Real GDP growth: OECD Database, 2013; exports: World Bank, World Development Indicators, 2012; FDI inflows: UNCTAD Database, 2013; investment: World Bank, World Development Indicators, 2012; GDP per hour worked: The Conference Board, Total Economy Database, 2013.

Social security transfers: Armingeon, K. et al, Comparative Political Data Set 1960-2009, 2011; wage growth: OECD Database 2013; D9/D1 gross earnings ratio: OECD Database, 2013.

Table 10 also provides some indications about the possible relationship between synchronisation and productivity improvements (GDP per hour worked). Once again the countries with high synchronisation have outperformed other countries over the last 30 years, and again the margin between the groups is substantial.

The countries with high synchronisation also seem to be able to combine relatively low unemployment and sound macroeconomic performance with a relatively generous social floor. In all five decades, countries with highly centralised and/or coordinated bargaining plus cohesive trade unions devoted a significantly higher proportion of GDP to social security transfers then other countries.

Finally, we look at the relationship between bargaining synchronisation and different measures of wages. It would appear there is no consistent pattern between bargaining systems and real wage growth. For this variable we only have data since 1990 and therefore examine trends in five- rather than ten-year periods. It would appear that real wage growth was fastest in the high synchronisation countries in the early 1990 and during the second half of the 2000s. Between these two periods real wages grew fastest in the low synchronisation countries.

However, when we examine the growth in real unit labour costs, some interesting trends emerge. Back in the 1970s, at the time of the oil shocks, real unit labour costs increased relatively rapidly in the high synchronisation countries. But since the 1980s real unit labour costs have been falling consistently in all three groups of countries. But the rate of decline is greatest within the high synchronisation countries. This is despite the fact that in at least some time periods real wage growth in the high synchronisation countries was faster than the other countries. This outcome supports the previous observations about relatively rapid productivity improvements in countries with high synchronisation.

The data on wage differentials (ratio of D9 to D1) suggest a more consistent pattern with high synchronisation associated with a greater compression of the wage distribution in most periods. The difference between high and low synchronisation countries is striking in all decades. This finding is consistent with previous empirical studies which found a robust relationship between synchronisation (or coordination) and wage inequality.

The information available on real wages growth, growth in real unit labour costs and wage differentials would tend to support the point made previously about the transmission mechanism from high synchronisation to lower unemployment

Figure 18: Synchronisation of collective bargaining (x-axis)

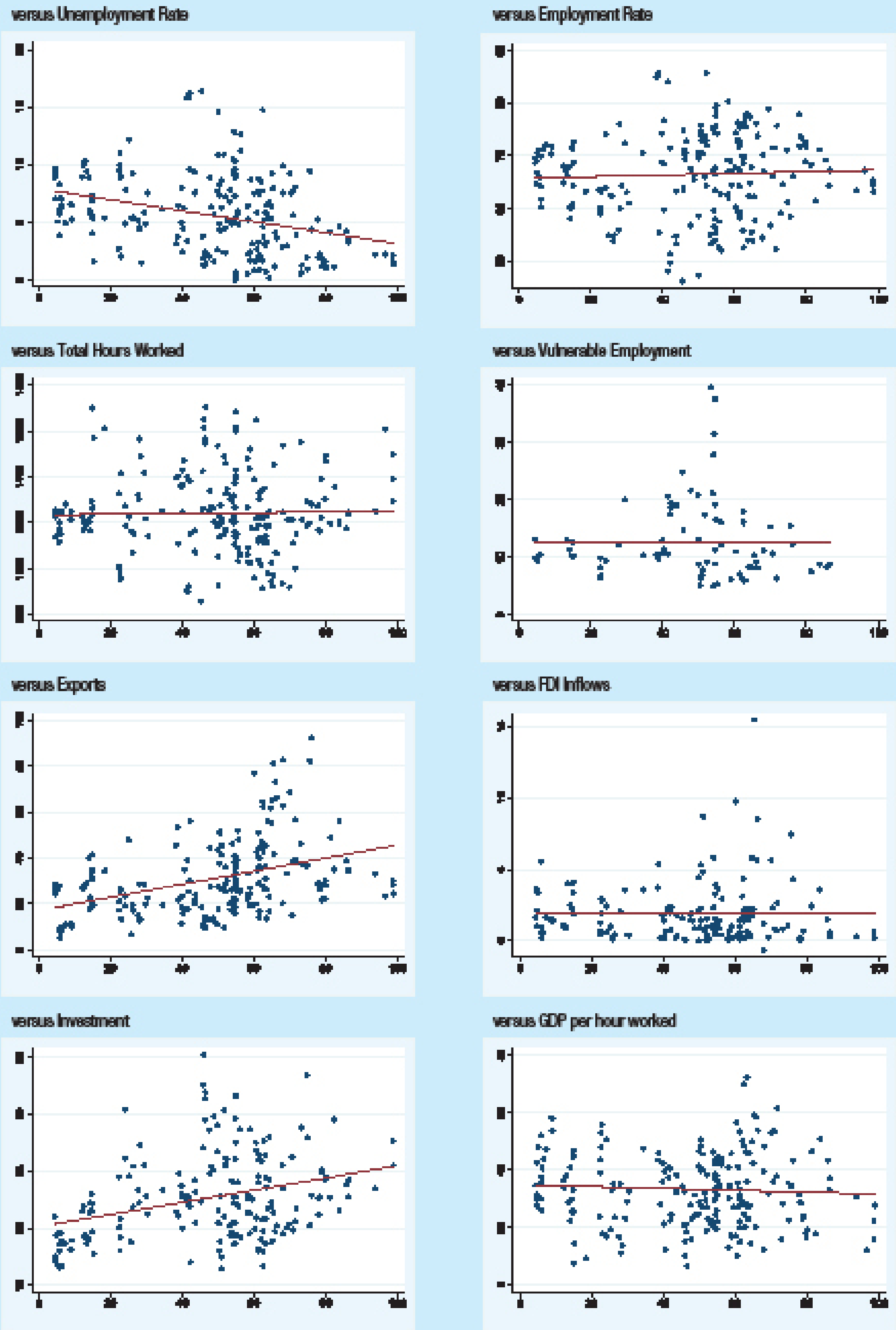
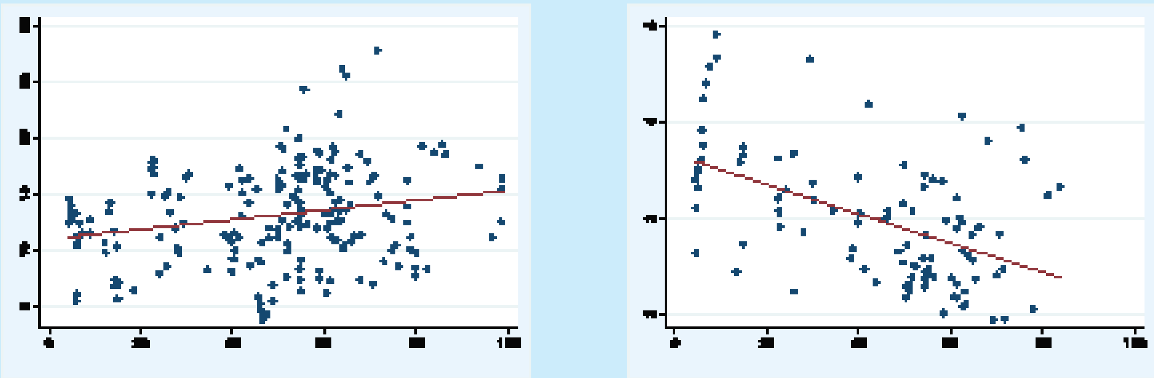


Figure 18 (continued): Synchronisation of Collective Bargaining (x-axis)

versus Social Security Transfers | versus D9/D1 Gross Earnings Ratio



and better economic performance. The original theories about centralised bargaining systems depressing wage growth to lower unemployment are not supported by the data. The positive influence of synchronisation comes about through other mechanisms, presumably through productivity effects and the ability to handle adverse economic shocks.

When looking at the big picture presented by Table 10, what stands out is the obvious failure of countries with highly decentralised/uncoordinated bargaining systems and fragmented union structures to outperform other countries in terms of these economic variables. The scarcity of green-coded figures in the low synchronisation column of Table 10 should provoke some careful reflection, particularly among these officials within Troika pressing for highly decentralised bargaining systems in southern European countries.

This picture is confirmed in the scatter plots in Figure 18 that depict trends in our indicator of synchronisation against all the labour market, economic and social variables mentioned above. Several of these charts would suggest that countries with higher levels of centralisation and coordination and more cohesive union structures perform better while others suggest no strong relationship. There is no suggestion that countries with decentralised and uncoordinated bargaining and fragmented unions perform better on any economic or social indicator.

# 6. Conclusions and Recommendations

## Economic, social and political stability

The asymmetry in power between capital and labour has been magnified in recent decades by open economies, financial market deregulation, tax competition, the erosion of the State and the growth of the service sector.

In the workplace the explosion in precarious forms of work, increased cross-border labour mobility and declining trade union density have all weakened the bargaining strength of workers. The impact is evident in declining wage shares and widening income inequality across nations. These developments contributed to the global economic crisis. They threaten social cohesion and political stability throughout the world.

## IMF labour reforms strip away workers' rights

In the last few years, the IMF with the European Central Bank and European Commission (the Troika) have forced or encouraged a number of European countries to implement reforms that will intensify these risks.

Unfair fiscal austerity that places an excessive burden on workers and the poor has been pushed to extremes.

In addition the Troika are behind far-reaching labour reforms that will make collective bargaining systems and the broader industrial relations environment in Europe resemble that of the United States.

Moves from industry- and economy-wide collective bargaining to enterprise bargaining will result in extremely low levels of trade union membership and equally low levels of collective bargaining coverage.

Creating space for bargaining by "agents" that are not trade unions, introducing "opening clauses" where industry-level bargaining retains some meaning, toughening "representivity" criteria for unions and weakening the protections historically provided to union activity will dramatically alter the balance of power at the workplace.

## Global reach of countries under attack

Several Anglo-Saxon countries tried and failed to impose this route in recent decades. Despite this, the IMF highlighted these radical "reforms" introduced by conservative Governments in Australia, New Zealand and the United Kingdom, when advocating reforms for Greece. Romania has already moved decisively in this direction under pressure from the IMF. Greece, Spain, Portugal and Italy have similarly taken steps down this road.

## Resistance

These recent "reforms" have been strenuously resisted by ordinary workers throughout these countries. Strikes and protests have become daily events. Social unrest is widespread. Political stability is under threat as mainstream political parties are punished by the people for accepting austerity and labour reforms recommended by these institutions.

Given the extreme social and political risks being taken, one would expect compelling economic evidence in favour of these changes to labour laws and institutions. But in fact these reforms are based on mere faith in markets and wishful thinking.

## Economic myths

The economic analysis underpinning the changes has not gone beyond an orthodox undergraduate level treatment of labour markets. Economists within the key institutions promoting reforms take decisions about collective bargaining and trade unions based on results they derive from their simplistic assumptions that they feed into complex mathematical models. Yet they do not visit workplaces to talk with ordinary workers and see the reality on the ground nor do they have any direct experience with collective bargaining systems.

The facts are clear.

There is absolutely no evidence that countries with highly decentralised collective bargaining systems and weak trade unions gain any economic advantage.

> **A poll of working people in the UK revealed that 83.2% of people believe that wages set through centralised negotiations between trade unions and employers would be fairer then wages set unilaterally by employers.[116]**

Countries with strong unions, high collective bargaining coverage and synchronised collective bargaining systems have some distinct advantages.

In particular these countries have consistently performed better in terms of unemployment, and they produce a wage distribution that is more compatible with social cohesion, political stability and stable economic growth.

The economic advantages that accrue to countries with highly centralised and coordinated bargaining and high levels of union authority and concentration do not result from excessive wage restraint. Rather they appear to stem from taking labour out of competition. This encourages constructive competition in terms of product innovation, advanced technology, human capital development and better work practices.

We conclude that reforms to collective bargaining and worker rights being demanded by the IMF are driven by a failed ideology rather than hard evidence.

But it is never too late to correct such mistakes. Reforms need to address structural weaknesses, encourage high value-added industries, enhance productivity and boost domestic demand.

## A new reform agenda based on economic evidence

A comprehensive reform agenda based on an economic model that reflects reality and is supported by broad sections of society is required. In many countries trade unions have played a constructive role in designing and winning popular support for necessary reforms to rebuild economies.

In the last few years, trust has been destroyed by austerity and draconian labour reforms. To rebuild trust, attacks on collective bargaining and worker rights must stop.

- Collective bargaining systems must cover the vast majority of workers.
- Industry level collective bargaining systems and extension mechanisms must be part of this package.
- Legal protections for trade union organising and bargaining activities must be strengthened.

Only then can we expect the hostility to abate and trust in democracy to re-emerge.

Recovery in the peripheral countries of Europe will be much easier if it is supported by strong growth and rising demand in the global economy. Relative labour costs across countries require adjustment.

But it is countries that have consistently recorded a surplus in their current account that should shoulder the burden of this adjustment. Countries in this fortunate situation include China, Denmark Germany, the Gulf States, Japan, Malaysia, Norway, Netherlands, Republic of Korea, Russia, Singapore, Sweden and Vietnam.

In some of these countries, real wages have failed to keep pace with productivity improvements for long periods of time while in other countries workers' rights are blatantly infringed.

Paying workers in these countries incomes they deserve and ensuring that their rights are fully respected would help stimulate global demand and help rebalance the global economy, with some positive benefits for southern European countries.

We require sustainable growth, decent jobs for all, economic efficiency and greater equity in all our societies. Common ambitions require comprehensive collective bargaining systems and strong labour market institutions in all countries.

# NOTES

1 This report is being released at the 2013 Spring Meetings of the IMF and World Bank. In the last few years the European Trade Union Confederation (ETUC) and the European Trade Union Institute (ETUI) have strongly and consistently responded to the policies and reform proposals of the European Commission and the ECB in respect of collective bargaining. See for example http://www.etui.org/Publications2/Working-Papers/The-crisis-and-national-labour-law-reforms-a-mapping-exercise

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14 IMF, Germany - Article IV, Report No. 00/141, 2000, p. 17.

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17 Wolf, M. "A fragile Europe must change fast", Financial Times, May 23, 2012; see also, Wolf, M. "A new form of European Union", Financial Times, June 13, 2012.

18 Wolf, M. "Why exit is an option for Germany", Financial Times, September 26, 2012.

19 IMF, Germany - Article IV, Report No. 11/168, 2011, p. 20.

20 IMF, Germany - Article IV, Report No.12/161, 2012, p. 27.

21 This section builds on previous ITUC background documents including a paper titled "Involvement of the IMF in labour market reforms in European countries", prepared for consultations between European affiliates of the ITUC and the IMF in February 2013.

22 Data from the Center for Urban and Regional Sociology Survey 2005 in Lăzăroiu, S. and Alexandru, M. "Who is Coming after Who is Leaving? - Labour Migration in the Context of Romania's Accession to the EU", Romania Country Report, International Organization for Migration, Geneva, 2008.

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28 EU Commission, European Labour Law Network, Romania - Collective Contracts, 2013, available at http://www.labourlawnetwork.eu/national_labour_law_latest_country_reports/national_legislation/legislative_developments/prm/109/v__detail/id__2816/category__29/index.htm.

29 Employer organisations that have consistently supported the extension of industry level collective agreements and the existence of the national level collective agreement include CONPIROM, UGIR 1994 and UNPR. These employer organisations claim to represent 62% of the active workforce in Romania.

30 Dimitriu, R., Ticlea, T., Chivu L. and Ciutacu C. "Study of impact of legislative reforms on industrial relations in Romania", ILO (Forthcoming), p. 31.

31 For example the membership of the largest national trade union, CNS Cartel Alfa has declined from 1 million in 2008 to 302,000 in 2012.

32 Dimitriu, R., Ticlea, T., Chivu L. and Ciutacu C. "Study of impact of legislative reforms on industrial relations in Romania", ILO (Forthcoming), p. 31. In January 2013 a draft of this paper was presented at a seminar involving the Government and social partners of Romania as well as the ILO, IMF, EC, ECB and World Bank; the data and conclusions presented in the paper were not contested.

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116 Survation UK Employees Survey 6 February 2013 on behalf of Unions21.

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